Firmenich FY2020 Results

11 August 2020, 10:00am CEST

Presentation

Gilbert Ghostine

Chief Executive Officer

Hello, everyone, I am Gilbert Ghostine, CEO of Firmenich and I am joined by my colleague, Eric Nicolas, our COO and our CFO. Let me begin by thanking you for your interest in Firmenich. We are pleased to present to you, for the first time, the results of our fiscal year 2020.

Today we will cover the following topics. A review of the key achievements and challenges of the past year. An overview of where our business is today, at the beginning of our new strategic cycle. Eric will then provide an overview of our financial performance. We will then make some final closing remarks before opening up the lines for questions.

As we all know, it has been an extraordinary and unprecedented year, not just for Firmenich, or our industry, but for the whole world. So let me turn first to the review of the past year. I am pleased to share that our performance during FY2020 has been defined by resilience and leadership.

Against the extremely challenging backdrop, we delivered resilient financial performance. Our net revenue grew by 2.8% on a local currency basis, of which approximately 60% was linked to acquisitions. We increased our gross margin by 90 basis points and increased our EBITDA margin by 60 basis points. We generated CHF454 million of free cash flow during FY2020, an increase of 7% versus FY19, which demonstrates the resilience of our cash generation profile.

We are very proud that despite the unprecedented logistical challenges posed by this crisis, we have been able to provide uninterrupted service to our customers since day one, while looking after the health and safety of our colleagues around the world.

Over the course of FY2020, we have also reinforced our industry leadership in key areas. Thanks to our selective approach to business and our strong cost discipline, we continue to lead our industry in profitability, as we have done throughout our Grow125 strategic cycle. With the transformational acquisition of DRT, a leader in naturally derived renewable ingredients, we have further reinforced our lead in flavours and fragrance ingredients. With this move, we are building the world's leading innovation platform for renewable, biodegradable and sustainable ingredients.

Underpinning our growth and profitability is our longstanding investment in science and innovation. Among other achievements, this year we launched Dreamwood, a biotech ingredient with secondary benefits and this launch is looking very promising. We have also continued to pursue our responsible business agenda. We are proud to be the first in our industry to reach a significant milestone on the road to become a certified B Corporation. This is part of our commitment to help drive a cultural shift in business and build a more inclusive and sustainable economy.

Let me now say a few words about our response to the pandemic. COVID-19 is one of the biggest challenges our Company has faced over the last few decades. As an organisation, we responded quickly to the crisis and at all times our number one priority has been to look after our colleagues, our communities and our customers. We worked hard to safeguard our employees' safety at work, ensuring that there was strict compliance with government guidelines across the business and supporting our employees who required more flexible working options.

In keeping with our responsible business approach, we adapted our production to manufacture and donate over 100 tons of hand sanitisers to frontline health workers across a number of countries, including Switzerland, the United States, Singapore, Indonesia and Malaysia. This unprecedented global event has demonstrated more clearly than ever before the mission critical role that Firmenich plays for our customers. We remain committed to helping them succeed, as they seize new opportunities to deliver healthier, more hygienic and more sustainable products.

I would like now to give you a more detailed review of the highlights of our performance this year. The crisis has demonstrated the benefits of the diversification of our business, by geography, by customer and by segment. Some segments, such as fine fragrance and beverages suffered with the closure of retailers and the travel bans. The contraction in fine fragrance had a knock-on effect on our ingredients business and on revenue in Europe.

Against this backdrop, we achieved a very strong performance in our flavour division, which grew 4%. In FY2020 our smart protein business grew by 120%. Our unique smart protein solutions improves everything from taste to texture, while matching the succulence of meat protein in vegetarian and seafood alternatives.

Firmenich established itself as the clear leader in sugar reduction in FY2020, with the strongest organic growth in the industry at plus 23%. Our pioneering taste modulation technologies can naturally reduce up to 100% of added sugar and this has enabled us to remove over one trillion calories from consumers' food and beverage products this year. As customers look to accelerate launches of healthy and tasty products, they have selected Firmenich as a long-term partner of choice.

Our savoury business grew by 21% during FY2020, driven by increasing consumer demand for savoury items at grocery stores around the world. I would note also that our fast-growing plant based food business is included in the savoury segment. In consumer fragrance, we grew our revenue by 6%, with strong growth in personal bare, body care and home care. Revenue in the soap and body wash categories was driven by the added need for personal hygiene and sanitation during the pandemic.

