dsm-firmenich

Press Release

Trading update and acceleration of strategic actions

Kaiseraugst (Switzerland), Heerlen (Netherlands), June 28, 2023

dsm-firmenich, innovators in nutrition, health, and beauty, provides pro forma consolidated figures, an update on trading for Q2 2023, together with an outlook for full year 2023. In addition, it announces the acceleration of initiatives to structurally improve its performance in vitamins.

The second quarter has seen a further weakening of the vitamin markets, predominantly impacting the performance of Animal, Nutrition & Health, and therefore also affecting the expectations for the company for the second half of 2023.

In response, dsm-firmenich has decided to accelerate a series of actions to restructure its vitamin business. This will result in increased earnings quality and a reduced exposure to vitamins and related earnings volatility.

The merger of DSM and Firmenich created a world-leader in nutrition, health, and beauty, which through its highly integrated portfolio of nutritional, natural, and renewable ingredients, together with complementary science capabilities and technologies, will deliver superior innovation-led growth. Together with the actions announced today, the company remains confident in achieving its mid-term financial targets.

Q2 2023 trading update

Since DSM's Q1 2023 trading update of 2 May 2023, the challenging conditions in vitamin activities have further deteriorated during June, affecting both pricing and volumes, where the company had expected stable to improving conditions in a normally very strong month. These difficult conditions in vitamins are primarily affecting Animal Nutrition & Health, but also, to a lesser extent, Health, Nutrition & Care.

Consequently, dsm-firmenich expects for Q2 2023, on a pro forma basis, an Adj. EBITDA to be in a range of €400 - 420 million (compared to pro forma Adj EBITDA of €521m in Q1 2023 and €582m in Q2 2022). With this estimated Q2 result, H1 2023 pro forma Adjusted EBITDA will be in the range of €920 – 940 million (compared to € 1,177 million in H1 2022).

This H1 estimate includes an expected negative vitamin effect on Adj. EBITDA of about €200 million as well as a negative foreign exchange effect for dsm-firmenich of about €50 million.

Outlook FY 2023

Given the current weak macro-economic outlook, the company does not anticipate a material improvement in business conditions in the second half of 2023. Vitamin prices are expected to remain at low levels through to the end of the year, with some ongoing destocking through the value chain across its business.

As a result, the company estimates a FY 2023 (pro forma) Adj. EBITDA of between €1,800 – 1,900 million (versus €2,275 million FY 2022).

Within this, the company estimates a negative vitamin effect on full year Adj. EBITDA of about €400 million as well as a negative foreign exchange effect for dsm-firmenich of about €100 million. The vitamin effect has been exacerbated by high vitamin inventories, produced at elevated costs, delaying the expected positive impact from lower input costs in H2 2023.

Adapting ANH strategy & accelerating vitamin improvement plans

Confronting these challenges, dsm-firmenich will accelerate its post-merger plans to strengthen the quality of its portfolio of assets, focusing on reducing the earnings impact and volatility from vitamins through clear and impactful actions:

- **Restructuring of the vitamin asset footprint**, significantly reducing costs. This includes the closure of the Xinghuo vitamin B6 plant in China and the refocusing of the company's vitamin C activities on its specialty Quali®-C from Dalry (UK) only. The production of Vitamin C in Jiangshan, China, which had already been significantly reduced since the end of 2022, was completely shut down in mid-May and the company is exploring a range of options for the Jiangshan site including partnerships or the repurposing of the manufacturing assets.

- **Creating a new separate vitamin unit** within ANH that will be tailored to the changed market dynamics. This will result in a simpler, more responsive 'go-to-market' model, and a more efficient and agile organization.

- **Reducing working capital/inventories**, with extended shutdowns of the vitamin A and E plants in Sisseln (Switzerland), scheduled for Q3 2023.

- **Establishing a new senior executive role, Vitamin Transformation Program Director**, to deliver these performance plans, directly reporting to the CEO Dimitri de Vreeze.

- **Accelerating the growth** of Animal, Nutrition & Health in its **higher-margin Performance Solutions and Precision Services businesses**, tackling some of the biggest world challenges related to sustainable food chains, while optimizing its vitamin offerings, using its strong premix base.

Combined, all these actions are expected to result in an estimated saving of around €200 million per year with the full run rate to be reached by the end of 2024. These savings will be in addition to the €350m Adj. EBITDA merger synergies target.

Ingredients plant closure

The Pinova ingredients plant (Georgia, US), part of the Perfumery & Beauty business unit, which was seriously damaged by a fire in April 2023, will not be re-opened. The company will try, where feasible, to secure the supply of these ingredients by leveraging other production units.

Confirmation of dsm-firmenich mid-term financial targets

Further to the specific actions in vitamins as announced today, the company will also take a broader view on all business segments to prioritise and accelerate the company's high growth/higher margin segments. The company will maintain strict cost controls, accelerated by a wide range of self-help cost saving initiatives, fully focused on maximizing the operational performance of its activities and significantly improve its cash flow generation supported by reducing its working capital.

dsm-firmenich is confident that through principally the quality of its core activities, the targeted €350m Adj. EBITDA synergies, and all actions being taken, it will realize its mid-term financial targets of 22-23% Adj. EBITDA margins and 5-7% annual organic sales growth.

The company remains committed to operating with a strong balance sheet and maintaining a strong investment grade rating, and will prioritise capex, innovation-led organic growth, and dividends in the coming period.

Within all the actions taken, the company remains committed to science, research, sustainability, and innovation, to ensure our growth for the short, mid, and long term and build the company for the future.

Additional financial information

The information above is presented on a pro forma basis. In its report for the first half of 2023 (to be announced on 2 August 2023), the company will report both on a pro forma basis (combined half year performance of DSM and Firmenich as if the deal was closed on 1 January 2023) as well as on IFRS basis (which includes 6 months of DSM activities and almost 2 months of Firmenich activities). The pro forma financial information for the period FY 2022 is disclosed on the website: https://www.dsm-firmenich.com/content/dam/dsm-firmenich/corporate/documents/dsm-firmenich-fy-2022-pro-forma-financials.pdf

The actions listed above in this press release will lead to an estimated impairment of €300-350 million in H1 2023. Total restructuring costs for 2023 incurred as a consequence of this announcement, are estimated at about €200 million. These restructuring costs are additional to the already announced costs related to the merger synergies of €250 million.

About dsm-firmenich,
As innovators in nutrition, health, and beauty, dsm-firmenich reinvents, manufactures, and combines vital nutrients, flavors, and fragrances for the world's growing population to thrive. With our comprehensive range of solutions, with natural and renewable ingredients and renowned science and technology capabilities, we work to create what is essential for life, desirable for consumers, and more sustainable for the planet. dsm-firmenich is a Swiss-Dutch company, listed on the Euronext Amsterdam, with operations in almost 60 countries and revenues of more than €12 billion. With a diverse, worldwide team of nearly 30,000 employees, we bring progress to life™ every day, everywhere, for billions of people.
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