



ELEVATION CAPITAL
RESEARCH



GIVAUDAN SA (GIVN:SWX)

October 2023

Givaudan

Givaudan (GIVN:SWX, Market Capitalisation: CHF 26.59bn), is the world's largest company in the Flavours and Fragrances (F&F) industry. A Swiss multinational manufacturer, Givaudan specialises in creating unique tastes and smells used in a wide array of consumer products, ranging from food and beverages to cosmetics and home care products. The company operates in two business divisions; *Taste & Wellbeing* and *Fragrance & Beauty*. Givaudan was officially formed in 2000, via a spin-off from global pharmaceutical giant Roche, listing on the Swiss Stock Exchange (SWX). Today, Givaudan maintains a leadership position within the F&F industry, commanding +18% global market share and operating in all regions of the world.

Products made by Givaudan are unavoidable in daily life. They produce the baseline chemicals necessary for the creation of many of your favourite foods and perfumes. Givaudan is a primary employer of perfumers, who receive briefs from external companies to create scents for use either as functional fragrances, such as shampoos, air fresheners, make-ups etc., or as fine fragrances, which are marketed directly to the public as perfumes. The flavours industry is the minty taste in toothpaste, the cheese flavour on corn chips, or the difference between a vanilla Oreo and a chocolate Oreo. Check the ingredients of your favourite snack - the part you have trouble pronouncing is likely made by Givaudan.

Givaudan functions as a "tollbooth" business in the F&F industry. The term refers to firms that "charge" a portion of an industry's value chain due to their strategic market position. Givaudan has carved out their leading position through a relentless focus on innovation, quality, and sustainability - all crucial touchstones for a company that produces consumable chemicals. In addition to their innovative use of technology and strong research and development focus, strategic acquisitions have played a crucial role in strengthening their portfolio and expanding their capabilities over time.

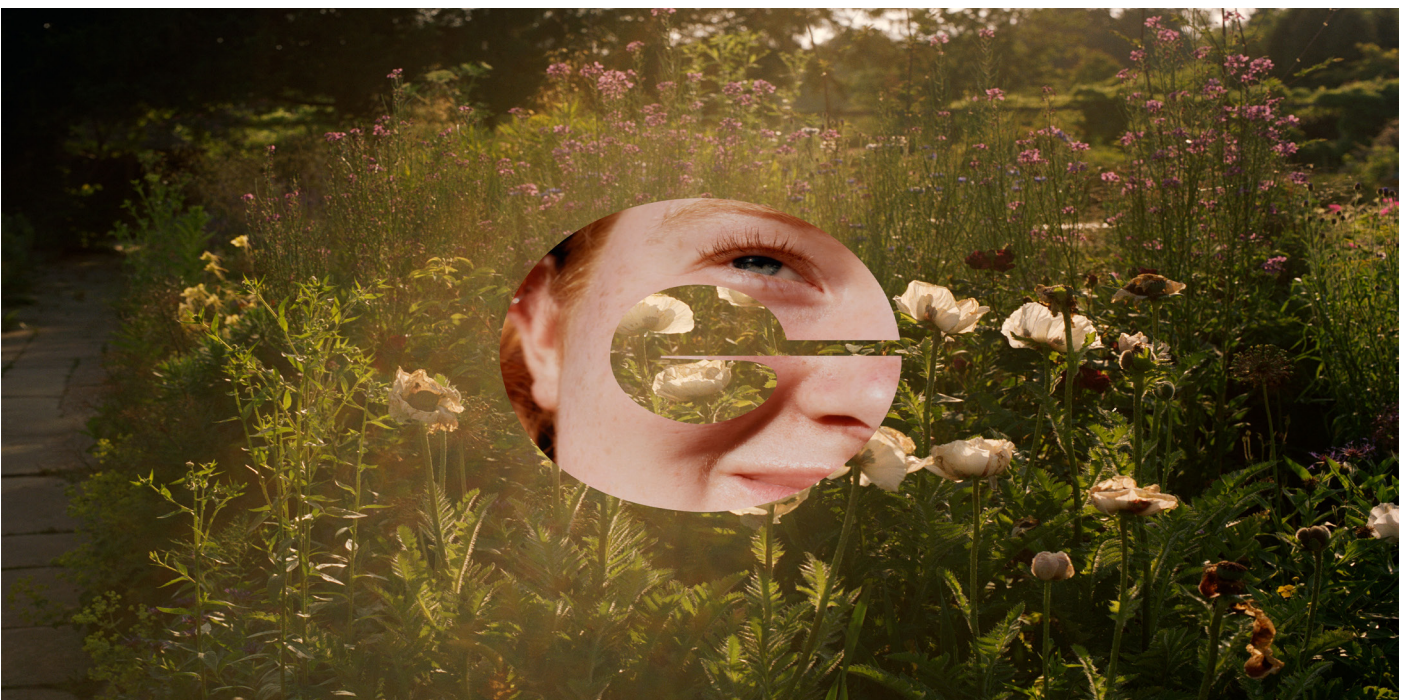


Image Source: Givaudan Website

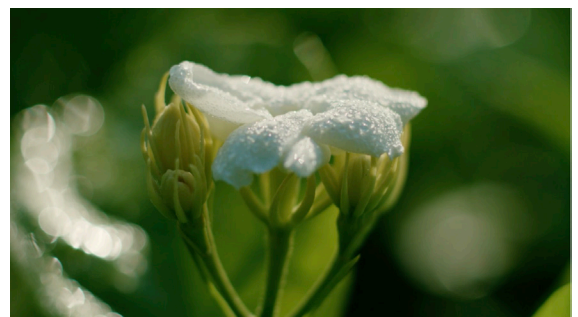
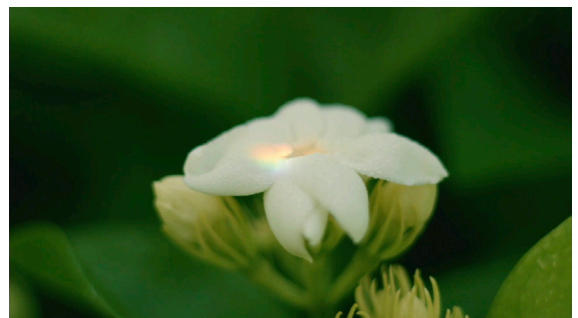
A History of Givaudan

