

DSM-Firmenich AG

Europe Satellite*

Recommended since 31.05.2022

26.06.2023



Country NL	Market capitalization (bn) EUR	25,1	Perf. since reco. (%)
Sector Chimie	Free float	67,4%	DSM-Firmenich AG -35,0
Factset DSFIR-NL	Closing price EUR	94,44	Secteur -7,0
ISIN CH1216478797	ESG Risk score*	19,8 Low risk	



Profile

The merger between DSM and Firmenich has created the world's no. 1 in ingredients in terms of sales. The business is divided into four divisions: 1/ Animal, Nutrition & Health (29% of sales) : nutritional products for farm animals; 2/ Perfumery & Beauty (28%) : ingredients for perfumery, cosmetics and household products; 3/ Food & Beverage - Taste (24%) : ingredients, enzymes, probiotics, nutritional products (vitamins, etc.) for food and beverages; 4/ Health, Nutrition & Care (19%) : dietary supplements, baby food, pharmaceutical ingredients, medical nutrition. Domiciliation in Switzerland. Two headquarters : Switzerland and the Netherlands.

Strengths/opportunities

- Repositioning towards high value-added nutrition/health activities, benefiting from sustained and stable growth.
- Rich pipeline of innovative solutions, with sales and EBITDA potential of EUR 1bn and EUR 400mio by 2025.
- Strong balance sheet allowing for further targeted acquisitions.

Investment case

- The merger with Firmenich completes DSM's refocusing on ingredients for nutrition, beauty and health. The two companies' areas of expertise are complementary : 1/ Firmenich specializes in fragrances and flavors, and 2/ DSM in nutrition and health, including the development of innovative solutions to reduce emissions from livestock farming and dependence on marine resources. The new group's critical mass and competitive position have thus been strengthened, and the complementary nature of its activities offers multiple opportunities for long-term value creation.
- The medium-term growth profile is attractive, and will benefit in particular from the externalization of synergies in sales (representing 50-60%) and costs (40-50%), which will contribute EUR 350 million to EBITDA by 2026. Management expects sales growth to accelerate from 5% to an average of 5-7% p.a., and EBITDA margin to rise from 19.5% to 22-23%.
- Although Q2 will remain difficult for vitamins, the business is currently at a low point in the cycle, and will benefit from its combination with Firmenich in H2, as well as from a more favorable basis of comparison from Q4 onwards. These factors will enable the trend to improve over the next 12 months.

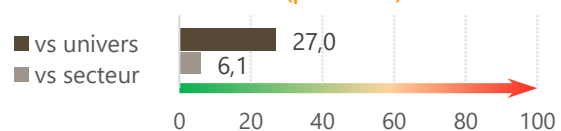
Weaknesses/threats

- "Basic" products (mainly vitamins), which are exposed to competition, now account for 10-15% of sales (vs. 25% before the merger), and are highly sensitive to price volatility.
- The successful completion of the merger with Firmenich is a risk, although limited by the complementary nature of their activities.

Valuation

Valuation is reasonable, with NTM's PE and EV/EBITDA at a discount of 7% and 30% respectively to its peers (Symrise and Givaudan).

ESG risk vs. universe & sector (percentile)*



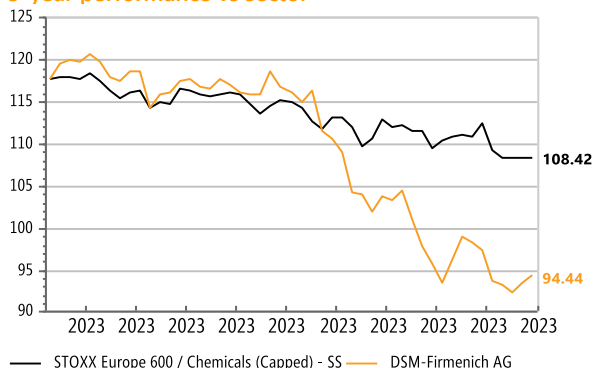
EUR	12/2022	2023e	2024e
Sales revenue (mio)	8 390	11 182	12 882
Sales growth	15,4%	33,3%	15,2%
EBIT adjusted (mio)	767	1 196	1 528
% of sales	9,1%	10,7%	11,9%
Net income (mio)	586	743	1 043
Net income growth	-31,7%	26,9%	40,3%
FCF/Sales	3,6%	7,9%	9,2%
Net debt/Ebitda	0,1x	0,7x	0,3x
Dividend yield	2,8%	2,4%	2,6%
PE	27,4x	29,5x	23,2x
P/BV	1,5x	1,1x	1,2x

Factset estimates

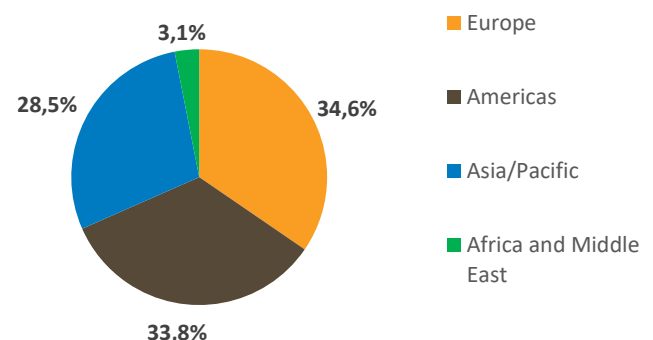
ESG - risks and key points

- DSM's ESG risk level is low. Its exposure is medium and mitigated by good ESG management and strong corporate governance performance. The company has not experienced any major controversies in the past.
- 63% of turnover is generated by solutions with environmental and social benefits.
- Target to reduce greenhouse gas emissions by 30% by 2030 (vs 2016 - validated by the Science Based Targets initiative).

5-year performance vs sector



Sales breakdown - 12/2021



*: see overleaf

Source: Factset, Sustainabilitys

Glossary

Satellite

From 2015, B&Cie separates its investment recommendations into Core Holdings (higher organic growth potential, high free cash flow, ROCE in excess of the cost of capital and balance sheet efficiency throughout the cycle) and Satellite Recommendations, which do not meet the above criteria but are likely to outperform in the short-to-medium term.

ESG Risk Score

At B&Cie, we take particular care to ensure that the companies in which we recommend investing are sustainable. Accordingly, our selection process takes account of risks relating to environmental, social and governance (ESG) issues. This approach is underpinned by research from Sustainalytics, the global leader in ESG and corporate governance analysis, whose methodology aims to identify major controversies and risks and assess a company's ESG risks relative to both its sector and the investment universe as a whole. The corresponding score is expressed as a percentile: the lower the overall risk score, the lower the risk within the investment universe.

b-Digital, b-Transition & b-Well

Over and above the conventional geographical and sectoral approaches to asset management, at B&Cie we believe the world of tomorrow is being shaped by structural trends. We have identified three main megatrends: ongoing digital globalisation of the economy; economic transition, particularly in the energy sector; and the quest for wellness. We believe selecting and investing in companies that play an active role in these transformations should lead to more resilient portfolios that generate higher long-term returns. Our investment recommendations in the digital globalisation space are labelled "b-Digital", those in the economic transition space "b-Transition" and those in the wellness space "b-Well". A given recommendation may fall under more than one theme, in which case it will carry the relevant matching labels.

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