Growth in emerging markets is one of our strategic priorities and I would like to highlight our double-digit growth over the past year in two of our key geographical areas of focus. Southeast Asia grew by 11% and India grew by 12%, excluding acquisitions.

I am also pleased to report that our e-commerce platform has now for the first time passed the CHF100 million mark in revenues, demonstrating our rapid growth in this channel and our ability to serve mid-market customers that will be an engine for growth for us in the future.

This has also been an important year in acquisitions, with DRT, the largest acquisition in the history of our Company, as well as the acquisition of VKL in India, the CO2 extraction business we acquired from Evonik and the partnership with MG Gulcicek in Turkey. Linked to this ambitious M&A programme, we successfully completed the issuance of our first hybrid, Eurobond and Swiss franc bond offerings. This marks yet another significant milestone in the history of our Company.

Let me now delve into our performance highlights for the last six months of January to June 2020, as I guess this will be of high interest to you, as this was mainly the pandemic period. As reflected in the full year performance, fine fragrance was the most impacted business, with a knock-on effect on ingredients and more broadly on our performance in Europe. Beverages also suffered from lockdown and travel restrictions.

These challenges were more than offset by our strong performance in flavours, which grew by 7% and in particular, smart protein, sugar reduction and savoury goods, as well as in consumer fragrance, which grew by 8%. Southeast Asia continued to grow at double-digit rates again, as did India and our business in the Middle East and Africa, which was driven by consumer fragrance sales linked to personal care and hygiene.

We also saw a rebound in North America and moderate growth in Latin America. We are optimistic that as lockdown and travel ban eases around the globe, the segments that were impacted the most, especially fine fragrance, will experience a rapid recovery due to their position as affordable luxury categories.

Through our excellent relations with local governments around the world and as an essential player in the food, hygiene and sanitation value chains, we have been able to keep our factories and labs operational. Our measures ensured that we kept our people safe, while maintaining reliable service for our customers, delivering record volumes and closing the year with on time, in full deliveries at an impressive 95%.

We are also proud to have been the only F&F house that did not impose any dilution or reformulation and this is demonstrating our commitment to our customers and our ability to control our raw material sourcing and value chain. All of this was made possible by the relentless commitment and passion of our people, who showed their true one Firmenich spirit and spared no effort to keep our operations running and I am tremendously proud of their dedication.

One of the key differentiating factors is our passion to innovate with our clients. We are a research-driven, innovation-led organisation, dedicating more resources to R&D as a percentage of revenue than any of our competitors. We pride ourselves on identifying the leading consumer trends across smell and taste and using our industry leading R&D capabilities to help our clients leverage these trends.

We have more than 450 scientists around the world in six R&D centres and a portfolio of more than 3900 patents. We have deep expertise in a broad range of disciplines including cellular biology, organic chemistry, sensory and cognitive science as well as biotechnology, among other areas of expertise.

We are continuously improving our best-in-class ingredients palette by introducing new natural and renewable biotechnology ingredients, as well as innovative, biodegradable molecules made using processes that follow key green chemistry principles. We pioneered white biotechnology with a first ingredient in 2014 and this year we further anchored our leadership in this area with the launch of Dreamwood, our fourth white biotech ingredient.

Dreamwood provides a sustainable alternative to the botanical sandalwood oil, which is one of the most precious oils used in perfumes and our rigorous lab research shows that it has an antimicrobial effect and soothing properties on skin cells. This may have positive benefits in skin care for special needs, including blemishes.

As I've mentioned, we are actively involved in shaping smart protein solutions, supporting our customers cater to the rise of vegan and vegetarian diets. Our unique integrated solutions improve everything from taste to texture and match the succulence of meat proteins in vegetarian and seafood alternatives.

The new proprietary natural sweeteners and salt reduction technologies discovered in our labs combat excess sugar and salt consumption, preserving taste and delighting consumers while contributing to their wellbeing. We are also at the forefront of artificial intelligence research, through our digital lab, in partnership with the EPFL in Switzerland, a world leading technology university. Recent developments amplify our ingredients discovery and creation capabilities, allowing us to provide bespoke sensorial experiences faster than ever

Last but not least, we continue to invest in state-of-the-art research facilities, including a biotech lab and pilot plant at our La Plaine facility in Geneva, where we develop new generational processes and enhance our sustainable manufacturing capabilities. Also, operational this year, our new Geneva campus creates a unique innovation ecosystem by bringing together research and other creative functions for ever closer collaboration.

