Givaudan

engage your senses

2018 Half year results

19 Jul 2018

Strong recovery in high growth markets

- Sales of CHF 2,674 million, up 5.6% on a like-for-like basis and 7.7% in Swiss francs
- Project pipeline and win rates sustained at a high level
- Strategic focus areas and acquired businesses strongly contributing to growth
- EBITDA of CHF 601 million in 2018
- EBITDA margin of 22.5%, with solid underlying business performance
- Net income of CHF 371 million, down by 3.4% year-on-year
- Free cash flow of 4.2% of sales, compared to 5.3% in 2017
- Givaudan Business Solutions delivering first benefits
- Naturex acquisition progressing as planned

Business performance

Givaudan Group sales for the first six months of the year were CHF 2,674 million, an increase of 5.6% on a like-for-like basis and 7.7% in Swiss francs.

Fragrance Division sales were CHF 1,223 million, an increase of 6.5% on a like-for-like basis and 7.5% in Swiss francs.

Flavour Division sales were CHF 1,451 million, an increase of 4.9% on a like-for-like basis and 7.8% in Swiss francs.

Givaudan continued the year with good business momentum and with the project pipeline and win rates being sustained at a high level. This good growth was achieved across all product segments and geographies, with our key strategic focus areas of Naturals, Health and Well-being, Active Beauty, Integrated solutions and local and regional customers delivering strong growth, complemented by the recent acquisitions. The Company continues to implement price increases in collaboration with its customers to compensate for the increases in input costs.

Gross profit

The gross profit increased by 4.4% from CHF 1,132 million in 2017 to CHF 1,182 million in 2018. Despite continued productivity gains and cost discipline, the gross margin declined to 44.2% in 2018 compared to 45.6% in 2017, as a result of a lower gross margin in the Fragrance Division.

Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)

The EBITDA increased by 0.7% to CHF 601 million from CHF 597 million for the same period in 2017, whilst the EBITDA margin declined to 22.5% in 2018 from 24.0% in 2017.

In 2018, the Group incurred costs of CHF 25 million linked to the implementation of the Givaudan Business Solutions programme, compared with CHF 24 million in 2017.

Operating income

The operating income was stable at CHF 489 million, the same level as in 2017. When measured in local currency terms, the operating income decreased by 4.4%. The operating margin decreased to 18.3% in 2018 from 19.7% in 2017.

Financial income and expense

Financing costs were CHF 23 million in the first half of 2018, versus CHF 21 million for the same period in 2017, with lower interest rates partially compensating for the increase in net debt in the Group. Other financial expense, net of income, was CHF 35 million in 2018 versus CHF 17 million in 2017, largely as a result of increased foreign currency losses in markets where currencies could not be hedged, most notably in Argentina.

The interim period income tax expense as a percentage of income before taxes was 14% in 2018, compared with 15% for the same period in 2017.

Net income

The net income for the first six months of 2018 was CHF 371 million compared to CHF 384 million in 2017, a decrease of 3.4%, resulting in a net profit margin of 13.9% versus 15.5% in 2017. Basic earnings per share were CHF 40.26 versus CHF 41.70 for the same period in 2017.

Cash flow

Givaudan delivered an operating cash flow of CHF 269 million for the first six months of 2018, the same level as in 2017.

Working capital was relatively stable at 28.7% of sales compared to 27.4% in 2017, temporarily impacted by increased inventory levels.

Total net investments in property, plant and equipment were CHF 122 million, compared to CHF 96 million incurred in 2017, largely driven by the Group's continued investments to support growth in high growth markets and in the Zurich Innovation Centre (ZIC) in Switzerland. Intangible asset additions were CHF 21 million in 2018, compared to CHF 27 million in 2017, as the Company continues to invest in its IT platform capabilities, including those to support the introduction of the Givaudan Business Solutions organisation. Total net investments in tangible and intangible assets were 5.3% of sales, compared to 5.0% in 2017.

Operating cash flow after net investments was CHF 126 million, versus the CHF 146 million recorded in 2017. Free cash flow, defined as operating cash flow after investments and interest paid, was CHF 113 million in the first half of 2018, versus CHF 132 million for the comparable period in 2017. As a percentage of sales, free cash flow in the first six months of 2018 was 4.2%, compared to 5.3% in 2017.

Financial position

Givaudan's financial position remained strong at the end of June 2018. Net debt at June 2018 was CHF 2,394 million, up from CHF 1,074 million at December 2017, with the increase driven by the Group's acquisitions and investment programme, as well as the payment of the annual dividend of CHF 534 million in the first quarter of 2018. The leverage ratio was 38% compared to 21% at the end of 2017.

Givaudan Business Solutions

As announced in July 2016, and in line with the 2020 strategy, the Company is now in the implementation phase of Givaudan Business Solutions (GBS), a global organisational unit providing best-in-class internal processes and services.

GBS will increase internal efficiencies and leverage best practices from across the organisation, enabling the Group to deliver with excellence.

