

# Firmenich Half Year 2023 Earnings Call

## Presentation

**Ingvild Van Lysebetten**  
Global VP, Communications

Good morning and welcome to the Firmenich Half Year 2023 earnings call for the six-month period ended on 31 December 2022. We are joined today by CEO Gilbert Ghostine and our CFO Benoit Fouilland. Before we begin, I would like to inform you that management will make forward-looking statements that reflect Firmenich's judgement and analysis only as of today. I draw your attention to the disclaimer slide at the start of this presentation.

Our results are reported under IFRS and today's presentation also includes references to certain non-IFRS measures. These measures are used internally by management to assess the performance of our business, make decisions on the allocations of our resources and assess operational management. Unless otherwise stated, revenue growth comparisons are made on an organic basis at constant currency versus the same period in the prior year. Please look at the definitions in the alternative measurement pages in the Appendix of today's presentation.

Before we start, I want to say that we are here today to talk about the Firmenich results. As the merger with DSM remains ongoing, for legal and compliance reasons, we won't discuss it today. What we will reiterate is that this merger brings together two culturally aligned purpose-led businesses in a transformational deal aiming to create a global leader that will be uniquely positioned to anticipate and address the evolving needs of today's conscious consumers. We are delighted to have received resounding support for the transaction from the DSM investors at the EGM last month. You can find all the merger-related documents on the micro creator-innovater.com.

**Gilbert Ghostine**  
Chief Executive Officer

Thank you, [Ingrid]. Hello, everyone, I hope that you are all well. I would like to thank you for joining us today. It is a pleasure to present to you our fiscal 2023 half year results. In today's presentation we will cover the following topics. First, I will review the key achievements and challenges of the past six months, Benoit will then provide an overview of our financial performance and finally, we will open the lines.

Let me turn first to the review of the last six months. Following a record performance in fiscal year 2022, we have delivered double-digit revenue growth in the first half of fiscal year 2023, as our best-in-class customer service supported sustained demand across all our key markets.

Our revenue increased by 11.5% at constant currency in the first half of fiscal year 2023, driven by a balanced contribution of volume/mix and pricing. Volume/mix contributed six percentage points to growth and pricing contributed five percentage points to growth. We delivered strong growth across all divisions and on a rolling 12-month basis our revenue has exceeded CHF4.9 billion.

We are emerging stronger across core segments and we have now significantly outperformed our key competitor for two consecutive years in terms of organic revenue growth. We are gaining share with our customers by prioritising the security of supply in a challenging global environment. We have leveraged our breakthrough innovation and our strength in natural and renewable products to deliver this strong performance.

Despite a challenging inflationary environment, we delivered 7.3% adjusted EBITDA growth at constant currency, thanks to our agile business model, proactive pricing initiatives, fluid supply chain and most importantly, while maintaining our strong investment in R&D. We are extremely proud of our leadership in science and in sustainable business and the recognition we continue receiving as we constantly raise the bar in ESG and science.

Let me now take you through the highlights of our fiscal 2023 first half. As I mentioned, we have delivered revenue growth and adjusted EBITDA growth at constant currency across all divisions.

In taste & beyond we delivered industry leading revenue growth of 16.2%. This is the result of our focused innovation and commercial approach with strategic customers. Fine Fragrance delivered industry leading growth of 20%, due to a strong pipeline of innovation aligned with customer needs and our leadership in the prestige segment.

Our ingredients business experienced robust growth, up 8% thanks to strong pricing and resilient customer demand, which was supported by our vertical integration and our strength in natural and renewable ingredients. In consumer fragrances we have achieved mid-single-digit top line growth in the first half of the fiscal year, with double-digit growth in India and with our regional Asian customers.

We continue to invest for the future and increase our customer intimacy, having also been selected as a core supplier by several key customers during the past six months. Thanks to our global reach, we are very well positioned to capitalise on structural growth trends in both developed and emerging markets.

This year we grew across all our regions and delivered double-digit growth in key geographies, including India at 23.6%, China at 18.3% and Europe at 16.6%. We are committed to delivering profitable growth and we reported an adjusted EBITDA growth of 7.3% at constant currency.