- 1768 In Grasse, France, Antoine de Chiris begins harvesting flora and fauna, turning them into raw ingredients for perfumery
- 1820 Claude Roure successfully evolves the fragrance industry, establishing Roure-Bertrand & Fils, which provides aromatic plants and essential oils, such as jasmine and rose
- 1862 In Dortmund, Germany, food and chemistry combine as the company Kurt Oestereich and Westfälische Essenzenfabrik is founded, the forerunner of Riedel Arom, a flavours company eventually acquired by Givaudan in 1989
- 1895 A milestone moment in the history of fragrances is recorded when Léon and Xavier Givaudan found Givaudan in Switzerland
- 1898 Givaudan builds chemical factory in Vernier, Geneva
- 1917 Roure acquires A. Rallet & Co., the employer of the creator of Chanel No. 5, Ernest Beaux
- 1900-1950 As the fragrance industry begins to expand into everyday products, Givaudan is one of the first companies to promote the use of fragrances in cosmetics and soaps
- 1924 Givaudan opens a facility in Clifton, New Jersey USA
- 1946 Roure Perfumer Jean Carles establishes Givaudan's world-renowned Perfumery School, which today operates in the outskirts of Paris
- 1950 Givaudan opens factories in the UK and Brazil
- 1963-1964 Roche acquires Givaudan and Roure
- 1991 Givaudan and Roure merge to form Givaudan Roure
- 1995 Givaudan Roure becomes the first flavour and fragrance company to significantly invest in facilities in Asia, expanding across the continent, responding to the needs of high-growth markets
- 1997 Givaudan Roure acquires Tastemaker, a US flavours company, making it the world's largest flavours organisation
- 1998 "Virtual Aroma Synthesizer", a computer-based system that creates a scent composition in real time, is developed by Givaudan Roure, which goes on to win the Fragrance Foundations FiFi Technological Breakthrough of the Year Award in 2001
- 2000 Roche spins-off Givaudan-Roure as a separate entity to be listed on Swiss Stock exchange as Givaudan SA (GIVN)
- 2007 Givaudan acquires Quest International, extending the company's reach to become the undisputed leader in the flavour and fragrance industry
- 2014 The acquisition of Soliance, an ethical company that develops active cosmetic ingredients derived from vegetable sources, microorganisms, and microalgae, strengthens the Givaudan portfolio
- 2015 Givaudan continues its progression into the active cosmetic ingredients business by acquiring Induchem Holding AG and its subsidiaries
- 2019 The biggest year of acquisitions, Givaudan acquires seven companies in the cosmetics business, including Albert Vieille and Ungerer
- 2021 Custom Essence, Myrissis, DDW, and 25% of b.kolor join Givaudan

A Recurring “Tollbooth” on Global Consumption

Givaudan stands as a gatekeeper in the F&F world, providing the underlying ingredients used in products further down the value chain. Think of them as a tollbooth on an industrial highway, where other firms have to pass through and pay a toll. Their position ensures that as these firms grow, it directly amplifies Givaudan’s profitability as their demand for Givaudan products must increase.

Givaudan owns the formulations they create, whether it is a flavour or a fragrance. This means a customer has to keep coming back to Givaudan to make the flavour or fragrance each time they want to do a production run. A notable investor who understands this business model well is Bill Gates. His personal investment vehicle, Cascade Investment, LLC, recognised for its value-driven, long-term approach and predilection for stable, non-cyclical industries, is the largest shareholder in Givaudan alongside his ex-wife Melinda Gates.



Major Shareholders (% of shares outstanding)

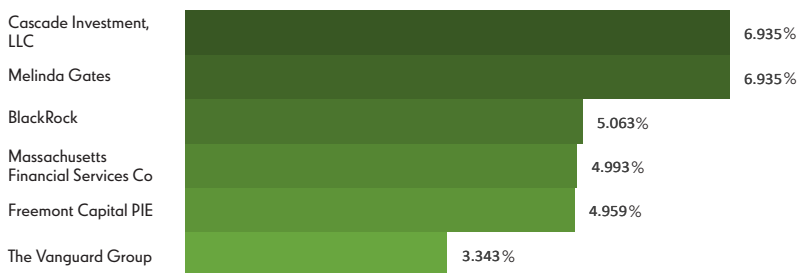


Image Source: Givaudan Website

A Global Giant

Givaudan operates in a CHF 42 billion global market, with its primary competitors being Symrise, DSM-Firmenich, and US-based IFF (International Flavours & Fragrances). The company has 166 locations worldwide, including 78 production sites, and a team of over 16,670 employees that collaborate closely with customers of all scales worldwide.

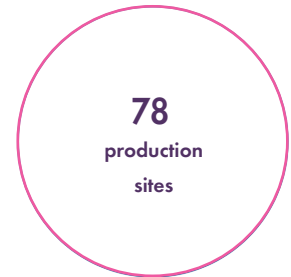
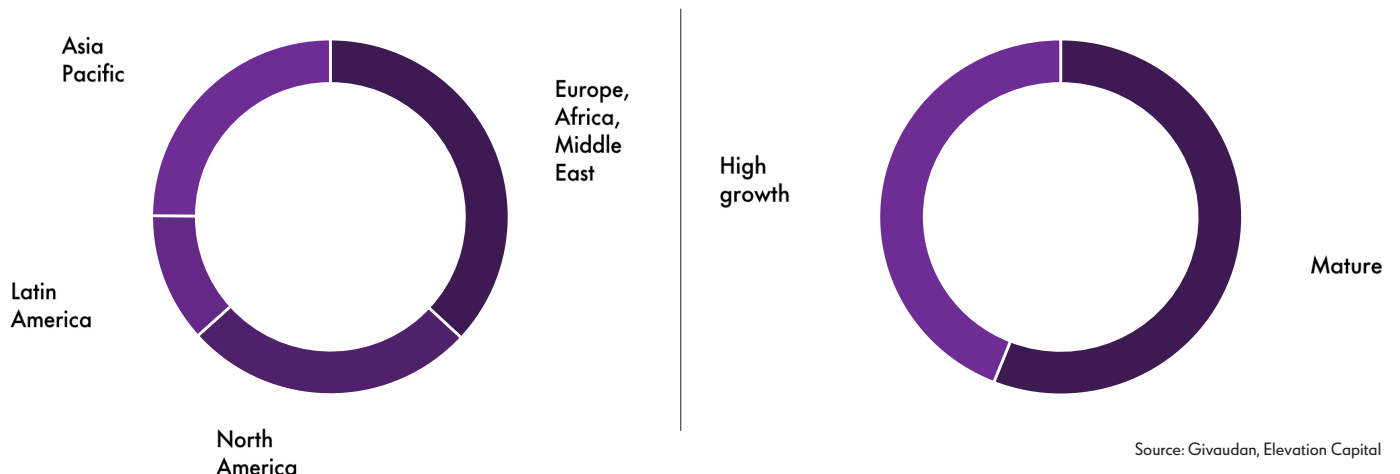


Image Source: Givaudan Website

Givaudan's 2022 geographical sales were as follows: Europe/Africa/Middle East - 37%, North America - 26%, Asia Pacific - 25%, and Latin America - 12%. Mature markets - North America, Western Europe, and Japan, represent 56% of sales, with an emphasis on health and wellness products. In contrast, high growth markets - Asia Pacific and Latin America, accounting for 44% of sales, are poised for expansion due to urbanisation and increasing disposable incomes. Givaudan's strategic presence in these regions ensures they will capitalise on future opportunities in these high-growth emerging markets.



Source: Givaudan, Elevation Capital

Givaudan In Action - Flavours

Salt is one of the oldest and most fundamental flavour-enhancing ingredients in human history. The word “salary” is derived from “salarium”, and is believed to stem from the practice of paying Roman soldiers, officers, and sometimes civil servants an allowance for the purchase of salt, which was a precious and essential commodity in ancient times for preserving food. Today, salt is still used as the primary preservative in packaged foods, which accounts for 70% of our sodium intake.



Image Source: USA Today

The Salt Curve

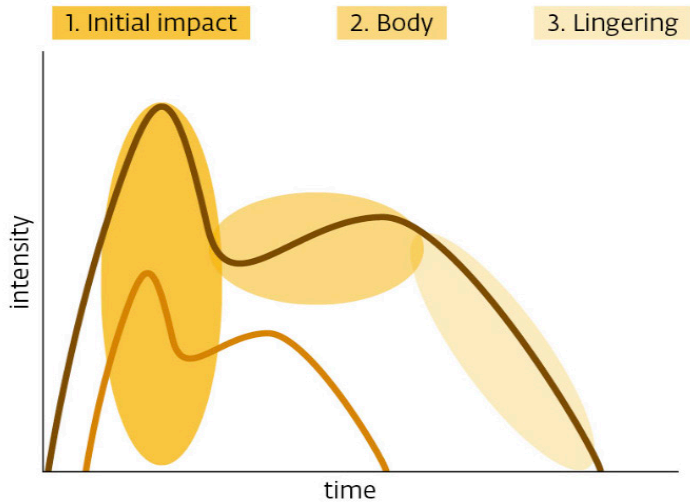


Image Source: Givaudan Website

As health-consciousness gains popularity, Givaudan aims to solve the problem of the excessive consumption of salt in daily life. The science behind this pursuit stems from the Salt Curve. Flavours, like sounds, are experienced across time. Givaudan has broken down the time-based development of the flavour of salt into three sections: Initial impact, Body, and Lingering. From here, Givaudan can focus their attention on each section to create proprietary taste ingredients that are not salt but resemble the effect without compromising taste or quality.



Image Source: Dominion Salt Website

Givaudan In Action - Fragrances

Givaudan is one of the largest global employers of perfumers, and boasting an 85-year history in Haute Parfumerie. Analogous to Haute Couture in fashion, Haute Parfumerie refers to the creation of limited, exclusive products made with the finest ingredients. These high-end olfactory artworks serve as exhibits of craftsmanship and quality; they are designed to push boundaries.

The history of Givaudan is interlaced with the creation of Chanel No 5., one of the best-selling and most iconic fragrances of all time. Coco Chanel sought to introduce a fragrance that would represent her groundbreaking approach to fashion, something modern, luxurious, and unique. She collaborated with Ernest Beaux, who at the time was working for the company Roure Bertrand Dupont, one of the companies that later formed Givaudan. Ernest presented Coco with a series of samples, and she selected the fifth one, hence the name Chanel No. 5. The fragrance broke from the traditional fragrances of the time, which primarily relied on the scent of a single flower. Instead, Chanel No. 5 was a complex blend, a floral aldehyde with notes of jasmine and rose, making it revolutionary in the world of perfumery.

The future of fragrances is driven by the ingredients. As new perfumes are created, the producers have to continue to pay Givaudan for batches of the formulation. *For a company to profit off a fragrance, Givaudan must profit first.*

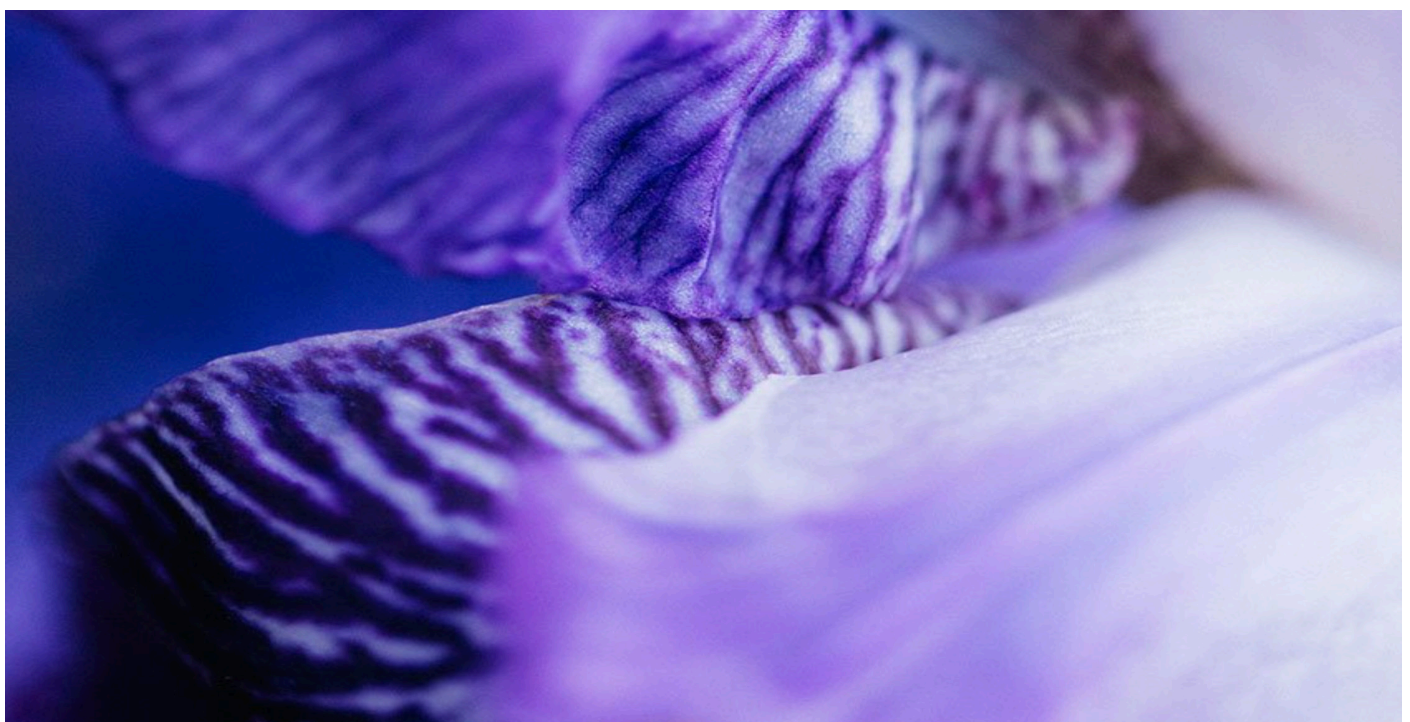
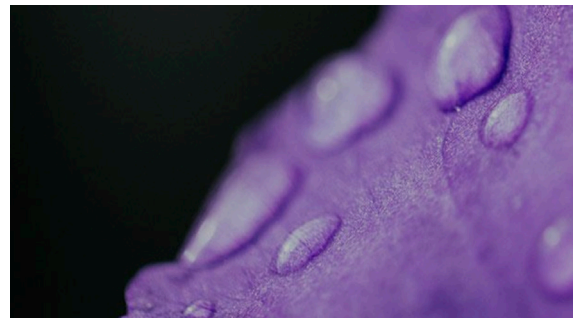
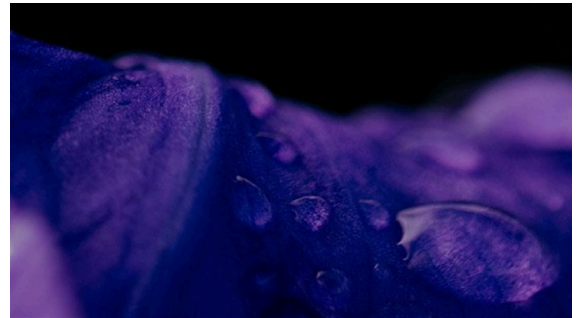


Image Source: Givaudan Website

A Balance of Sensory Segments

Taste & Wellbeing

The Taste & Wellbeing division focuses on the creation and distribution of diverse flavour profiles, utilised in an extensive range of food and beverage products. From everyday snacks and beverages to gourmet prepared meals, the innovative flavours developed by this division cater to a wide spectrum of consumer tastes and preferences.

The "Wellbeing" component addresses the growing demand for health-oriented products. By infusing flavours into nutritional supplements and functional foods and drinks, the company is at the forefront of meeting growing consumer emphasis on health and wellness. This division's ability to tap into the health-conscious market trend provides a promising growth avenue.

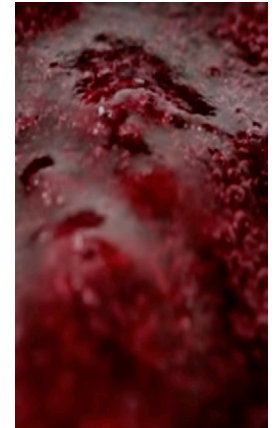


Image Source: Givaudan Website

Fragrance & Beauty

The Fragrance & Beauty division emphasises crafting unique fragrances utilised in various consumer products, including but not limited to, perfumes, colognes, soaps, shampoos, and a plethora of cleaning products. This division's fragrances enhance the user experience, adding value and appeal to the everyday product range.

The "Beauty" facet involves formulating fragrances for skincare and cosmetic products, capitalising on the flourishing beauty and personal care market. The creation of fragrances for this sector demands a fine balance between appealing scent profiles and maintaining product efficacy, a challenge that this division has successfully addressed.

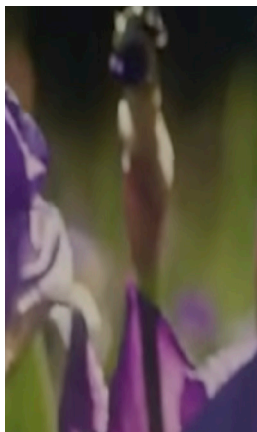
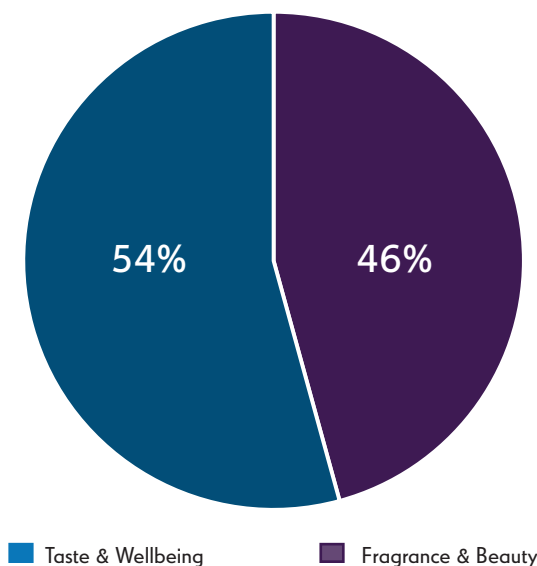


Image Source: Givaudan Website

Givaudan exhibits a remarkable balance in its two core business segments. These divisions contribute almost equally to the company's top line, demonstrating robust and diversified streams of revenue.

Revenue Split (CHF)



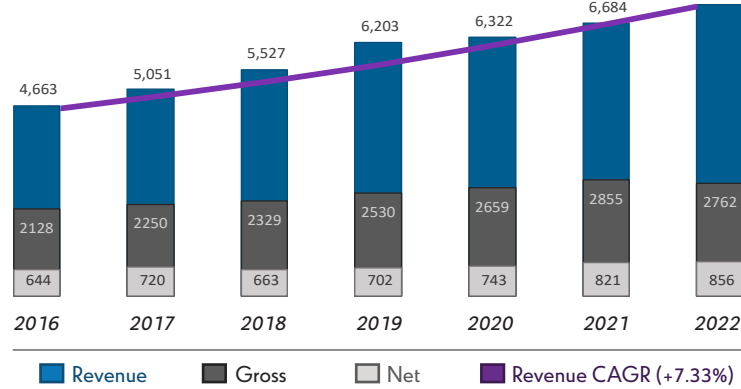
Revenue (CHF, millions)



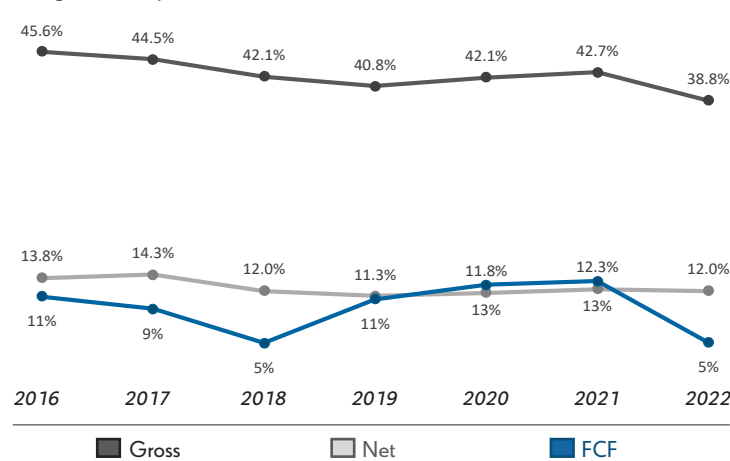
Source: Capital IQ, Elevation Capital

Historical Earnings and Margins

Earnings (CHF, millions)



Margin Analysis



Source: Capital IQ, Elevation Capital

Despite the recent challenging global economic conditions, Givaudan has reported a remarkable post-COVID recovery in annual revenue growth, underpinned by their high-performing business segments. The Taste & Wellbeing Division, backed by the robust sales of beverage, sweet goods, and savory products, has contributed significantly to overall company growth. Concurrently, the Fragrance & Beauty division also delivered impressive results, reflecting the strong demand for personal care, fine fragrances, and home care products.

In 2022, Givaudan reported CHF 7,117 million in sales, marking a +5.3% growth on a like-for-like basis and a +6.5% rise in Swiss francs from 2021. Despite operational challenges due to increased costs and supply chain issues, the company maintained strong business momentum. Growth was delivered across all product sectors and regions, with mature markets growing by +1.9% and high growth markets by +9.9%. Since 2016, Givaudan has maintained a Revenue CAGR of +7.33% and an average Free Cash Flow (FCF) yield of +9.57%. As revenues rise, Givaudan continues to generate sustained profit margins.

