symrise

Group 8

Investment Case

ESCP
BUSINESS SCHOOL

Based on our analysis of Symrise’s performance and strategy and on the result of three valuation methods, we believe Symrise is overvalued and thus we issue a SELL recommendation (TP = €92.65)

Current Price : €129.95
(Closing 26/11/2021)

Target Price: € 92.65
(26% discount)

SELL

Valuation Outputs

Method	Range	Min	Max
DCF	[Grey sky - Blue sky]	€ 69,89	€ 131,90
Trading Multiples	[2021e g-adj. P/E, 2021e EV/EBIT]	€ 76.47	€ 165.92
SOTP	[2021e EV/Sales, 2021e EV/EBITDA], 5% SOTP discount	€ 83.44	€ 110.16

Investment Recommendation

Our analysis shows that Symrise is overvalued at current price.
At our target price of €92.65, we expect a discount of 26%.
Therefore, we issue a SELL recommendation.

We currently recommend investors keen to tap into the F&F market to explore other investment alternatives and combinations. Having analyzed the possibility to pair-trade in this sector, we believe a pair trade Symrise (short) - Robertet (long) can be a short-term profit-generating option

Why Sell Symrise

All our analyses are conclusive on Symrise’s overvaluation.
Symrise has a proven track record of achieving solid profitability and maintaining a sound financial health. In addition, we see future growth prospects based on F&F market growth, innovation capabilities and M&A successes. However, Symrise is exposed to potential downside risks. The main ones being:

- Raw material inflation and FX risk
- Lower top-line growth due to various reasons (Changing market trends, decreasing consumer spending, high market saturation)
- Limitations to increase market share significantly given increasingly consolidated market, even if transformational M&A happens there is an important integration risk associated (ADF/IDF integration risk to mitigate)

At the moment, we see this risks overweighting the potential growth prospects. Therefore, we recommend to sell Symrise.

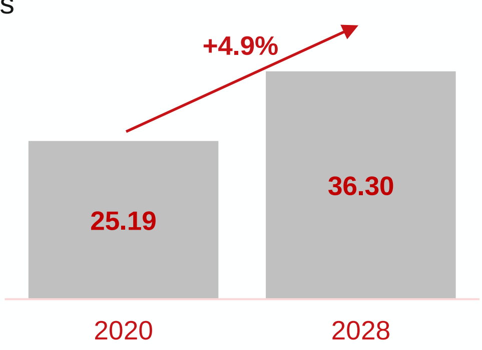
The market size of the Global Flavors and Fragrances market is projected to grow to $36.30 billion by 2028, exhibiting a CAGR of 4.9% during the forecast period

Market Size & Growth

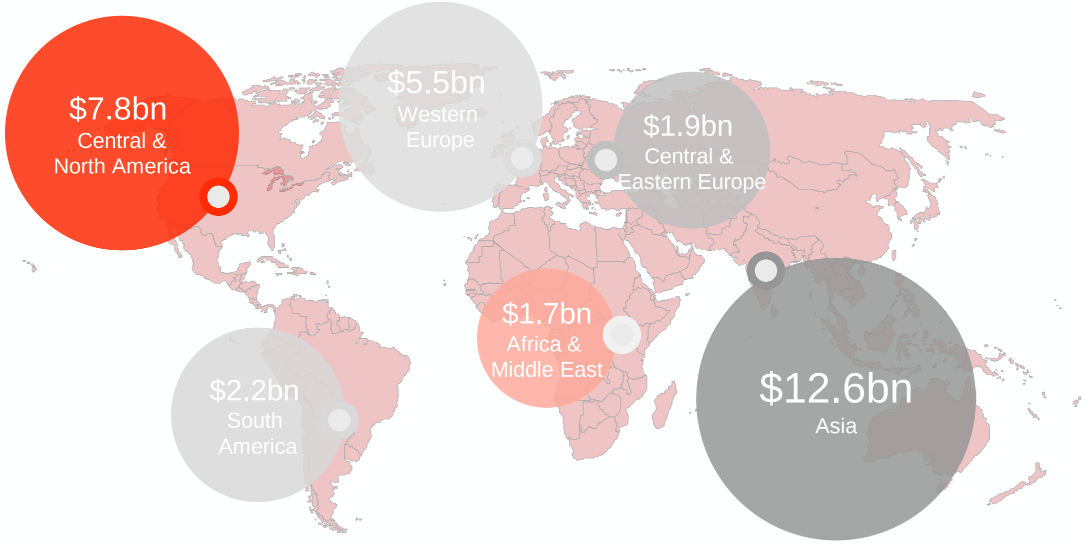
Global Flavors and Fragrances (F&F) Market was valued at **$25.19 billion** in 2020. The global market exhibited a huge **decline of 9%** in 2020 due to the **COVID-19 pandemic**.