Firmenich has a track record of innovation driven growth, underpinned by world-class science. Guided by our purpose, we focus our innovation to address the structural trends that drive industry expansion. Over the past six months we have delivered strong double digit revenue in many of our key innovation initiatives, including 32% growth sugar reduction and 42% growth in renewable fragrances.

Let me give you a few examples of how we have kept leading in innovation over the past six months. We are pioneering in the area of digitalisation and artificial intelligence. Scentmate is our online cocreation platform for product development and selection aimed at entrepreneurs and independent brands. Scentmate recently celebrated its first year anniversary in Europe, with expansion ongoing into new territories, including dynamic key markets of China and the USA.

Other sustainable high performance technologies include fragrance encapsulation made exclusively with 100% biodegradable ingredients, launches such as our PopScent EcoMax fragrance encapsulation and HaloScent new generation profragrances are bringing fragrance creation to the next level with new technologies that maximise freshness and long-lasting fragrances.

Turning more specifically to natural and sustainable product launches, we have launched new innovations offering superior performance and continue to drive active benefits for wellness and nutrition. Our unique Firgood collection of ingredients is obtained by a revolutionary sustainable proprietary extraction technology which is more environmentally friendly than any other extraction method. Our latest addition include lavender pays Firgood and the pink pepper [inaudible] Firgood essential oil.

Building on our unique base in R&D and innovation, we continue to pioneer in our day-to-day research and extended green chemistry processes with the launch of Casmiwood, a new woody and differentiating ingredient for perfumery.

With taste and beyond, we continue to grow our capabilities to serve the ongoing consumer shift toward more plant-based alternatives to meat and dairy products through our SmartProteins continuous innovation programme, providing for better tasting and more diverse analogues.

We take pride in being a trusted partner to our customers. Similar to the rest of the industry, we have been facing an increasingly challenging environment, particularly regarding inflationary pressure for raw materials, logistics and energy. However, our agile execution and adaptability has enabled us to weather these volatile market conditions.

We have taken measures to proactively mitigate the negative impact on margins, including further pricing actions and the application of an energy surcharge. We are preserving our best in class service levels and by working closely with our customers, we are therefore able to combine price increases with sustained demand.

We are also proactively managing our resources and focusing on a strict cost discipline to continue protecting our customer service levels, as well as balancing cash generation and margins.

We are proud to be leading our industry in ESG and believe that sustainability can go hand in hand with commercial success. Responsible business is a core part of our values and a source of trust and differentiation for our customers, our investors and our shareholders.

During the last six months, we continued to make notable progress on our environmental, social and governance targets for 2025 and 2030. We are proud of the extended recognition of our world-class progress as a responsible business during the first half. We have received a CDP AAA rating for the fifth consecutive year and we are one of only two companies in the world to achieve this.

Furthermore, we received approval from the Science Based Targets initiative, SBTi, for our net zero emission targets, making us the first company in our industry and one of the first companies globally to receive approval from the SBTi. Firmenich holds a Sustainalytics ESG risk rating of 7.5 points, ranking us 51 out of 15,500 companies rated worldwide and number 1 in our industry.

In January 2023, for the second year running, we were included in the annual Innovation Momentum Global Top 100 report by LexisNexis. The top 100 recognised companies advancing innovative solutions to today's challenges and laying the international property foundation for further breakthroughs and we are the only company in our industry to feature in the top 100.

Furthermore, we have just resecured again in January 2023 the global EDGE move certification for gender equality. We reached the highest EDGE recertification in Brazil and Mexico for our efforts on diversity, equity and inclusion. The first company in our industry and the seventh in the world to achieve this level.

All these ratings and rewards are a testament to our effort to address environmental issues through our operations and our commitment to showing that we could achieve commercial success with sustainability.

Let me now turn to our priorities for the rest of the fiscal year 2023. In the next four and a half months we will continue to pursue profitable organic growth and market share gains, supported by investment into breakthrough innovation in key segments and best in class customer service.

While we anticipate an ongoing inflationary environment, we will continue to work with our customers to offset inflation through pricing in order to protect our profitability.

We will continue delivering breakthrough innovation, reinforcing our renewable portfolio with new proprietary fragrances and taste ingredients, as well as differentiated nutrition solutions and we will keep leveraging our digital capabilities to accelerate our transformation.