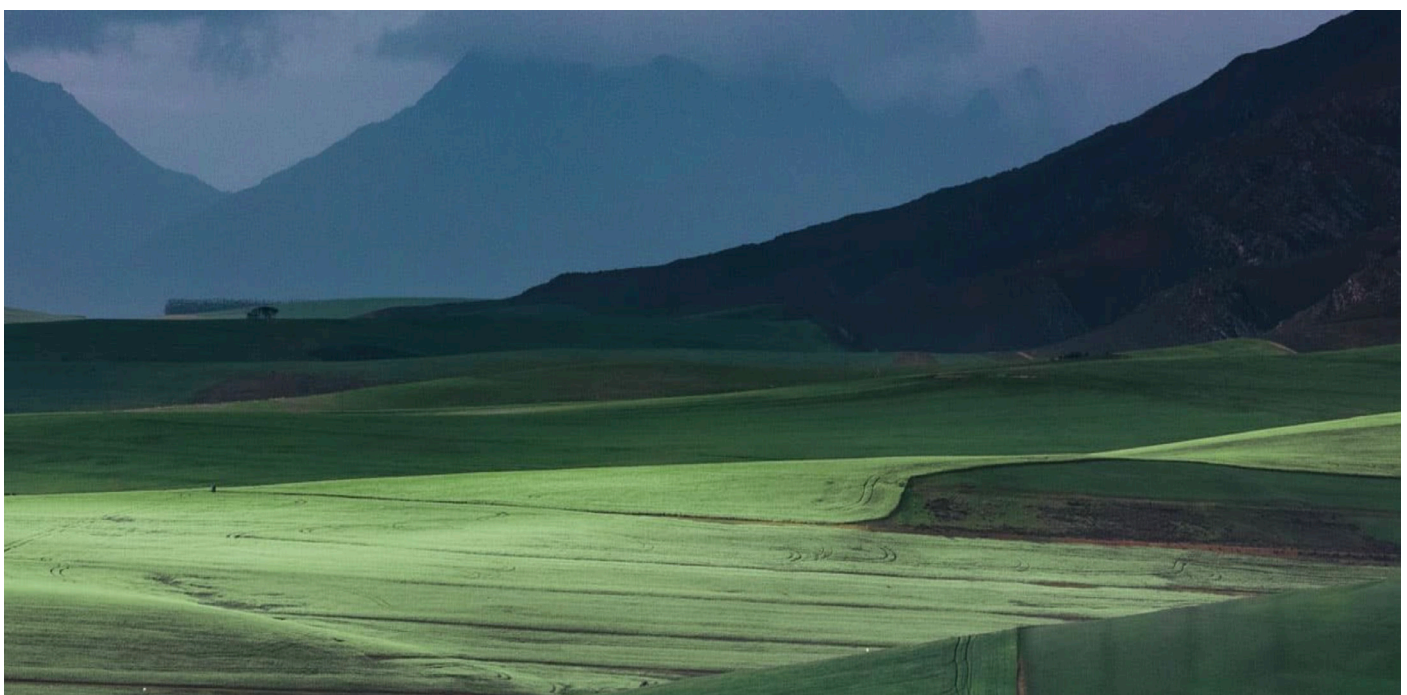
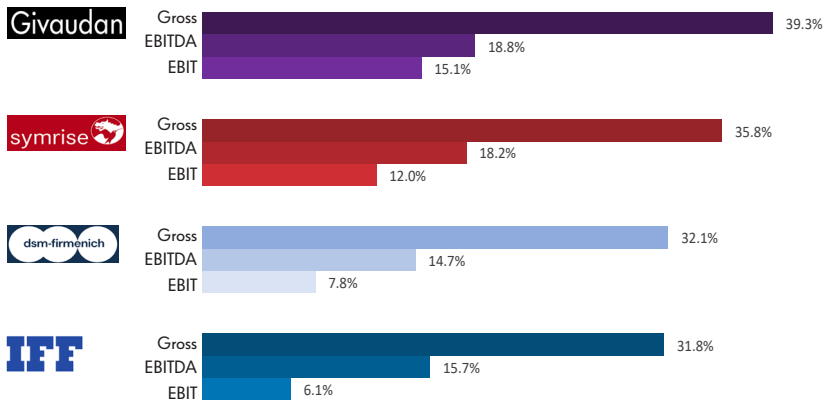


Image Source: Givaudan Website

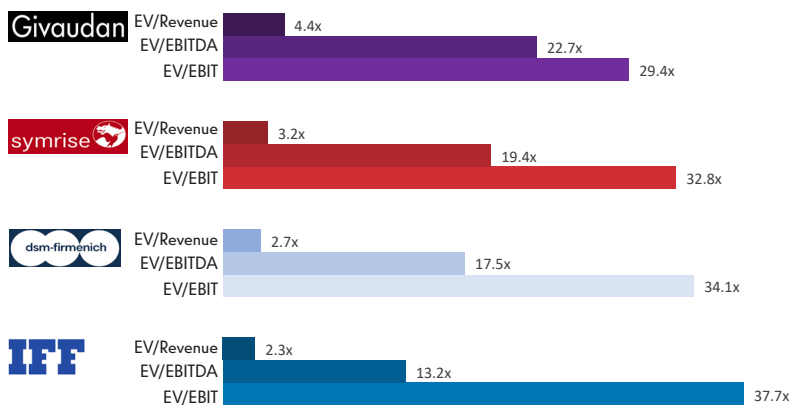
Comparing Givaudan with its Global Peers

LTM Profit Margins



Source: Capital IQ, Elevation Capital

EV Ratios



Source: Capital IQ, Elevation Capital

The three competitor companies of Givaudan, are Symrise, DSM-Firmenich, and IFF. All the companies display strong gross margins, reflecting the strength of their tollbooth business models. Givaudan stands out from the Gross Margin level as the superior business.

This continues at the EBITDA Margin, where Givaudan delivered a +18.8% margin, which again is a reflection of their scale and quality of management.

In terms of EBIT Margin, Givaudan's operational and management strength becomes even more evident. At +15.1%, their EBIT margin significantly surpasses their peers, boasting 1.25x the margin of its nearest competitor, Symrise, and a whopping 2.5x that of IFF, which is struggling post the acquisition of the DuPont F+F business.

Givaudan is valued at higher multiples than peers for very good reason - its operational performance over many years has been outstanding, led by a truly excellent management team. This statement is supported by an 82% CEO approval rating by staff and former-staff on Glassdoor. Givaudan is a classic case of paying a slightly higher price for a market leader and well-managed firm with strong consistency in its track record.



Image Source: Givaudan Website

Investment Metrics

Givaudan has utilised its strong cashflow to drive acquisitions. Their Return on Assets (ROA) and Return on Invested Capital (ROIC) remain consistent, standing around +7% and +9% respectively. For a company in the F+F industry, these figures are strong, implying effective asset management and reasonable returns on the capital employed. A standout metric for Givaudan is their Return on Equity (ROE), which has consistently been above +20% in recent years. Since their IPO in 2000, Givaudan has created over CHF 30 billion in total shareholder return. This represents an impressive average annual growth rate of +10.5%, significantly outpacing the +4.1% average of the SMI Index in the Swiss market.