The Company will make an investment of CHF 170 million until mid-2020, in order to transition to the GBS organisational structure and way of working. The investment will generate annual recurring savings of CHF 60 million once fully implemented and will allow Givaudan to continue investing in growth and innovation.

The progressive implementation of GBS is fully in line with the plan and will deliver the first financial benefits in 2018 of CHF 20 million.

Naturex

As announced in March 2018 and in June 2018, Givaudan has acquired 40.5% of the shares of Naturex, a French public listed company, for EUR 135 per share and a total consideration of EUR 523 million and has launched a mandatory cash tender offer for all remaining outstanding shares of Naturex at EUR 135 per share. Givaudan has secured all necessary regulatory approvals and the Board of Directors and Management of Naturex are fully supportive of the transaction.

Naturex is an international leader in plant extraction and the development of natural ingredients and solutions for the food, health and beauty sectors. Naturex is headquartered in Avignon, France and reported sales of EUR 405 million in 2017, operates from 16 production sites around the world and employs 1,700 people.

2020 guidance: Responsible growth. Shared success.

The Company's 2020 ambition is to create further value through profitable, responsible growth. Building on the first two years of this strategic cycle in 2016 and 2017, Givaudan's 2020 ambition is built on the three strategic pillars of 'Growing with our Customers', 'Delivering with Excellence', and 'Partnering for Shared Success'.

As part of the Company's 2020 strategy, Givaudan also seeks to create value through targeted acquisitions, which complement existing capabilities in providing winning solutions for its customers. Since 2014 Givaudan has announced eight acquisitions, which are fully in line with the growth pillars within the Company's 2020 strategy.

Ambitious financial targets are a fundamental part of Givaudan's strategy. We aim to outpace the market with 4-5% sales growth and a free cash flow of 12-17% of sales, both measured as an average over the five-year period of our strategy cycle. It is Givaudan's intention to maintain its current dividend practice as part of this ambition.

Key figures

For the six months ended 30 June, in millions of Swiss francs except per share data	2018	2017
Group sales	**2,674**	**2,483**
Fragrance sales	1,223	1,137
Flavour sales	1,451	1,346
Gross profit	**1,182**	**1,132**
as % of sales	44.2%	45.6%
EBITDA [a]	**601**	**597**
as % of sales	22.5%	24.0%
Operating income	**489**	**489**
as % of sales	18.3%	19.7%
Income attributable to equity holders of the parent	**371**	**384**
as % of sales	13.9%	15.5%
Earnings per share – basic (CHF)	**40.26**	**41.70**
Earnings per share – diluted (CHF)	**39.84**	**41.37**
Operating cash flow	**269**	**269**
as % of sales	10.1%	10.8%
Free cash flow	**113**	**132**
as % of sales	4.2%	5.3%

In millions of Swiss francs, except for employee data	30 June 2018	31 December 2017
Current assets	3,368	2,854
Non-current assets	4,688	4,455
Total assets	**8,056**	**7,309**
Current liabilities	2,132	1,525
Non-current liabilities	2,485	2,246
Equity	3,439	3,538
Total liabilities and equity	**8,056**	**7,309**
Number of employees	**11,710**	**11,170**

a. EBITDA: Earnings Before Interest (and other financial income (expense), net), Tax, Depreciation and Amortisation. This corresponds to operating income before depreciation, amortisation and impairment of long-lived assets.

Sales performance

For the six months ended 30 June, in millions of Swiss francs

	2017	LFL	Acquisitions impact	Currency	2018	Change % LFL*	Change % In CHF
Group	**2,483**	**140**	**42**	**9**	**2,674**	**5.6%**	**7.7%**
Fragrances	1,137	74	6	6	1,223	6.5%	7.5%
Flavours	1,346	66	36	3	1,451	4.9%	7.8%

Sales evolution by market

January to June 2018, in millions of Swiss francs

	2018	2017	Change % LFL*	Change % In CHF
Mature markets	1,531	1,415	4.0%	8.4%
High growth markets	1,143	1,068	7.8%	6.7%

*LFL = like-for-like, which excludes the impact of currency, acquisitions and disposals

Fragrance Division

Fragrance Division sales were CHF 1,223 million, an increase of 6.5% on a like-for-like basis and an increase of 7.5% in Swiss francs over 2017. The sales of the Fragrance Division include one month of sales from the recently acquired Fragrance company, Expressions Parfumées.

Total sales for Fragrance Compounds (Fine Fragrances and Consumer Products combined) increased by 6.2% on a like-for-like basis. In Swiss francs, sales of compounds increased to CHF 1,057 million from CHF 987 million in 2017.

Fine Fragrance sales strongly increased by 15.6% on a like-for-like basis against a weaker comparable period in 2017, driven by double-digit growth in all regions.

Consumer Products sales increased by 3.9% on a like-for-like basis with balanced growth across all customer groups and geographies.

Sales of Fragrance Ingredients and Active Beauty increased by 8.2% on a like-for-like basis with a double-digit growth in Active Beauty and good sales momentum in Fragrance Ingredients.