Within a challenging macro-economical context, we will focus on margin protection through continued pricing initiatives and a return to healthy cash generation, primarily through the normalisation of inventory levels in line with our commitment to a strong investment grade rating. While doing so, we will always balance customer service and security of supply.

Now I would like to hand it over to Benoit for the financial review of the past six months. Benoit, over to you.

**Benoit Fouillard**  
**Chief Financial Officer**

Thank you, Gilbert and good morning, everyone. It's a pleasure to give you an overview of our results of the first six months of fiscal year 2023. Firmenich has delivered strong double-digit revenue growth in the first half of fiscal year 2023 and this despite a challenging inflationary environment, particularly for raw materials and energy, as well as volatile foreign exchange fluctuations.

Revenue reached CHF2.44 billion, growing at 10.5% organically, with strong momentum across both taste and beyond and perfumery and ingredients and with all regions contributing to the growth. Revenue growth was driven by a balanced contribution of volume/mix and pricing. Acquisition contributed one percentage point to revenue growth, leading to a total growth of 11.5% on a constant currency basis.

On a reported basis, revenue increased by 8.9% year-over-year and foreign exchange in comparison to prior period rates had a negative impact of minus 2.6 percentage points on revenue growth. We achieved revenue growth across all our geography during the first half of 2023. In Europe we grew revenue by 16.6%, primarily driven by our strong performance in fine fragrance. In the broader region of India, Middle East and Africa we achieved 17% growth, which notably includes 23.6% growth in India.

In North and East Asia we delivered 17.8% growth, which includes 18.3% growth in China, while Southeast Asia grew by 13.5%. In North America we grew by 0.8%, primarily explained by strong prior year comparables and in Latin America by 6.3%. This performance is once more a testament to our global reach, the diversification of our geographic footprint and customer base, as well as our focus on key high growth markets.

Let me now turn to our adjusted EBITDA, which reached CHF440 million, down 4.4% year-over-year. Excluding the impact of foreign exchange, adjusted EBITDA would have increased by 7.3% at constant currency. This growth was driven by higher volume, favourable mix and our proactive pricing initiatives to offset inflation.

Foreign exchange, in comparison to prior year rates, had a negative impact of CHF54 million on adjusted EBITDA, or minus 11.7 percentage points on adjusted EBITDA growth. Adjusted EBITDA excludes the impact of CHF59 million of non-recurring expenses mainly linked to the DSM-Firmenich merger.

Adjusted EBITDA margin as a percentage of revenue was 18%, down 2.5 percentage points versus the prior year. This includes a negative 1.7 percentage points impact from foreign exchange headwinds and a negative 0.9 percentage points dilutive impact from inflation net of price increases.

Excluding the impact of foreign exchange on inflation net of pricing, adjusted EBITDA margin would have increased by 10 basis points. It is worth noting that despite facing challenging inflationary and foreign exchange market conditions, we have continued to invest in innovation and quality of future growth, maintaining our research and development expenses at 8.6% of revenue.

Let me now turn to the performance by division, looking first at perfumery and ingredients. Revenue increased by 9.1%, the growth was driven in particular by a 20%

increase in fine fragrance revenues due to a strong pipeline of innovation aligned with customer needs and our leadership in the prestige segment.

Ingredients grew by 8% on the back of strong pricing and sustained customer demand. While consumer fragrances delivered a 6% growth driven by pricing and in a context where the tough COVID comparables have now been lapped. Foreign exchange in comparison to prior year rates had an unfavourable impact of 3.5 percentage points on revenue growth. As a result, revenue increased by 5.6% year-over-year on a reported basis.

Adjusted EBITDA was CHF281 million, down 8.6% year-over-year. Foreign exchange had a significant negative impact of CHF44 million on adjusted EBITDA, or minus 14.4 percentage points on adjusted EBITDA growth. Excluding the impact of foreign exchange, adjusted EBITDA would have increased by 5.8% at constant currency. Adjusted EBITDA margin was 17.8%, down 2.8 percentage points, driven principally by a negative 210 basis points impact from foreign exchange.

