

Symrise AG

Forecast Update Call 2023

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Transcript

Speakers:

Tobias Erfurth

Dr Heinz-Jürgen Bertram

Olaf Klinger

Tobias Erfurth

Thank you very much, Betsy. Good evening to everybody, and welcome to our forecast update call 2023, spontaneously invited half an hour ago. As you're aware, we've just published an update on the sales and profitability development, and in addition to the required publication, which we just did, we would like to share some more information with you on this call.

Joining me on the call today, our CEO, Heinz-Jürgen Bertram, and our CFO, Olaf Klinger. Heinz-Jürgen will give you a brief overview, before we are open for your questions. Heinz-Jürgen Bertram, you may begin.

Heinz-Jürgen Bertram

Thanks, Tobias, for the introduction, and thanks for all of you dialling in. We have thought of how we go about the things, and following up on our Capital Markets Day, we have decided this year, to keep you in the loop on how things are going. So, today, as you saw in the press release, we have good and not so good news to share with you, but pretty much everything in line with what we shared with you during the Capital Markets Day.

Starting with a positive thing. Symrise has a strong business momentum, which is ongoing. Actually, our growth is above expectation, and pretty much, that is what we shared with you during the Capital Markets Day, that we have no growth problem, and going forward, we expect that to continue. On the other side, we have already shared with you, during the Capital Markets Day, that with profitability, we see room for improvement, and that we are focusing on that.

In line with that is we were having the ambition to go for 20% EBITDA. With the latest developments, we see that that is too ambitious, and that we have to carefully correct it a bit, and that's what we did with this today, as a few issues came in very unexpectedly. Just to mention one thing, the Argentinian currency, which just came in two days ago, and Olaf and myself, we were sitting together, said, we better bring our friends and analysts, everyone following us, into the loop.

We want to do things better than last year, where we waited a long time bring you into the loop. Having said that, the results, which we shared with you today, are pretty much in line with the message, which we had shared with you during the Capital Markets Day. And this year, it's just to keep you in the loop. Having said, that you have all read the short press release, and if you have any questions, feel free to ask them. Olaf is with me on this call, and we're ready to take them. Having said, Tobias, I think that's enough for the moment.

Tobias Erfurth

Very good. Thank you very much, Heinz-Jürgen. Let's start the Q&A, Betsy. Maybe you can take over and help us with that.

Operator

We will now begin the question answer session. Anyone who

wishes to ask a question, may press star and one on their touchtone phone. You will hear a tone to confirm that you have entered the queue. If you wish to remove yourself from the question queue, you may press star and two. Participants are requested to use only handsets while asking a question. Anyone who has a question may please press star and one at this time. And the first question comes from Matthew Yates with Bank of America. Please go ahead.

Matthew Yates

Good evening, gentlemen. Thanks for taking the call. To the extent, Olaf, you can, can we start with quantifying the revaluation of inventory? You mentioned it in the press release, but maybe if you give us a number, that would help us calibrate exactly how much of the margin guide specifically relates to what you may consider to be a one-time effect. But I'll let you comment on that.

And then maybe it's my own misunderstanding, I'm struggling with the contradiction in the way it's worded. You're saying that on the one hand, you've had a delayed reduction in inventory, but at the same time, you're talking about generally healthy demand. So, I'm struggling to understand what the exact message on volumes there is. Does it relate to a specific area of the portfolio, where you've got an excess of inventory and you're not seeing the demand recovery? Thank you.

Heinz-Jürgen Bertram

Okay, Matthew, let me start with the contradiction. Some of it is, in particular, in the chemical section where we start to ramp up our plant, but as we said, it is taking a while to get the inventory off the table, so there is a delay in there. The rest of the business is very healthy, and when we, later, during the call, talk on the business momentum in different business segments, we may shed some more light on it. But it's mostly related to that, and the consequence of one year, a plant being down. Olaf, over to you with the rest of the inventory.

Olaf Klinger

Specifically on the inventories, eight to ten million just in November are related to this, and had an impact on the picture, definitely, which was okay, until the end of October. November was specific, we had a lot of single items, I would say, inventories were sticking out a little. On both sides, we still have a tough chemicals environment to deal with, and there are chemical prices coming down, and here and there, we need to take some adjustments.

And on the TNH side, and also, on the checking side, we have certain adjustments to be made, partly due to quality, partly due to overstocking. So, that's what we did. And the other piece is what Heinz-Jürgen has referred to already as the FX development. Currently, it's going against us, and that has an impact, also, on EBITDA. Just recently, the Argentinian

environment, which goes into this with four to five million on an EBITDA level only.