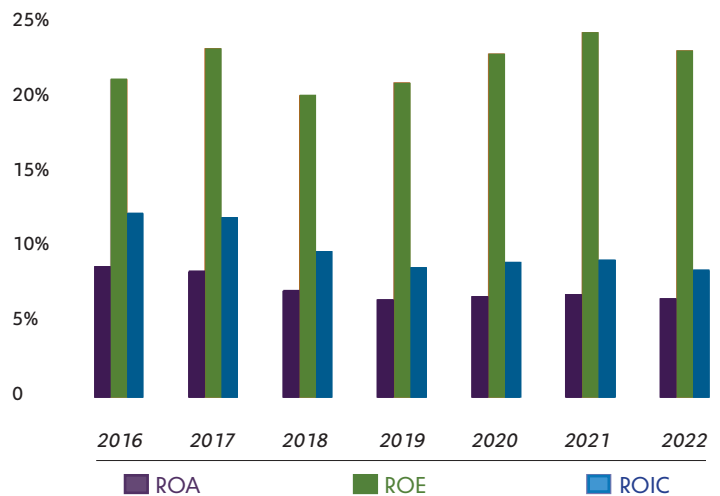
Givaudan’s consistent and growing dividend policy underscores their commitment to returning profits to shareholders. For the financial year 2022, Givaudan reported a robust free cash flow of CHF 479 million. Consequently, the Board of Directors, during the Annual General Meeting held on 23 March 2023, approved a cash dividend of CHF 67.00 per share, marking a +1.5% increase from the previous year, with a payout ratio of 72%.

On a forward PE basis, Givaudan, like its peers, has seen a derating as interest rates have risen globally and negative volume growth due to a reversal of safety stocking and “shrinkflation”. This has created a more attractive entry point for long term investors in our view as favourable structural trends remain in place. Givaudan is an ideal defensive investment in a challenging environment.



Image Source: Givaudan Website

Operating Performance (%)



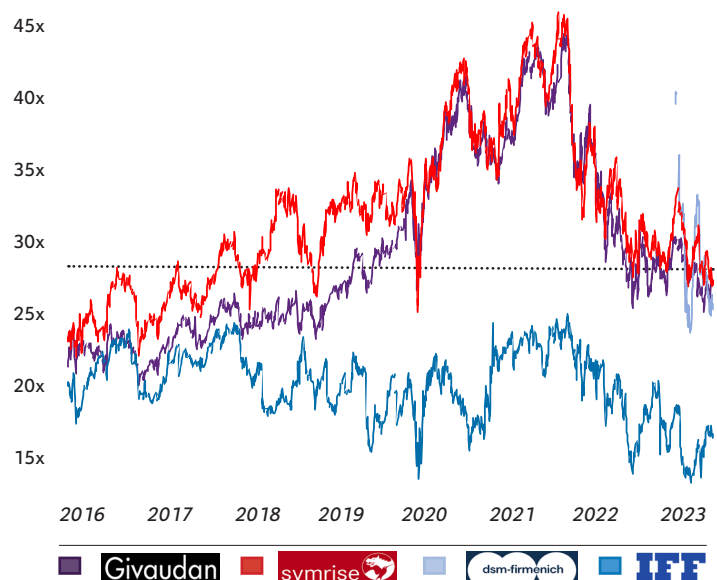
Source: Capital IQ, Elevation Capital

Dividend History

Financial year	Dividend per share (CHF)	Increase	Date of payment	Dividend yield ¹	Payout ratio
2022	67	1.5%	29-Mar-23	2.4%	72%
2021	66	3.1%	30-Mar-22	1.4%	74%
2020	64	3.2%	31-Mar-21	1.7%	79%
2019	62	3.3%	31-Mar-20	2.0%	81%
2018	60	3.4%	3-Apr-19	2.6%	83%
2017	58	3.6%	28-Mar-18	2.6%	74%
2016	56	3.7%	29-Mar-17	3.0%	80%
2015	54	8.0%	23-Mar-16	3.0%	80%
2014	50	6.4%	25-Mar-15	2.8%	82%
2013	47	30.6%	27-Mar-14	3.7%	89%
2012	36	63.6%	28-Mar-13	3.7%	81%
2011	22	2.3%	29-Mar-12	2.5%	81%
2010	21.5	4.4%	31-Mar-11	2.1%	58%
2009	20.6	3.0%	6-Apr-10	2.5%	88%

Source: Givaudan, Elevation Capital

Forward PE Ratio (x)



Source: Capital IQ, Elevation Capital

2025 Strategy

Givaudan’s 2025 strategy, unveiled in 2020, is comprehensive three-part plan designed to fortify and diversify the company’s market presence and offerings. A focal point of this strategy is to *Expand The Portfolio*. This involves strengthening their core business and delving deeper into the health, wellbeing, nutrition, and beauty sectors. Additionally, the company is developing integrated solutions and innovative delivery systems. Another critical element is to *Extend Customer Reach*. Givaudan is casting a wider net by deepening collaborations with major Consumer Packaged Goods (CPG) companies and large-scale customers while simultaneously nurturing relationships with local, regional, and emerging clients. The strategy also underscores the importance of catering to private labels and foodservice providers. Finally, *Focused Market Strategies* aims to optimise potential in mature markets, while also bolstering their leadership in high-growth markets.



2022 Strategy Review

Image Source: Givaudan Website

EXPAND THE PORTFOLIO:

By partnering with DDW, The Color House (D.D. Williamson), Givaudan launched an unparalleled palette of natural colours, aiming for industry leadership. Their 48% stake in Nanovetores Group enhanced their capabilities in cosmetic ingredient encapsulation. In collaboration with a New Zealand founded company, LanzaTech, they are pioneering sustainable fragrance ingredients from renewable carbon. Additionally, their agreement with Fiberstar introduced a citrus-based texturing component.

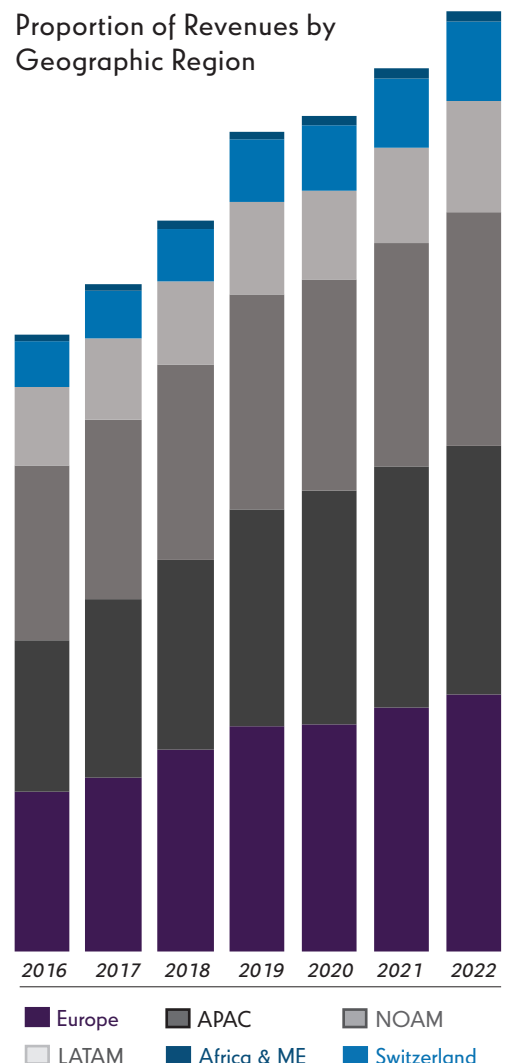
EXTEND CUSTOMER REACH:

A pivotal accomplishment was the inauguration of a Consumer & Sensory Insights (CSI) centre in Johannesburg, South Africa. This facility is aimed at studying evolving consumer preferences, understanding local nuances, and crafting food experiences that resonate deeply with consumers. Givaudan marked a significant footprint expansion in the Asia-Pacific (APAC) market with the launch of their first integrated fragrance encapsulation centre in Singapore. This establishment serves as a comprehensive hub that ensures continuous innovation, operational consistency, and internal agility, all geared towards supporting customer growth in Asia.