Moving now to taste and beyond, we delivered again strong performance with revenues of CHF860 million, an increase of 16.2% at constant currency. This performance was driven by strong organic growth of 13.3% across all core categories, with particular strength in beverages. Acquisition contributed 2.9 percentage points to revenue growth. Foreign exchange had a negative impact of minus 0.9 percentage points on revenue growth and as a result, revenue increased by 15.3% on a reported basis.

Adjusted EBITDA reached CHF159 million, an increase of 4% year-over-year. Foreign exchange had a negative impact of minus CHF9 million on adjusted EBITDA, or minus 6.2 percentage points on adjusted EBITDA growth. Excluding the impact of foreign exchange, adjusted EBITDA would have increased by 10.2% at constant currency.

Adjusted EBITDA margin was 18.5%, down two percentage points, driven by a negative 90 basis points impact from foreign exchange headwinds, as well as a dilutive impact of inflation net of price increase.

Turning now to cash flow, we experienced soft cash flow generation during the first half of the fiscal year, due to the temporary material impact of high inventory on working capital. Free cash flow adjusted for the impact of the non-recurring expenses linked to the DSM-Firmenich merger was CHF11 million, compared to CHF162 million in the prior year.

Reported free cash flow was negative CHF17 million and includes the impact of CHF28 million of non-recurring cash expenses linked to the DSM-Firmenich merger. The decline in free cash flow was primarily driven by the unfavourable change in working capital linked to the CHF172 million impact of higher inventories required to preserve customer service level and ensure safety of supply.

In addition, a strong revenue performance towards the end of the second quarter led to a higher level of receivables. We anticipate a rebound of cash conversation over the second half of the fiscal year, as inventory levels normalise. We will continue to focus on maintaining a healthy cash generation that is in line with our commitment to retaining a strong investment grade rating.

This leads me to my final slide. You can see here our leverage using our estimate of the Standard & Poor's methodology. At the end of December 2022, our leverage ratio was

2.7x, which compares to 3x at the end of December 2021 and 3.5x at the end of December 2020.

This continued deleveraging is explained principally by the following factors. Firstly, a decrease of CHF109 million in the value of bond debt linked to favourable exchange fluctuation against the euro, which was fully offset by a CHF107 million increase in other debts, mainly linked to bank loans related to M&A.

Secondly, cash on hand increased by CHF100 million to CHF584 million, explained primarily by the lower dividend payment over the period. Thirdly, leases and pension liabilities also decreased by CHF205 million, mainly linked to the evolution of the Swiss long-term interest rates.

Finally, the 12 months pro forma adjusted EBITDA decreased very slightly by CHF20 million. As we stated previously, we are fully committed to retaining a strong investment grade credit rating as demonstrated by the continuous favourable evolution of our leverage ratio. I will now hand back to Gilbert for a few closing remarks.

**Gilbert Ghostine**  
**Chief Executive Officer**

Thank you, Benoit. Before we open for Q&A, I would like to leave you with the following key messages. We have delivered a strong performance in the first half of fiscal 2023, with double digit revenue growth and high single digit adjusted EBITDA growth, despite the challenging inflationary and foreign exchange environment.

We have continued to demonstrate our agile execution, driving profitable growth while navigating volatile market conditions and we are emerging stronger across key segments, thanks to our focus on leading creativity and innovation. We are achieving our ambitions, demonstrating our commercial success, while leading the industry in responsible business. This drive for sustainable value remains at the core of our long-term strategy.

Looking ahead, although we know we will continue to face a volatile macroeconomic environment, we feel proud and encouraged by our performance in the first half of the fiscal year. We will continue to focus on delivering organic growth, passing through cost inflation through pricing to protect our profitability, at the same time as normalising our inventory levels to deliver strong cash generation. Thank you again for your interest in Firmenich and for your support. Benoit and I will be happy to take your questions.

**Q&A Session**

**Matthew Yates - Bank of America**

Good morning, you mentioned that buffer stocks to service customers inflated the inventory levels but are expected to come down in the coming months. If you have to reduce your production, will that have a negative impact on gross margins in the second half?

**Gilbert Ghostine**

Thank you, Matthew, for this question. I will ask Benoit to comment on it.