So, these are the impacts, which at the end of the day, triggered this, based on the November picture, which was a weak month for Symrise. And therefore, we wanted to be very clear and fair, also, that we cannot live up to our around 20% EBITDA margin guidance this year, from some items we mentioned, which triggered that.

Matthew Yates

Thanks very much.

Operator

The next question comes from Nicola Tang with BNP Paribas. Please go ahead.

Nicola Tang

Hi. Thanks, everyone, for taking the questions. Firstly, in terms of EBITDA margin, and thinking about the moving parts into 2024. You reiterate your midterm ambition to get to 20% to 23%. Can you talk a little bit about, or help us a little bit, in terms of your expectations for 2024? And then the second question, you talked about greater than 7% organic growth for the year. Could you help us with the split between volume and price, and perhaps talk a little bit about the sequential volume momentum that you've seen in Q4? Thank you.

Heinz-Jürgen Bertram

Nicola, let me start with the more qualitative stuff, and Olaf, if he wants to give you some numbers. But first, the EBITDA margin for 24, giving you a guidance now, that is too early. We're going to give you a guidance, that's what the typical procedure is, in first quarter. In March, you're going to get guidance. But we confirm our midterm guidance, which we have handed out for top line growth and bottom line, nothing has changed there.

Having said that, you asked about volume and price. So let's give you a view on how the different segments are doing. Taste and beverage, or flavours, in other words, is just doing fine, and keeps doing fine. Pet food had, this year, seen in the beginning, an increase in turnover, mainly, or exclusively, driven by price increases. But since November, well, further price increases in pet food are, at the moment, not doable, and we said that during our Capital Markets Day.

But since November, we see, carefully, but we see volume increases coming in. So, everything we said is happening, so it will take a bit more to get pet food back to where it was, but the volume increase there is happening. In food and beverages, it has been there, and it is there. Scent and care. Fragrance is improving, as we said. It is getting better. And you also see volume increase, and we have more positive signs. Just one last night, we had a nice, big win in fragrances, so it is getting there.

Cosmetic ingredients, no negative news at all. Totally in line with what we said during the Capital Markets Day. It keeps going on

and being a strong asset. Aroma molecules, still in the dark. It's like chemicals everywhere, and it'll take longer. There is no sign at the moment for an immediate recovery. But it is not something that is different than other areas. Having said that, the picture is not different to what we said, in general terms, in the Capital Markets Day, and most recently, when we were in London.

The only thing, a few incidents that came, in all of a sudden, triggered us to give you an update of where we are so far. We learnt from what we had a year ago, and we want to be very careful on this one. Olaf, do you want to elaborate a bit more?

Olaf Klinger

Yes. Nicola, I think we have mentioned all year long that price was the dominating factor for the growth. And as Heinz-Jürgen has just elaborated, we now see the volume coming back. I think, looking at scent and care, actually, the majority in fragrance is already volume, and the same holds true for cosmetic ingredients. So, that shows that we are on a good track again. The area, which is a little bit more challenging, is aroma molecules.

And I think we are in the same boat as many others in the chemicals environment at the moment. And here, we don't have a lot of signs, if at all, of improvement at the moment. So, that is from a volume perspective, still very negative.

Nicola Tang

May I ask a follow-up question with respect to what you said on pet, and thinking about the comments, you made about TNH inventory adjustments? I was wondering if there could be a risk of further write downs next year, if, indeed, the volume environment in pet doesn't recover as fast as you'd hoped.

Heinz-Jürgen Bertram

No, Nicola. Pets, we don't see it. Pets, the only thing is all our products. The downside with pets, and there was a one-time thing, if you have raw materials there, like meat, that can be stored too long. You are better off writing it off right away. So, this specific item, Olaf mentioned, but don't expect anything next year to come there.

Nicola Tang

Thank you.

Operator

The next question comes from James Hooper with Bernstein. Please go ahead.

James Hooper

Hi, all. Thank you very much for taking my questions. I think I'll have one in particular. Can you go through just how internally, you're bridging the margin guidance you've just provided with getting back to the median target in 2024, and beyond, and what you think the key line items will be that will improve the margins going forwards? Thanks.

Heinz-Jürgen Bertram

Let me start, and Olaf, you can hop in. One point is, and we have highlighted that also earlier, we're going to exit certain

businesses, and it'll happen, the first one, probably in January at the moment. The other business, we're going to exit, and we have highlighted that, as well. Both businesses in the magnitude of 20 to 25 million, let's put it this way. The second one is not as simple as we thought, because it is, in some parts, interwoven with a business, which we definitely want to keep, and you guys can sort out what it might be.

