



Letter from the CEO

# Innovation for greater impact

## Letter from the CEO

# The results for 2017 were good and in line with expectations. We have a strong innovation pipeline, and our well-diversified business is showing solid momentum. Our focus on solutions for emerging markets is paying off, and our outlook for 2018 is positive.

We delivered good results in 2017, giving us a strong foundation for creating even greater impact with our solutions. Results were solid against the backdrop of a challenging year in 2016. At the same time, we moved forward on important strategic priorities. We are seeing the positive effects of our divisional setup, with application R&D closer to the commercial units. This shift has brought us closer to our customers and is enabling us to deliver more tailored solutions and react faster to changing requirements.

We landed the year with 4% organic sales growth. We are also doing well on the earnings side. Productivity improvements had a positive impact on the gross margin, somewhat offset by unfavorable mix and price changes. EBIT margin came in at 27.9%.

Four out of five industries grew, but especially Food & Beverages and Bioenergy performed very well, once again proving the strength of our diversified business. Overall, I am satisfied with our financial performance in 2017, and I am happy to say that the outlook for 2018 is positive.

Novozymes' key growth driver is delivering solutions that improve the sustainability performance of our customers and partners. We have set some ambitious sustainability targets. In 2017, our customers avoided an

estimated 76 million tons of CO<sub>2</sub> emissions by applying our solutions.

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Unfortunately, we were unable to meet some of our own operational sustainability targets, such as water efficiency and energy efficiency. This is mainly due to a higher utilization rate than expected. This is not satisfactory, and in 2018 it will be key for us to deliver a better performance, and at the same time, we will evaluate how best to guide and measure our sustainability performance going forward.

### Tailoring solutions

To support growth in the years to come, we are continuing to step up our activities in emerging markets. These markets and customers hold significant potential across all industries. We now deliver even more solutions tailored to emerging markets. Examples include products that enable more efficient production from local raw materials, such as beer from cassava, or detergent solutions that target specific stains and that can tolerate hot storage conditions. In India, we have just opened our new Detergent Design Center, where customers can visit a model consumer home

and supermarket, explore biological solutions and see the benefits of our products first hand. This is a good example of local innovation and customer interaction at work.

We are also expanding our offerings in developed markets, with new and improved solutions across segments that tap into different consumer trends. For example, we have several solutions catering to increased consumer demand for healthy and natural food products. These include our product Saphera<sup>®</sup> for lactose-free dairy, an area where we are seeing growing customer interest and sales.

### Our innovations redefine industries

In 2017, we delivered some amazing innovations. Our innovation pipeline contains more than 100 research projects across the business. Eight of these represent significant market-expanding growth opportunities in terms of sales and have the potential to impact the world in a sustainable way. In 2017, four of these programs resulted in product launches, while five programs moved forward to the next stage of the pipeline. We have decided to add “solutions for water” to our pipeline of significant innovations as a new program.

I am especially proud of our new product from the freshness & hygiene platform in Household Care. It is a significant new innovation that will change how we wash our clothes and how we

define “clean” going forward. We also launched Palmora<sup>®</sup>, our first offering for the palm oil industry, and Frontia<sup>®</sup>, a brand new technology for the grain-milling step in starch processing.

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While some of these innovations might not deliver a massive contribution to sales in their first year on the market, future growth prospects look promising.

In conclusion, 2017 saw the highest number of impactful innovations for many years, and we expect to deliver on our long-term target of delivering 10 transformative innovations between 2015 and 2020. We have landed four of these since 2015, which is a great achievement.

### Helping customers stand out

Our customers operate in dynamic markets subject to constant change. This is particularly apparent in agriculture-related markets, where farmers are under pressure due to the low prices of agricultural produce, including corn and soy. In Household Care, we have seen some of our large, global customers reduce

## Letter from the CEO

their enzyme usage. However, this is offset by significant investments from regional detergent manufacturers.

### “2017 saw the highest number of impactful innovations for many years.”

When customers are under pressure, we are in a position to help, by delivering innovation that sets them apart from the competition, reduces costs and gives them an advantage in the marketplace. We have made radical advances in how we innovate by constantly developing the technology we use. As part of this, we have progressed the speed and precision with which we find microbes and extract enzymes.

Indeed, the fact that we are able to screen a vast number of candidates in a very short space of time is one of our competitive advantages. We work closely with customers throughout the innovation process, to ensure that we deliver exactly what they need, when they need it.

### Sustainability as an integral part of our solutions

At Novozymes, we help create better lives in a growing world. Working for a company that contributes to a more sustainable future is what drives me and my colleagues to deliver our very best every day. In 2017, we made further progress on delivering on our long-term sustainability targets. These targets are rooted in the UN Sustainable Development Goals (SDGs) and ensure that we continue moving in the right direction.

I am especially pleased to report that we are making progress on our target of educating one million people about the potential of biology. Education is crucial for global sustainable development. To spark an interest in science among schoolchildren, we launched the global Teach for Tomorrow initiative as part of the fifth annual European Biotech Week. We developed an educational kit and held masterclasses, giving our employees – or Zymers as we call ourselves – the tools to teach children in elementary schools about the wonders of fungi and enzymes. The initiative was very well received by Zymers worldwide, and we saw that not only did it teach schoolchildren, but it also sparked internal enthusiasm and pride at Novozymes. We believe that the more people we educate, the more likely they are to get involved in creating sustainable biological solutions.

### Looking ahead

With strong innovation and a well-diversified business showing good momentum, our outlook for the future is positive. In 2018, we expect to deliver 4-6% organic sales growth, an EBIT margin of around 28% and an ROIC incl. goodwill of 24-25%. Growth is expected to come from all industries, but we continue to be subject to volatile agriculture-related industries.

In order to deliver on our outlook in 2018, we will prioritize the following key initiatives: Expansion in emerging markets, Build and execute on digital programs, Implement new innovation models and Fast-forward our top innovation programs.

We recently welcomed Ms. Prisca Havranek-Kosicek as new CFO and member of the Executive Leadership Team for Novozymes. She brings a wealth of experience from top finance positions in international companies, and I am sure she will be a great addition to our team.

I am looking forward to 2018 and to taking yet another step toward delivering on our ambitions. I am confident that we are on the right track. And with our ever-expanding innovation capabilities, a robust business and 6,245 dedicated Zymers worldwide, we will go on setting the standard within industrial biotechnology.

Finally, I would like to thank Zymers for their passion for this company and their hard work, which has enabled us to deliver on our promises in 2017.



Peder Holk Nielsen  
President & CEO

# 8

new products



In 2017, we launched eight new products that helped our customers adapt to market changes, make their products stand out, reduce costs and improve production.

# 14,531

total sales in DKK million.



# 6,245

employees on six continents work for Novozymes.