**Benoit Fouillard**

Yes, thank you, Gilbert. Our margin in the first half, as described in the prepared remarks, was impacted by the pricing for inflation. I can confirm that this price for inflation, the impact of the pricing for inflation had a 90 basis points diluted impact on our margin. We feel confident that in the second half of the year, as we get the full impact of our pricing initiatives, we will see margin picking up in the second half independently of our reduction of stock levels.

**Gianmarco Bonacina - Equita**

In 2022 you suffered margin depression. How much was for a timeline of price increases versus cost increase? Can you recover this in 2023? Thank you.

**Gilbert Ghostine**

Thank you, Gianmarco, for asking this question. I will ask Benoit to comment on it, but as you have heard us with the answer to Matthew, we are confident about margin recovery and improvement in our second half of the fiscal year. Benoit?

**Benoit Fouillard**

Yes, let me explain this impact of 90 basis points dilution in the first half. It's a mathematical impact that the margin has faced as you price for inflation and we've priced, I can confirm again, we've priced for inflation and we've priced for the bulk of the inflation that we had to face in terms of raw materials and energy. As you price for inflation, that inflation revenue of the impact of pricing while your costs have been inflating by the inflation, so you don't realise any additional margin on this pricing and that is the explanation for this 90 basis points dilutive impact on the margin.

**[Kyril Krendal]**

Could you provide more details on the outsized FX impact on EBITDA?

**Gilbert Ghostine**

Thank you, [Kyril]. Benoit, this is also going in your direction.

**Benoit Fouillard**

I think basically we are talking about exactly the same impact I just described with respect to the impact of the margin. I think what is important to understand, the dynamics of our EBITDA in the first half, is that the EBITDA was materially impacted



by both foreign exchange on one hand, on the other hand by the impact of pricing for inflation.

If you normalise the margin from those two impacts, we were in fact delivering a slight improvement in margin compared to the high margin of last year of 20.5%. So this gives us confidence that past the current [inaudible] of difficult inflation environment on foreign exchange volatility we should be in a position to come back to our historical level of margin, which were in the [20% tp 22%] level.

### **Matthew Yates - Bank of America**

Why do you think there is such a stark difference between growth in North America and Europe, as we saw similar disconnect in [Givaudan's] Q4 release? Is destocking more apparent in the US, or is there another explanation?

### **Gilbert Ghostine**

Thank you, Matthew. Look, the good news in our results is that we have grown our business also in North America. What you have to take into consideration is that in the US we are lapping tough comps with the first half of last year. At the same time, when you look at Europe, in Europe it is mainly driven by the growth in fine fragrance and our fine fragrance business is up 20%.

Now another element about the US is that the category that has been the subcategory that has suffered mostly in our industry in the US is hair care, so the hair care category is down and that's why you have some adjustments between categories that are softer than other categories. But we are confident about the US, we continue gaining market share and we continue building stronger intimacy with our strategic customers there.

### **[Gary Martin]**

How does the implied Q2 margin of approximately 17% in fiscal year 2023 compare year-on-year to fiscal 2022?

### **Gilbert Ghostine**

There are two other questions here, can I get some colour on North America growth performance, so we've commented on North America. On margin, I think we've covered this one already, Benoit.

### **Benoit Fouilland**

Yes, the only thing that I would add is that we don't report on a quarterly basis, so the dynamics on an actual basis I just described. From a quarterly basis, obviously Q2 was a quarter that was the most impacted by the inflation, but again the dynamic is that we've been pricing for inflation. Our pricing [curve to follow the] bulk of the inflation we've been facing. As the situation eases in the future on the inflationary front, we feel confident that we will see margin recapture.

### **Gilbert Ghostine**

We've been doing this pricing hand in hand with our strategic customers. The fact that we have maintained innovative level for them throughout the pandemic and with the volatility that we have been going through over the last two and a half years, has even

strengthened their reliance on us. It is reflected in our ability to grow volume, by 6% volume and mix by 6% and price by 5%. We will continue leveraging this [inaudible] to capitalise on this relationship and to make sure we offset all the raw material increase with our price increases going forward.