So, that's why we cut it off, piece by piece, and that will take a bit longer, as we want to definitely keep one piece of it. So, during the next year, we're going to exit that. Both of these businesses' total turnover, as I said, is a bit more than 40 million. My best shot, Olaf, and an EBITDA margin of, if at all, 5%, and no room or visibility to get this done, that will be accelerated. Second, we accelerated our efficiency programme in scent and care, and that will have a good contribution.

And we brought onboard, and we're in the process of doing this, more business with an accretive margin. All that together will bring us safely in the guidance, which we indicated long term. So, we're not concerned there, James, at all. Olaf, do you want to elaborate on it?

Olaf Klinger

Yes. I think on the cost structures, of course, that we still have an elevated raw material situation. So, here and there, we see raw material prices coming down. So, in these days, raw material prices should help us. What's important, in this situation, is that we protect our price levels towards customers, so that we take advantage of the raw materials decline a bit. Hopefully, it will be more visible next year.

Also, to mention, I think, here and there, we have started to prune the portfolio, also from a product perspective. Lower margin businesses, here and there, we need to give up, to improve our margin levels. And the last piece I would mention is that we continue to invest into our higher margin and faster growing businesses, like cosmetic ingredients, like pet food, which in a total picture, should definitely help to bring us back on track towards the 20% plus level.

James Hooper

Can I just follow up with one thing? Olaf, when you mentioned the pruning of the portfolio, and beyond, the disposals that Heinz-Jürgen mentioned, can you quantify the impact of that, perhaps, in terms of the volume headwind?

Olaf Klinger

No. I think that goes a little bit too far, but rest assured that we have, of course, situations, where margins are not sufficient. And here, we take measures that are definitely taking place without giving you the magnitude.

Heinz-Jürgen Bertram

But, James, let me hop in, and help Olaf out a bit on that. We will have some of this portfolio repruning definitely, in the aroma

molecules area. In the situation we're in, it is obvious that some of the products will not be supported anymore, and will have to be exited. Maybe a bit quicker than we anticipated originally.

James Hooper

That's great. Thanks very much.

Operator

The next question comes from Charles Bentley with Jefferies. Please go ahead.

Charles Bentley

Great. Thanks for taking my questions, and thanks for hosting the call. I just had a couple. If I think about where consensus is for the second half, it implies a 30 to 40 million gap. And you've explained something like eight to ten million of inventory reduction, and four to five million of devaluation. I'm just trying to work out what the remainder is. So, it would be helpful if you've got any ideas on that.

And then secondly, on this egg and chicken protein point. You're talking about overstocking, is that purely spoilage related? I guess the other thing it could be is net realisable values being below your inventory costs, which would suggest prices are declining. Is there any evidence of that?

Heinz-Jürgen Bertram

Charles, I'll pick the latter question, it just has to go. That is one of the specific sides of pet food. As we said, volume demand is increasing already as per the months of November and December. I've just had a chat with Jean-Yves on that, but unfortunately, in pet food, you can't wait until it has picked up, so that has to go. That is a specific on pet food, so no reason to be concerned.

It will just take a bit to bring pet food back to where it was historically. But volume growth is already showing up. But it doesn't help the old inventory anymore, that's why that has to be written off. Olaf, you take the rest. You have the long kitchen sink list for Charles, okay?

Olaf Klinger

Yes. Of course, Charles, this situation, in different areas, cost absorption in production areas, is a topic we have. And then an adjustment on healthcare plan in the US, which comes into the picture. So, there are many, many different items, the most prominent ones, we've given you. And then of course, the comparison to what the market expects might lead to this number you stated.

But for us, the benchmark was always to deliver on around 20%. So, I think they have a certain gap, which is, at the moment, leading us to the 19% to 19.5%.

Charles Bentley

Thanks. Could I just ask one quick follow-up? At the Capital Markets Day, you were very confident of hitting the 20% number for this year. As you're saying, you've got pretty good confidence on pet into the second. Aroma, we already knew was

challenging. So, can you just be very specific around what's got worse?

Heinz-Jürgen Bertram

The final nail in the coffin was this Argentinian thing two days ago. And we have a nice production there, so when that hit us, we thought, you know what, let's be straight out there. Before, as Olaf said, two, three weeks ago, we just thought, hey, it might still be possible. But that was the final nail, and we decided, let's put it out. On the other side, let's not forget the positive thing, the business momentum is very healthy.