Let me now touch upon another fundamental pillar of our long-term development. Firmenich has a long and proud tradition of corporate, social and environmental responsibility. This is a core part of our culture and is consistent with our values and purpose. We are proud of our ESG credentials and awards that recognise our commitment to both climate change and to social causes. These include a platinum rating from EcoVadis, with a score of 83/100, we are in the top 1% globally, which highlights our commitment to the most ethical, traceable and sustainable supply chain.

A CDP AAA rating, Firmenich is one of only six companies globally across multiple industries to receive such an accolade, recognising our commitment to tackling climate change via our supply chain practices. We are one of only seven companies globally to receive a gold rating from Edge, the international benchmark for gender equality, which has independently certified us as a gender equality employer since 2018.

The Ethical Corporation Responsible Business Award for 2019, for our leadership in diversity and inclusion. And as we progress towards a carbon neutral future, as of February 2020, Firmenich became one of only a few companies in the world and the first in our industry to power all our operations globally with 100% renewable electricity. And as I mentioned earlier, we are proud to have become the first company in our industry to complete the B. Corporation SDG action manager assessment, a key milestone on the path to becoming a certified B. Corporation.

Let me give you now an overview of what has been a transformational year for us in acquisitions and partnerships. Last July, we closed the acquisition of VKL, a company with differentiated expertise in seasoning and local taste in India. In November, we acquired the CO2 extraction facility from Evonik, significantly expanding our capabilities in super-critical fluid extraction, which is a specialised method of extracting natural botanical molecules.

Last month, we closed the partnership with MG Gulcicek, a leading fragrance company renowned for its creative fragrance solutions and first-class service to mid-size customers across Turkey, the Middle East, Eastern Europe and Africa.

DRT is, of course, not a bolt-on acquisition. DRT has a compelling broader strategic logic. There has been an industry-wide market shift in customer demand towards naturally derived renewable materials, in recent years. DRT is one of the world's leading plant-based ingredient companies, which enables us to offer our customers the best portfolio of renewable and sustainable specialty ingredients. DRT has state of the art biorefinery capabilities, that Firmenich is well positioned to leverage and scale up. It is a company we know extremely well, as one of our key suppliers for more than 40 years. We have also had a key innovation joint venture with them since the 1990s.

The acquisition of DRT positions Firmenich for continued success by enhancing our portfolio and strengthening our core capabilities. This includes leading in renewable ingredients, establishing the world's leading innovation platform for sustainable ingredients and obviously becoming one of the largest backward integrated solution providers.

Since we closed the transaction at the end of May, our teams have been hard at work and I am pleased to report that we have confirmed our key business case assumptions. A high quality, lean and agile platform, a technically strong and energized DRT team with a great cultural fit and an end market complementarity, with significant growth and innovation potential.

DRT is a GDP-plus growth business that operates in both consumer and industrial end markets. Some industrial end markets have been more impacted than food and personal care. At the same time, DRT further enhances our diversification through the cycle and having gotten under the hood, we are more optimistic about the long-term growth potential for DRT than when we announced the acquisition.

The integration work is proceeding as planned. We have appointed the leadership and integration teams. The financial reporting consolidation is complete, as is culture and talent mapping and the execution of the integration plan is underway and we have begun sharing best practices and knowhow across our organisations.

The strength and agility of our senior leadership team is the cornerstone of our performance and our ability to weather the current crisis. This year we have strengthened our team, welcoming a number of new leaders with proven track records.

This includes our new perfumery President, Ilaria Resta, who brings a wealth of experience from her previous role at P&G, most recently running their North America hair care business. Benoit Fouilland, who will become our new Chief Financial Officer starting 1 September, brings an impressive track record of building and leading global financial teams and maximizing business performance. He served most recently as CFO of Criteo, a global leader in e-commerce marketing. And by the way, this is hot off the press information for you, the press release announcing Benoit Fouilland as our new Chief Financial Officer will be published earlier this afternoon.

Gianluca Colombo, our new Chief Procurement Officer, formerly at Coty, will lead strategic sourcing, procurement and supplier collaboration. He brings a deep understanding of customer needs and a proven track record in driving best in class, sustainable purchasing practices. Gianluca reports to Boet Brinkgreve, who has taken over our dedicated end-to-end ingredients business including the DRT integration, supported by best in class operations and purchasing. Boet has an outstanding track record of driving strategic growth at Firmenich since 2007 across a number of roles, combining both deep expertise in ingredients and supply chain.

Jean-Philippe Lebudel has taken over Boet's previous role as Chief Supply Chain Officer. He has been leading our corporate strategy and M&A activities and has been instrumental in the success of our acquisition strategy. He brings a broad range of experience from global business development, technology, portfolio management and operations leadership across Europe and Asia.

Finally, I am happy to announce the appointment of Sarah Reisinger as SVP for Research Operations. With her experience in R&D within Firmenich and in several leading biotech companies, Sarah will drive the continued impact of our research on business growth.

Our executive leadership team combines members that have been with Firmenich for many years and new members bringing in a fresh perspective. We are balanced across genders, and together we have significant existing experience in both consumer facing industries and in ingredients businesses. This breadth of backgrounds, skills and experiences is ideal for a company like Firmenich, which deals with a variety of end-markets and complex supply chains.

Let me now give you an overview of where our business stands at the closing of our Grow125 strategic cycle and how we are positioned for the future. When we set out on Grow125 strategic cycle four years ago, our key objectives were to increase our focus on the regional and local dynamo customers, who are significant drivers of growth in our industry.

To increase our operational efficiency, increasing our ability to serve those customers, but also supporting our profitability. To expand our reach into commercial white spaces and to develop our capabilities to go beyond our traditional core business and this expansion was supported by our inorganic string of pearls strategy.

Our strong strategy and execution agility have paid off, with 5% revenue growth CAGR over the Grow125 strategic period, best in class profitability compared to our key competitors, a stronger lead in responsible business in line with our values and purpose, a reinforced number one position in F&F ingredients, a stronger lead in science and innovation, with additional differentiating technological capabilities and greater access to growth markets.

Our commitment to innovation has enabled us to deliver a track record of attractive growth of 5% CAGR since FY2016, with a profitability profile which at 22.1% EBITDA margin is superior to that of our key competitors. We are a market leader in our industry and specifically, a leader in perfumery and ingredients, with a very strong global flavours business. We are a research driven, innovation led organisation, dedicating more resources to R&D as a percentage of revenue than any of our competitors.

We are global, catering to more than 100 markets around the world with 10,000 colleagues since the acquisition of DRT. We are proud to lead our industry in both social and environmental credentials. And finally, as a purpose led company, we are defined by values that are aligned with our strategic commitment to deliver long-term, sustainable growth. This mindset extends to our approach to investing in our assets, to our commitment to R&D, to our colleagues around the world, as well as to our balance sheet and our focus on cash flow.

As we close our Grow125 strategic cycle and look to the future, Firmenich is strongly positioned as a leader in the US$26 billion flavours and fragrance industry, with a combined total revenue of CHF4.3 billion, if we include the full year results of DRT. Perfumery and ingredients combined contribute approximately 67% of our revenue and we lead across all perfumery and ingredients segments.

We are the number 1 in fine fragrance, partnering with our perfumery clients to design and customise unique fragrances that capture the emotions and essence of their respective brands. We are the global number 2 in the consumer fragrance segment. Fragrance is part of our daily lives well beyond perfumes, in scented candles; in shampoo and body wash; in laundry and, of course, in hygiene and cleaning products. And we provide unique solutions for our customers in each of these application areas.

We are also the undisputed number 1 in F&F ingredients. We offer our clients a broad portfolio of ingredients, including proprietary molecules for fragrance and natural ingredients, like citrus and vanilla, for both perfumes and flavours. And with the acquisition of DRT we offer the world's leading portfolio of renewable, biodegradable and sustainable ingredients produced with green chemistry.

Market leadership matters. In a world where consumers are demanding greater transparency about the products they are buying, where they seek greater convenience and where they will, of course, prioritise convenience, quality and sustainability, we are a highly valued supplier.

In the post COVID-19 landscape, safety and hygiene will become as important to consumers as transparency and nutrition have been to date. We are uniquely positioned to enable our customers to create products that are safe, reliable and deliver on their value proposition while having attractive sensory attributes. At the end of the day, we want all of the products we use on our bodies and in our households to have a fragrance that connects with our emotions, that energises us and comforts us and reaffirms the cleaning power of the brand we are using.