**Heidi Vesterinen - BNP Paribas**

Do you anticipate any deflation later in the year and to what extent is pricing sticky across your portfolio when input costs fall?

**Benoit Fouillard**

Obviously as you can see in our business it takes some time, there is some time which is required in order to implement the price increases. But the flipside of this situation is that we also benefit from those price increases while the situation of the inflation eases. So as we see at the moment, for financial year 2023, so up to the end of June, we still anticipate an inflationary environment to continue. But if this situation was to improve or ease, yes, this would benefit our margin recapture.

**[Unidentified Analyst]**

You had a large impact of ForEx in H1, could you indicate how much of your cost base is in Swiss franc and how will you recover this in H2 of next year?

**Benoit Fouillard**

Yes, obviously we had a significant impact of ForEx, both on the top line but also on the adjusted EBITDA. There is a period and this is directly linked to the strength of the Swiss franc, particularly against the euro during the period.

We have a significant portion of our cost base that is denominated in Swiss francs due to our significant presence in Switzerland, which is close to 30% of our cost base is in Swiss francs, while only a very small portion of our revenue base is in Swiss francs. So that explains why we had, I would say, a disproportionate impact of foreign exchange on our EBITDA margin.

Obviously we do not have control over the ForEx. What we see is that the euro has recovered to a certain extent more recently and if that recovery is [inaudible] for the rest of the fiscal year, that would definitely help our margin from a pure ethics standpoint.

**[Unidentified Analyst]**

Two questions on destocking in North America, are you seeing several periods of highlighted destocking in North America? Are we seeing this at all in H2?

**Gilbert Ghostine**

When we look at our North American business, it is mainly a shift between categories and subcategories. So some softening with categories that are predominantly around hair care and softeners and stronger around other categories. There is also some variation around price points. Where we see destocking in the US it's mainly around ingredients, but we don't see this on the taste and beyond business and on the perfumery

business and we are confident about the rebound of our business in North America in the second half.

**Heidi Vesterinen - BNP Paribas**

How large is your exposure to China and what are you seeing giving the [reopen]?

**Gilbert Ghostine**

That's a very good question, Heidi, thank you for asking this question about China. Look, China is a very strategic market for Firmenich. We are excited about the potential of this market and we are confident about our ability to continue growing our business and we see the rebound coming in the numbers that we have visibility to in our order book for February and March.

**Ben Gorman - Schonfeld**

Can you give details of the gross margin progression in H1 year-on-year as well as its marketing and R&D spend has changed?

**Gilbert Ghostine**

Let me comment on the R&D. On R&D - and you could see from our results - we are a company that is future ready and we always invest for the future. In the first half of our fiscal year we've invested 8.6% of our net revenue behind R&D and this is also reflected by the additional business that our customers are giving us.

Most importantly I want to highlight here also the LexisNexis acknowledgement. As you know, we've issued this press release two weeks ago, for the second consecutive year Firmenich is being acknowledged as one of the top 100 most innovative companies in the world by LexisNexis and the only company in our industry. R&D is an investment and it is a bet that we are taking for the future and we will continue doing so.

**Lisa De Neve - Morgan Stanley**

Could you please tell us how comfortable you are on the stickiness of pricing and sequentially this inflationary environment and how does the [inaudible] across categories?

**Gilbert Ghostine**

We have proved that we have the capacity to increase pricing and to maintain volume growth. This was very visible in our results. What I want you to take into consideration is that over the last two fiscal years we grew our business by double digits organically, which proved that we have managed to gain market share.

Our philosophy on pricing has always been the following, price up like a rocket, price down like a feather, so there is a line effect when we price up, but as Benoit has just mentioned, we will benefit from this one when pricing will go down. We have been doing this historically as a company and over the long term Firmenich has consistently rebounded through every cycle of pricing to a place where it's in the north of 20% EBITDA margin.

I want to thank you for your trust and your support for Firmenich. As you can see, as a company we keep winning in performance, reflected with the results we have shared

today. Winning and leading our industry in terms of science and R&D, reflected by our investment and our external acknowledgement and also most importantly, leading our industry in terms of social and environmental responsibility. You can count on us, we will continue driving this Company with the same level of rigour until closing. Thank you.

[End]