FOCUSED MARKET STRATEGIES:

In 2022, Givaudan unveiled the Taste & Wellbeing Customer Foresight futrescaping platform, harnessing big data, AI technology, and the company’s industry expertise to anticipate and cater to future consumer demands. Additionally, they partnered with Tmall Innovation Centre (TMIC) to introduce ‘Creatogether’ in China, marking the fragrance industry’s first AI-driven co-creation service.

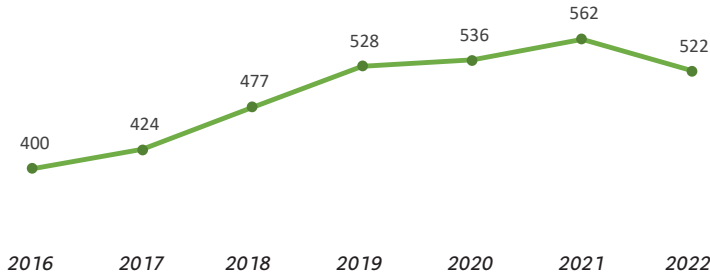
Proportion of Revenues by Geographic Region



Source: Givaudan, Elevation Capital

Maintaining Market Leadership

R&D Expenditure (CHF, millions)



Source: Capital IQ, Elevation Capital

Givaudan continued to uphold their position as the global industry leader in 2022. The company has maintained its consistent growth through successful innovations and strategic acquisitions, boosted by a strong demand for Givaudan’s diverse product portfolio. The sustained effort in research and development, coupled with a strong commitment towards sustainability and ESG initiatives, has reinforced Givaudan’s market presence and solidified their pre-eminent brand reputation.

Environment	Social	Governance
<p>90% Renewable electricity</p>	<p>27% Women in senior management</p>	<p>100% Non-executive and independent Board members</p>
<p>-35% GHG emissions scope 1+2 since 2015</p>	<p>-36% Reduction of recordable case rate since 2018</p>	<p>20% Non-financial targets in Performance Share Plan compensation</p>
<p>-13% Water withdrawal rate reduction on sites facing water-stress since 2020</p>	<p>100% Production sites registered on Sedex</p>	<p>2% Average base salary difference between men and women¹</p>
<p>AA LIST CDP Leadership in transparency and action on climate change and water security</p>	<p>>215,000 People benefitted through community initiatives</p>	<p>88% Of employees who have completed the Principles of Conduct training</p>

Source: Givaudan, Elevation Capital



Image Source: Givaudan Website

A Look Further Into The Future

Givaudan has identified four pivotal megatrends set to shape their growth trajectory in the future beyond 2025:

- The global emphasis on longevity and wellness has consumers gravitating towards products promoting physical and mental health, with a pronounced shift towards hygiene products, accentuated by the pandemic;
- The e-commerce boom, fast-tracked by COVID-19, is revolutionising retail, with a growing preference for self-care and local products;
- Consumer consciousness is now deeply rooted in sustainability, driving demand for environmentally friendly offerings and favouring businesses championing climate and social causes;
- The expanding consumer base in regions like Asia and Africa signals a surge in demand for localised products, coupled with the need for innovations catering to an aging demographic

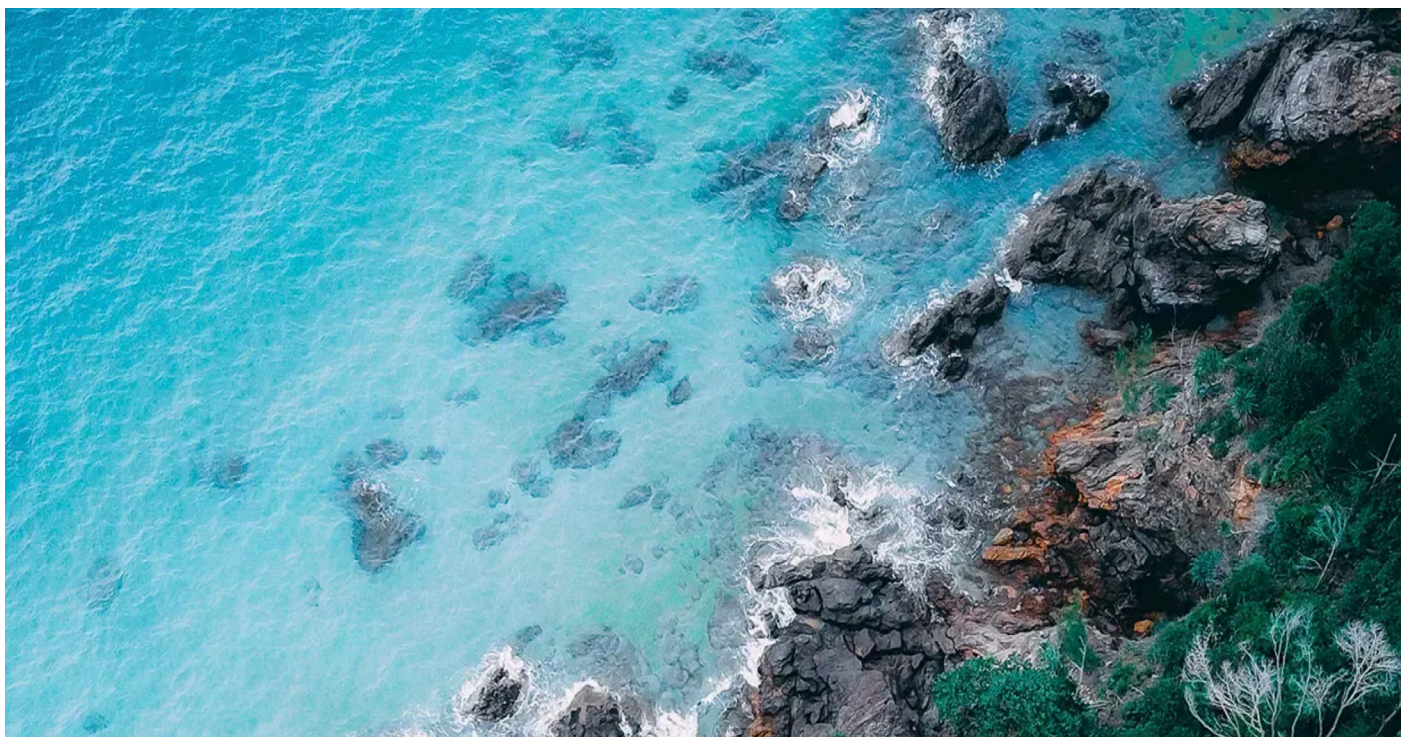
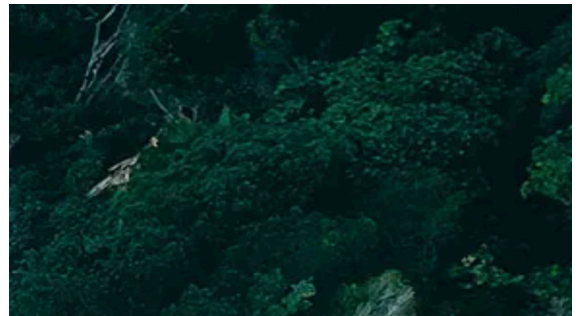
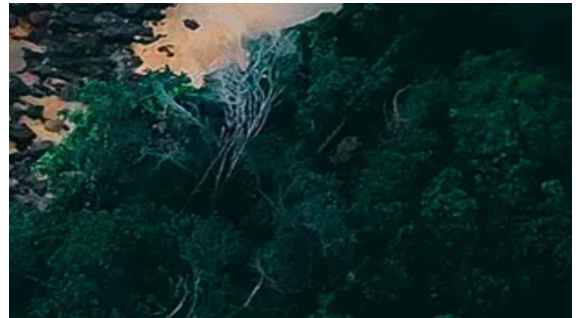