Let me turn now to flavours, which represents 33% of our business. We are a leading global player in flavours, with a great portfolio of products across all flavours sub-segments, sweet goods, beverage and savoury. Here again, global scale is a key advantage which we have developed over more than 80 years in this business.

In addition to our core flavours business, we have expanded our commercial reach by investing behind categories in the world of food and beverage, where our innovation talents help us unlock new opportunities for our clients, capitalising on major structural megatrends. Our unique capabilities in plant based proteins, sugar and salt reduction, and clean label make us ideally placed to address these opportunities. This portfolio makes our business ideally placed to seize the growth opportunities in the post-COVID world.

I will now hand over to Eric for the review of our financial performance, before returning for some closing remarks.

Eric Nicolas

Chief Financial Officer

Thank you, Gilbert and hello, everyone. I will now take you through the FY2020 financial review. During the final year of our Grow125 strategic cycle and against a challenging backdrop of COVID-19, Firmenich continued to deliver a resilient performance, growing organically and through acquisitions, while continuing to improve its profitability.

In FY2020, Firmenich strengthened its EBITDA margin by 60 basis points and continues to lead the industry in profitability. We delivered CHF454 million of free cash flow, an improvement of our cash conversion ratio to 55%. We also achieved low single digit revenue growth, with both flavours and P&I growing despite the challenging market conditions.

Finally, we secured the prudent long-term financing and liquidity of our Group, with a new five-year revolving credit facility and the successful completion of our first ever bond issuance programme, raising the equivalent of CHF2.9 billion on attractive terms.

Our net revenue reached CHF3.9 billion on a reported basis, a growth of 2.8% in local currency, against a backdrop of significant appreciation by the Swiss franc. Acquisitions, including DRT, contributed CHF65 million to our topline. Excluding acquisitions, the group sales grew by 1.1% in local currency.

We saw a 90-basis-points improvement in our gross margin, which reached 44.6%. This improvement was linked to successful pricing, as well as the favourable impact of raw material costs and the increased manufacturing productivity. These offset the negative mix impact of the reduction in sales in our fine fragrance segment.

Our adjusted EBITDA reached CHF859 million, an improvement of 60 basis points versus the prior year. We achieved this margin improvement despite the unfavourable impact of COVID-19, which resulted in higher costs linked to distribution, HS&E, as well as the donations and employee incentivisation along the year.

Our geographic diversification is one of our strengths. Our business is well balanced, with 54% of revenues in developed markets and 46% in growth markets. While the US is our single largest market globally, 25% of our business is in Asia, with a significant presence in China and India, as well as in Southeast Asia. We also have strong businesses across the Middle East, Africa and Latin America.

The effects of the crisis were felt most strongly in Europe and North America, in particular linked to fine fragrance. Counterbalancing that, we saw strong growth in emerging markets, especially in India, Middle East and Africa and in Southeast Asia regions.

Perfumery and ingredients delivered a resilient performance in FY2020. Revenue grew by 2.2% in local currency. Excluding acquisitions, revenue increased by 0.8% in local currency. The negative impact of the pandemic on fine fragrance and its knock-on effect on ingredients were more than offset by strong growth in consumer fragrances. This was driven mostly by demand in personal care, hygiene and home care, linked to the pandemic, across a variety of markets, including the US, India, the Middle East, Africa and Southeast Asia.

EBITDA reached CHF532 million, increasing by 60 basis points to 21.7%, excluding nonrecurring items, as a result of successful pricing initiatives and raw material cost management.

Turning to our flavours business, revenue grew by 3.8% in local currency and 1.5% excluding acquisitions. Beverages were most strongly impacted by the crisis, as was food service. On the upside, our savoury and sweet goods segments more than offset this decline. Savoury categories, like soups, prepared foods, sauces and snacks benefited from higher customer demand across the world, as people began cooking and eating more at home and the segment achieved a double-digit organic growth.

Our savoury business also benefitted from our successful smart proteins programme. Sweet goods grew by mid-single digits on an organic basis, driven primarily by North America and Southeast Asia. Our strong sugar reduction portfolio maintained our growth momentum in this space, supported by insights from our studies on consumer reaction to COVID-19. We also leveraged our smart proteins capabilities to address the growing consumer trend for dairy analogues, driving new adoptions from key players. EBITDA reached CHF327 million, increasing by 80 basis points versus the prior year to 22.9%, excluding non-recurring items.

Our free cash flow increased to CHF454 million, compared to CHF421 million in FY2019. This translates into a cash conversion ratio of 55%. The improvement is mainly linked to three factors, (1) our strong cost discipline, (2) the working capital increased much less than in 2019, as the timing of the payables cycle partly offset the pressure on inventories and receivables linked to the pandemic. Thirdly, a 5% reduction in net CapEx, which corresponds to a relatively low point in the investment cycle and our commitment to ensure our business maintains a steady cash generation profile.

Earlier this year, we raised the equivalent of CHF2.9 billion through our bond programme The proceeds of this programme were used to fund the CHF1.7 billion acquisition of DRT, including the refinancing of its debt, as well as the repayment of our existing debt and the funding of additional, already committed, bolt-on acquisitions.

As we said during our roadshow, our objective is to maintain a capital structure that is in line with a strong investment grade rating. We currently estimate our leverage at 3.1x EBITDA, using only 50% equity credit for the hybrid note. Our intention is to return to 2.5x EBITDA, through strong cash generation led by an increasing EBITDA.

In line with our policy, we have an undrawn, five-year CHF750 million revolving credit facility that was put in place at the time of the bond transactions. We also have CHF 705 million of cash and cash equivalents, including cash reserved to pay dividends to our shareholders in October.

Our dividend policy is stable over the mid to long term, with flexibility for adjustments, consistent with our leverage and strong investment grade credit rating objectives. The Board will propose a 15% reduction over the previous year dividend, to CHF180 million, as a prudent measure in the current economic climate.

To close this financial review, I would like to cover the financial integration of DRT. This transaction closed on 28 May, while our fiscal year ends on 30 June. For this reason, the P&L impact for this year was minimal. On the balance sheet side, the ratio between goodwill and intangible assets is roughly 70% to 30% and this is due to the fact that Firmenich was a significant customer of DRT previously to the acquisition. Also, the nature of the DRT business model relies on knowhow to a greater extent than patents. As a result, we do not foresee any significant additional depreciation of intangibles, PPE or other assets going forward.

With this, I would like to hand back to Gilbert for his closing remarks.

Gilbert Ghostine

Chief Executive Officer

Thank you, Eric. Before we open up for questions, I want to share with you my thoughts on what makes Firmenich such a special company and attractive investment opportunity. Firmenich is a market leader with critical scale. We benefit from our 125 years of heritage, serving high quality flavours and fragrance customers around the world. We are a leader in every segment where we operate, with global reach and access to all clients around the world, large and small.

We have a proven track record of organic growth and successful bolt-on acquisitions. We have grown ahead of GDP throughout the cycle and complemented this growth through bolt-on M&A. This year we have also completed the transformational acquisition of DRT, which will enable us to lead in the growth of renewable, sustainable and biodegradable ingredients.

We have strong leadership in science and innovation. Our longstanding commitment to R&D and our passion for creativity has allowed us to build an unparalleled and innovative product portfolio. We benefit from established long-term customer relationships, diversified across resilient end markets. Our revenue is almost equally balanced between global customers and regional and local players and our business is fundamentally consumer-oriented. We are a partner of choice to FMCG brands and enjoy exposure primarily to consumer end-markets.

We are a private company operating at public company standards with high quality governance and a culture guided by clear values. Our Board of Directors is 100% independent from management. Also, five of our nine Board members are independent and not related to our family shareholders. They are highly accomplished professionals with decades of experience at many of our customers as well as in the ingredients industry. The family members on our Board also have extensive experience in our business and beyond.

As I've had the opportunity to discuss earlier, we are a leader in responsible business in our industry and are extremely proud of our ESG credentials. Finally, I would like to remind you of our best in class profitability, which supports our strong and resilient cash flow generation.

In the coming years, we aim to transform our business in three critical respects. The first is to win bigger with our customers. We benefit from decades long relationships with many global customers, as well as deep relationships with disruptor brands. Our objective is to deliver to our clients the best experience in the industry, both in terms of our service levels as well as continuing to lead in R&D, by delivering breakthrough innovation in key segments. We are also committed to having the most differentiated ingredients platform in our industry.

We will gain value share. The traditional boundaries of the flavours and fragrance industry are expanding. This presents a tremendous opportunity for us to gain value share by penetrating high growth categories with deep expertise, as we are doing in plant-based foods, sugar reduction, naturals and renewable ingredients.

We are continually challenging ourselves to become more nimble and more efficient to maintain our best in class profitability and, most importantly, to ensure that our efficiency translates into a high quality experience for our customers. With our experienced team, our responsible business DNA, our organisational agility and our focus on innovation, we are well placed to continue to seize the opportunities in the $26 billion global fragrance and flavours industry and beyond.

In closing, I would now like to thank you once again for your interest in Firmenich. My colleague Eric and I will be happy to take your questions now. Thank you.

Q&A Session

Diego Chantrain, Head of Investor Relations

We have a few questions coming in on the webcast. The first question is from Credit Suisse. What is the realistic timing for the return to below 2.5x leverage target?

Gilbert Ghostine

Eric, I guess you will take this question.

Eric Nicolas

Yes, Gilbert, with pleasure. In our simulation and, of course, including all the recent acquisitions, we anticipate a two-year timeframe to come back to 2.5x, which means fundamentally very closely to the end of our fiscal year 2022.

Diego Chantrain

Thank you, Eric. The second question that we have from the webcast is from Flag Group in Australia. How much do you expect DRT to contribute in terms of sales and earnings for the next year and how is integration of the business progressing?

Gilbert Ghostine

Eric, do you want to pick up this one too?

Eric Nicolas

Sure, absolutely, Gilbert. Just for you to well understand the way we will manage the integration of DRT, as Gilbert explained, we have the integration principle to have DRT being part of the ingrained business unit of Firmenich. We think that our ingredients business plus DRT will be managed as one. So we will not have DRT stand alone and the contribution of DRT will have to be seen through the proforma financials that were presented to you.

So you remember very well that we're going to have a CHF4.3 billion including DRT revenue and obviously the proforma EBITDA of the company will be CHF929 million. And I presented to you the adjusted EBITDA for the year, so the difference which is contribution, but fundamentally it's not a standalone entity; it's a business that will be part of our ingredients business as a whole.

Now when it comes to integration, I should have mentioned the integration plan goes very well. The plan has delivered as projected and so far, I would say we see more additional good news in the projection that we can do on DRT today, that what we had anticipated in the acquisition business case that we have found.

Diego Chantrain

Next question from Michael Dolan, Fidelity. How are you thinking about additional M&A and particularly, how will it be funded?

Gilbert Ghostine

Eric, do you want to pick up this one too?

Eric Nicolas

Yes, of course. I think the starting point for the answer is we are strongly committed to remain investment grade. So nothing will be done in the future that will threaten this positioning of investment grade. We will keep going, looking at opportunities in the bolt-on acquisition principles and obviously keeping a BBB rating means that we will have to synchronise the deleveraging of the company with the acquisition of bolt-on companies.

Diego Chantrain

We have one more question from Flag Group. Can you please clarify how much fine fragrances contributed in terms of net sales and EBITDA and what is the outlook for the category for next year?

Gilbert Ghostine

Let me share with you where is fine fragrance, because it's important to put it in context. Now, fine fragrance used to represent 12% of our net revenue in FY2019. At the end of FY2020, with the decline of fine fragrance and the COVID impact, fine fragrance represented 10% of our net revenue. Now, the way we're looking at fine fragrance, our estimate - and this is based on the conversations that we are having with our key strategic customers in fine fragrance.

Everyone is doing everything to be able to save Christmas and in order for all the launches to be ready ahead of Christmas, we anticipate that our business on fine fragrance will start picking up again by end of September. So the way we're looking at fine fragrance, this is affordable luxury, you have the entry tickets for fine fragrance products is not very expensive and at the same time, linked to the gift and year-end season. So we expect this category to start picking up again by the end of September.

I guess the question also was around the EBITDA contribution of fine fragrance. We don't give or disclose EBITDA contribution by subsegments and as you could see, that even although fine fragrance is more profitable than our consumer business, the success of our consumer business has more than offset our decline in fine fragrance. Hence the improvement in profitability of our fragrance business overall.

I think if we don't have any more questions, I want to thank all the bondholders and the investors who joined us on this call. I reinforce one more time our commitment in Firmenich is to create value for all our shareholders and reinforce our confidence to be able to keep continue doing so throughout FY2021. And anyway, if they have any questions, they can feel free to reach out to you, to me, to you Diego, to Eric Nicolas or to me whenever they want.

Thanks a lot for joining us, thanks for your support and have a great day. Most importantly, please stay safe.

[End]