The EBITDA of the Fragrance Division decreased to CHF 250 million in 2018 compared to CHF 276 million for the first six months of 2017. The reduction is largely due to the impact of a single significant supply disruption of a major supplier of fragrance ingredients, which has impacted the fragrance industry. In the first six months of 2018, the division incurred costs associated with the GBS project of CHF 25 million, compared to CHF 24 million in 2017. The EBITDA margin decreased to 20.4% in 2018 from 24.2% in 2017.

The operating income decreased by 11.9% to CHF 203 million in 2018, versus CHF 231 million for the same period in 2017. The operating margin decreased to 16.6% in 2018 from 20.3% in 2017.

Fine Fragrances

Fine fragrance sales increased 15.6% on a like-for-like basis with double-digit growth recorded in all regions. These gains were driven by sustained high level of new business wins across all customer groups combined with volume growth on established business at key accounts.

On a regional basis, Western Europe was driven by the strong results of the new business wins. Performance in North America was led by new launches as well as volume gains on established business. In Latin America, the business sustained a positive momentum with new wins and volume growth at a number of accounts driving solid results.

Givaudan's perfumes continued to be recognised at major award ceremonies in Latin America, the USA and Europe across both men's and women's categories, recognising the excellence of our teams in crafting products that consumers love.

Consumer Products

Consumer Products sales increased by 3.9% on a like-for-like basis. The growth was delivered in both high growth and mature markets and across all customer groups.

On a regional basis, in Latin America the growth was balanced across sub-regions, with local and regional customers recording double-digit growth in Fabric Care and Personal Care, whilst international customers reported strong performance in Home Care. Asia delivered solid growth driven by all customer groups and across all sub-regions, including double-digit growth in the South Asia sub-region and in the product segments of Oral Care and Home Care. In Europe, Africa and the Middle East, the sales increase was driven by good performance across all sub-regions and segments, including double-digit growth in Home Care. Sales in North America decreased largely due to a sales decline with international customers in the fabric care segment, although local and regional customers performed well and recorded increases in all segments.

On a product segment basis, all segments contributed to the sales growth led by Home Care, Oral Care, Fabric Care and Personal Care.

Fragrance Ingredients and Active Beauty

Sales of Fragrance Ingredients and Active Beauty increased by 8.2% on a like-for-like basis. Active Beauty sales delivered a double-digit growth driven mainly by the strong performance of local and regional customers. Fragrance Ingredients experienced good growth in the first six months compared to 2017.

Flavour Division

Flavour Division sales were CHF 1,451 million, an increase of 4.9% on a like-for-like basis and 7.8% in Swiss francs. Including Vika, acquired in September 2017, and Centroflora Nutra, acquired in May 2018, the growth was 7.4% in local currency.

From a segment perspective, Beverages, Dairy, Sweet Goods and Snacks were the main contributors to the division's growth, with all segments showing positive gains. In our key strategic focus areas under the 2020 strategy, sales increased at double-digit levels in Health & well-being and in high single-digit in Naturals.

All regions delivered robust growth with a high level of new wins in the key segments.

The EBITDA increased to CHF 351 million in 2018 from CHF 321 million for the first six months of 2017, with continued productivity gains and cost discipline contributing to the increase. The EBITDA margin was 24.2% in 2018, up from 23.9% in 2017.

The Operating Income increased to CHF 286 million in 2018 from CHF 258 million for the same period in 2017. The Operating Margin increased to 19.7% in 2018 from 19.2% in 2017.

Asia Pacific

Sales in Asia Pacific grew by 7.0% on a like-for-like basis, with Singapore, India and China delivering double-digit growth, whilst Indonesia, Thailand and Malaysia delivered good results.

In the mature markets growth was driven by double-digit growth in Singapore and positive performance from Japan.

Local and regional customers continued to grow strongly across the regions, whilst from a segment perspective, all segments contributed significantly to the growth led by Beverages, Dairy, Savoury and Snacks.

Europe, Africa and Middle East

Sales increased 5.0% on a like-for-like basis across all segments, with good growth in Central and Eastern Europe, led by Russia, Ukraine and Greece. In Africa and the Middle East, Egypt and South Africa contributed positively to the regional performance which was partially offset by challenging market conditions across the Middle East. The mature markets of Western Europe delivered good results, with double-digit growth in UK & Ireland, Belgium, Switzerland and Sweden.

North America

On a like-for-like basis, sales in North America grew by 1.3% in 2018, against a strong comparable of 8.9% in 2017. The performance was a result of new wins and the growth of existing business in the area of Beverages and Dairy.

Latin America

Latin America Sales increased by 11.7%, with double-digit sales growth in Argentina, Mexico, Colombia and Brazil, where the economic situation is recovering. The strong growth came from all segments, led by Beverages, Dairy, Savoury and Snacks.

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CNBC interview with Gilles Andrier

21-Jul-2018 https://www.givaudan.com/media/media-releases/2018/2018-half-year-results

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