Image Source: Givaudan Website

Conclusion

Givaudan is the leading company in the global flavours and fragrances industry. The business model is one of a “tollbooth” on global consumption of food and beauty products, industries that continue to grow and expand with increasing awareness and focus on health and wellbeing. Givaudan is positioned at the forefront of this global industry, providing sustainable solutions to companies that are further down the value chain.

In collaboration with their clients, Givaudan provides unique food experiences, fragrances, and beauty solutions. Their products range from beverages and meals to luxury perfumes and household items, all designed to enrich lives while increasingly focusing on environmental sustainability. With a legacy spanning over 250 years, Givaudan has consistently innovated in the realm of scents and tastes, bringing joy and surprise to consumers globally. With a goal to invest 10% of their yearly turnover in research and development, Givaudan can be expected to remain at the cutting edge of the industry.

Financial stewardship at Givaudan has been exemplary and we see no reason why this would not continue in the years ahead. Global population growth and rising incomes also all but guarantee the steady growth of its consumer base over time.

Givaudan is at the epicentre of global consumer industries and can be expected to maintain its leading position in what is a largely anonymous but vitally important global industry. Elevation Capital first invested in Givaudan for our clients in 2015 and we continue to hold the shares today in the Elevation Capital Global Shares Fund.

Source: Givaudan, Elevation Capital

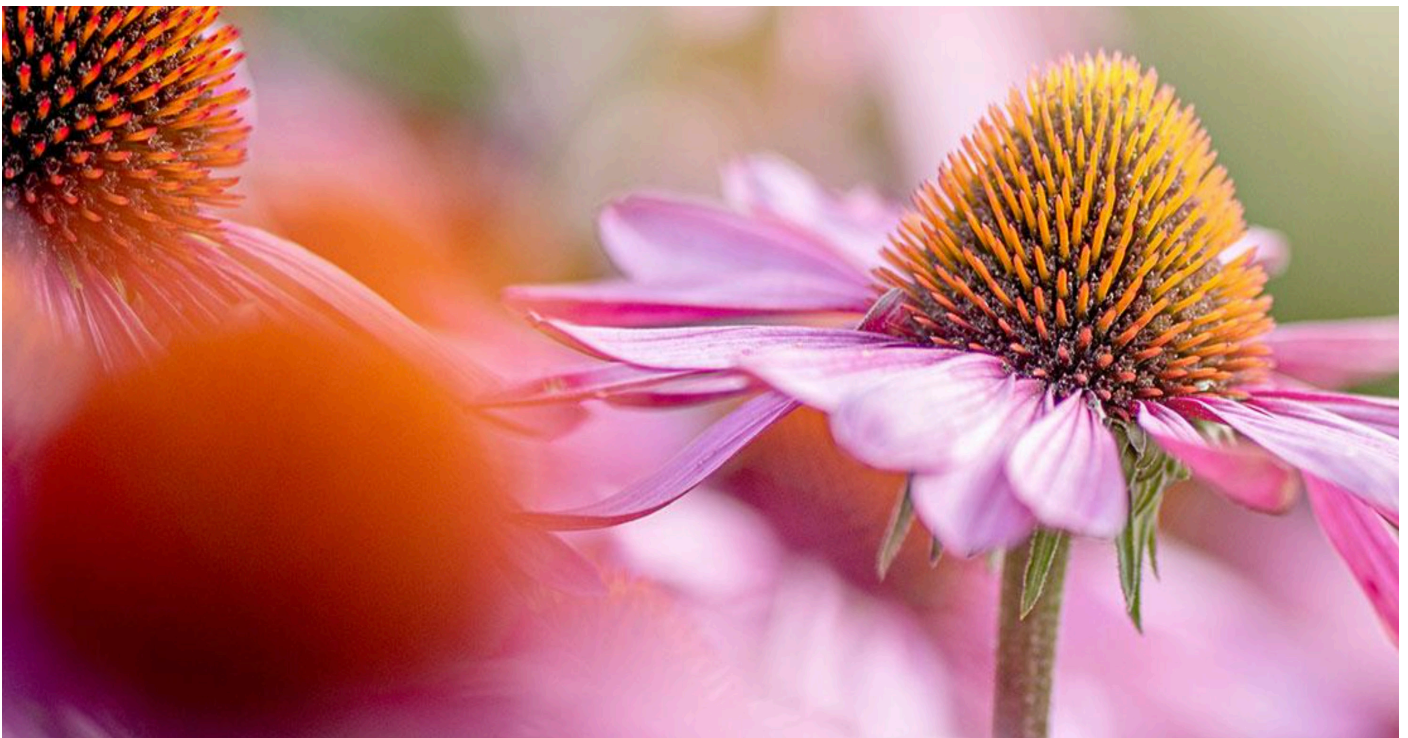


Image Source: Givaudan Website

This report was published in October 2023.

Any data not referenced was sourced from Givaudan Annual Reports & Earnings Conference Calls.

1 Capital IQ.

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Independent Thinking Disciplined Investing

[In-de-pend-ent Think-ing] ind ə'pendənt THiNkiNG verb

Is essential to long-term investment success. We are often contrarian and do not pay attention to index compositions when making investment decisions. We believe that when you're several thousand miles away from Wall Street in a different nation, it's easier to be independent and buy the things that other people are selling, and sell the things that other people are buying.

[Dis-ci-plined In-vest-ing] disciplinəd inves'ting verb

The market presents opportunities every day, but disciplined investing is as much about the opportunities you do not take. We also believe that cash is sometimes the most attractive investment.



MORNINGSTAR INTERNATIONAL EQUITIES
CATEGORY FUND MANAGER OF THE YEAR 2017,
NEW ZEALAND



NOMINEE - FUNDSOURCE
INTERNATIONAL EQUITY SECTOR
FUND MANAGER OF THE YEAR 2013,
NEW ZEALAND



NOMINEE - MORNINGSTAR
INTERNATIONAL EQUITIES CATEGORY
FUND MANAGER OF THE YEAR 2012,
NEW ZEALAND



NOMINEE - FUNDSOURCE
INTERNATIONAL EQUITY SECTOR
FUND MANAGER OF THE YEAR 2012,
NEW ZEALAND