The driving factor for the growth of the market is the **rapidly growing cosmetic industry**. In addition, the **increasing use of flavors** in the **pharmaceutical industry** is also an attributing factor for the market growth.

Market size in USD bn



Total Global Consumption of F&F by Region



Drivers

Symrise falls under the **Materials sector**. It belongs to the **Chemicals industry** and more specifically **Specialty Chemicals**. The Materials sector is considered a **cyclical sector** because it is **sensitive to fluctuations in the global economy and inflationary pressures**. The **scent market** is heavily influenced by **unpredictable and continuously changing trends** and therefore, revenues are not stable.

The market is highly driven by **changing customer tastes**, especially the flavor market is driven by changes towards more healthy alternatives in the EU. **Availability and prices of raw materials** are a key driver. The pandemic increased demand of personal care but decreased impact for fragrances.

Economic drivers include but are not limited to interest rates, inflation rates, Manufacturing Purchasing Managers' Index (PMI) and Consumer Price Index (CPI).

Growth of flavors and fragrances market primarily supported by

- **Growing population in emerging economies** (China, India, Indonesia, South Korea and Brazil)
- **Increase in awareness** among the population about the **benefits of the ingredients used in food products and consumer products** (United States, Japan, France, Canada, Germany and the United Kingdom)
- **Change in consumer preferences** toward convenience food and increasing demand for consumer products

Sources: NASDAQ OMX's News Release Distribution Channel, Statista

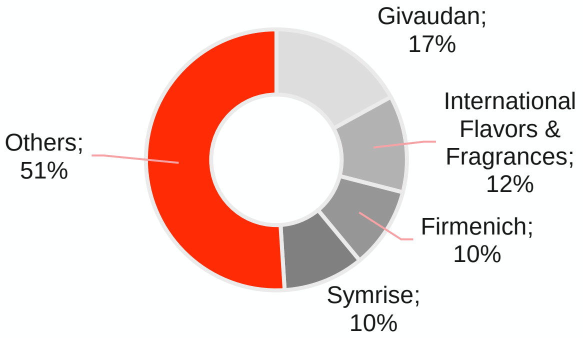
Symrise along with other key market players like Givaudan, International Flavors & Fragrances (IFF) and Firmenich hold about 50% of the global marketplace

Key Market Players & Market Share 2020

- Switzerland-based and industry leader in the Fragrances and Flavor market
- Create game-changing innovation in food and beverages, and inspire creations in the world of scent and beauty
- Operate in the expanded market space of flavor and taste, functional and nutritional ingredients and fragrance and beauty

- Key player in the F&B, fragrance, household and personal care, and pharmaceutical supply chains
- Offer differentiated ingredient solutions for customers, spanning large multinationals to start-up and private-label brands
- Create innovative and cost-effective ingredients, in line with global regulatory standards and customers' exacting application needs

- Largest privately-owned fragrance & taste company in the world
- Leader in renewable and sustainable ingredients
- Create flavor experiences for some of the world's preferred household brands
- Reinvent Fragrance with sustainability and digital transformation



Other players include:

1. Takasago (JP)
2. Mane SA (FR)
3. Robertet (FR)
4. Sensient (USA)
5. Hasegawa (JP)
6. Huabao (HK/CH)

Porter Analysis

Threat of New Entrants

- **Difficult to achieve economies of scale** in the industry
- **Costly production** for new entrants
- **Strong product differentiation** in the industry
- **High capital requirements and R&D costs**
- **Simple access** to distribution networks

Bargaining Power of Suppliers

- Large number of suppliers compared to the number of buyers which entails **less control over prices**
- **Reasonable pricing by suppliers** due to the importance of the industry
- **High supplier negotiating power** due to standardized suppliers' products
- **Low suppliers switching costs** for Symrise

Rivalry among Competitors

- Difficult for competing firms to win the customers of each other due to the **uniqueness of products**
- Key competitors have a large market share which means that they will **engage in competitive actions to gain position and become market leaders**

Bargaining Power of Buyers

- **Minimal price control** from buyers due to limited choice
- **High product differentiation**
- **Important product quality** which makes firms them **less price sensitive**

Threats of Substitute Products

- **No ceiling on maximum profit** by firms due to low substitutes of products
- **High quality substitutes with higher prices**
- **Low switch** from buyers to substitute products

Sources: Company Information

Symrise is a globally operating company who is divided into the three segments scent, flavor and nutrition

Symrise Company Overview

Symrise is a Germany-based global supplier of fragrances and flavors, cosmetic ingredients, functional ingredients and solutions for food production based on natural raw materials. Symrise is dedicated to formulation and ingredient development with 30,000+ products

The company's portfolio consists of 3 business segments:

1. **Scent & Care,** divided into Fragrance, