

# DSM-Firmenich AG

Europe Satellite\*

Recommended since 31.05.2022

30.10.2024



<b>Country</b> NL	<b>Market capitalization (bn)</b> EUR 30,0	<b>Perf. since reco. (%)</b>
<b>Sector</b> Chimie	<b>Free float</b> 67,4%	DSM-Firmenich AG -27,9
<b>Factset</b> DSFIR-NL	<b>Closing price</b> EUR 113,40	Secteur 2,2
<b>ISIN</b> CH1216478797	<b>ESG Risk score*</b> 16,8 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/ Perfumery & Beauty (32% of sales) : ingredients for perfumery, cosmetics and household products; 2/ Taste, Texture & Health (26%) : ingredients, enzymes, probiotics, nutritional products (vitamins, etc.) for food and beverages; 3/ Animal, Nutrition & Health (24% of sales) : nutritional products for farm animals; 4/ Health, Nutrition & Care (17%) : 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.
- ⊕ In 2022-23, business was penalized by lengthy destocking and deteriorating market conditions in vitamins. A turnaround has been visible since the end of 2023, with a recovery in volumes and an improved environment in vitamins. Growth is set to remain strong, benefiting from synergies (EUR 350mio in EBITDA by 2026) and the restructuring of vitamins (EUR 200mio by 2025), while becoming more resilient with the separation of the Animal Nutrition & Health division in 2025 and the disposal of non-core segments. These more volatile activities will reduce Vitamins exposure from 15% to 5% of sales.
- ⊕ The 2024 target appears conservative (EBITDA of EUR 2bn), given the performance achieved in H1. And consensus expectations for 2025 are reasonable (EBITDA of EUR 2,300mio), given the "synergies + vitamins transformation" contribution (EUR 165mio). The probability of an upward revision is high.

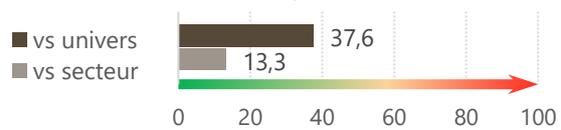
**Weaknesses/threats**

- ⊖ "Basic" products (mainly vitamins), which are exposed to competition, account for 15% of sales, 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 2025 EV/EBITDA of 14.2x, representing a 12% discount to its peers.

**ESG risk vs. universe & sector (percentile)\***



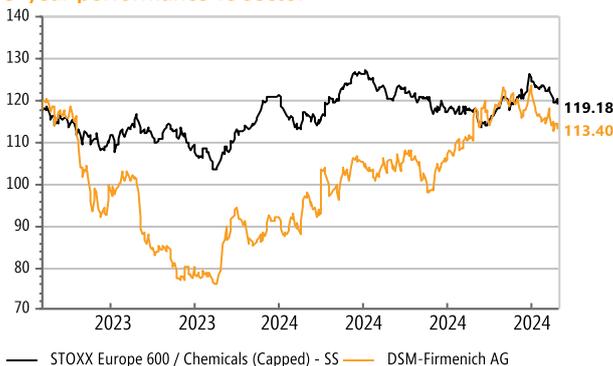
EUR	12/2023	2024e	2025e
Sales revenue (mio)	12 310	12 770	13 291
Sales growth	69,3%	3,7%	4,1%
EBIT adjusted (mio)	845	1 096	1 321
% of sales	6,9%	8,6%	9,9%
Net income (mio)	555	757	964
Net income growth	0,0%	36,3%	27,5%
FCF/Sales	4,3%	6,1%	7,0%
Net debt/Ebitda	1,2x	1,5x	1,2x
Dividend yield	2,2%	2,2%	2,3%
PE	55,9x	37,9x	29,9x
P/BV	1,3x	1,4x	1,4x

Factset estimates

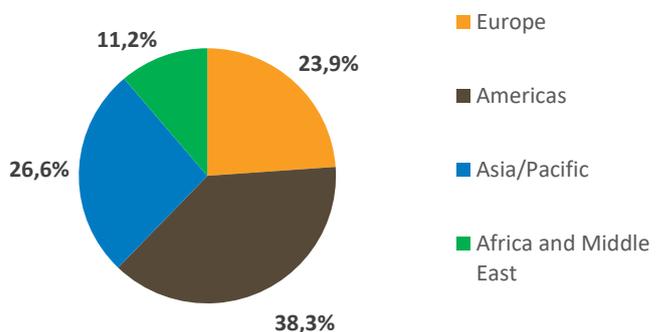
**ESG - risks and key points**

- ⊕ DSM-Firmenich's ESG risk level is low.
- ⊕ Its exposure is low and mitigated by good ESG management and strong corporate governance performance. The company has not experienced any major controversies in the past.
- ⊕ Target to reduce Scope 1 & 2 greenhouse gas emissions by 42% by 2030 (vs 2016 - validated by the Science Based Targets initiative).

**5-year performance vs sector**



**Sales breakdown - 12/2023**



\*: 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.

## Offices & Branches

### Bordier & Cie Genève

Rue Rath 16  
CH-1204 Genève  
Case postale  
CH-1211 Genève 3  
T + 41 58 258 00 00  
F + 41 58 258 00 40

### Bordier & Cie Berne

Spitalgasse 40  
Case postale  
CH-3001 Berne  
T + 41 58 258 07 00  
F + 41 58 258 07 10

### Bordier & Cie Nyon

Rue de la Porcelaine 13  
CH-1260 Nyon  
Case postale 1045  
CH-1260 Nyon 1  
T + 41 58 258 07 50  
F + 41 58 258 07 70

### Bordier & Cie Zurich

Talstrasse 83  
CH-8001 Zürich  
T + 41 58 258 05 00  
F + 41 58 258 05 50

### Bordier & Cie (France) S.A.

1, rue François 1er  
75008 Paris – France  
T + 33 1 55 04 78 78  
F + 33 1 49 26 92 48

### Bordier & Cie (Uruguay) S.A.

Edificio Beta 3, oficina 102  
Zonamerica  
91600 Montevideo  
Uruguay  
T + 598 2 518 2700  
F + 598 2 518 2703

### Bordier & Cie (Singapore) Ltd

CapitaGreen #14-00  
138 Market Street  
Singapore 048946  
T + 65 6239 9999  
F + 65 6239 9998

### Bordier Bank (TCI) Ltd

Leeward Highway  
Caribbean Place  
Providenciales  
Turks and Caicos  
T + 1 649 946 45 35  
F + 1 649 946 45 40

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