And you will have a hard time finding other strong growth companies like ours. This is the mixed picture, and it is pretty much what we have already indicated in the Capital Markets Day. And, Charles, as you said, we already said, at that point in time, it'll be challenging, but we'll do our very best. But the trigger was Argentina, for sure. It was a few million. Again, we said, hey, let's put it out.

Charles Bentley

Thanks.

Operator

We have two more questions left. The next question comes from Isha Sharma with Stifel. Please go ahead.

Isha Sharma

Good evening. Thank you for the timely update on the guidance. Is the guidance on one-offs for the second half still around 15 million, in order to estimate the bottom margin? And also, on the sequential decline in margin in H2 versus H1, is it equal contribution from both the segments, please?

Heinz-Jürgen Bertram

Isha, thanks for calling in. I would say the numbers, that is Olaf's speciality. Olaf, do you want to pick it up? The guidance on margin and the numbers, before I pick it up. It's a number thing.

Olaf Klinger

Yes. So, for scent and care, we basically resolved the situation in Colonel's Island. The market weakness in chemicals is not helping the scent and care environment. And we really need to reflect the aroma molecules environment, which hasn't helped to improve the picture, despite the fact that fragrances and cosmetic ingredients continue to see good momentum. So, that is the environment for scent and care.

And for TNH, it's according to what we expected, that this will be the slight phase-out of the price elements. We had a slight decline, compared to the first half of this year. That is the picture, which we are seeing at the moment, as a comparison between H1 and H2.

Heinz-Jürgen Bertram

But, Isha, coming back to what... Actually, the picture in the second half, in terms of margin, is not a lot better than it was in the first half. And that is a bit different to what we expected during the Capital Markets Day. We expected it to pick up. The good news is that fragrance, itself, came up very nicely, as we

indicated. The downside, still, is the chemical part, where this has been deteriorating beyond what we've seen.

But the rest, cosmetic ingredients and all this, is fine. The margin has not deteriorated in the second half, but it has not improved. Big deal. That's the downside. And that is the only difference to the Capital Markets Day message we had. Growth momentum, still overall, in the company, is good. In taste, nutrition, and health, no disclaimers. Everything as we indicated. No deviations. All fine. All good.

And even pet food, as I indicated, is starting to creep up. But it'll take a bit, until it's back to normal. But no other messages, compared to what we said a few weeks ago.

Isha Sharma And just to confirm, the one-offs in the EBITDA are still around 15 million, that's still the guidance for the second half.

Olaf Klinger Yes. You should expect probably a little bit more than the 15, which we guided for H2. The final number, I don't have yet, and of course, the year is not over. But it might be a little bit more than the 15 we guided.

Heinz-Jürgen Bertram So, the first half, Isha, I think had 29, and in the second half, it will be less, but it may be a bit more than 15. So, put the number, the rest, Olaf is sitting on the numbers, and he is making the thing. But it's somewhere in between, probably.

Isha Sharma Thank you very much.

Operator The last question comes from Alex Sloane with Barclays. Please go ahead.

Alex Sloane Good evening, gentlemen. Sorry if I missed this, but just to confirm a couple of things. In 2024, would you be expecting to be back into the margin corridor, i.e., 20% plus on EBITDA. And on pricing, would you expect to have positive pricing next year? Thank you.

Heinz-Jürgen Bertram Alex, you missed it, and Nicola has already asked for it. So, you're going to get clear guidance for next year by March. But you heard our ambition, long term, no deviation from what we've said, 5% to 7% growth going forward, and our ambition, 20% to 23% going forward, no deviation. Specific guidance for next year, for 24, will be out at the end of Q1 next year, as usual. And then you will be the first who we'll let know.

But again, at the moment, no reason for us, going forward, to be concerned. We have a healthy business, and as the numbers show, we have a very healthy growth momentum. So, that is it for the moment. And at this point, it's too early to go into more details concerning next year.

Alex Sloane Thank you.

Operator	Ladies and gentlemen, that was the last question. I would now like to turn the conference back over to Symrise for any closing remarks?
Tobias Erfurth	Thank you very much, Betsy. This was a fast call. Late in the evening for us, for some of you it's not even evening. Thank you very much for your participation today, and for your interest in Symrise throughout the year of 2023, which was not an easy one. We wish you all the relaxing Christmastime, and are very much looking forward to meeting you again in 2024. Thank you very much. All the best and goodbye.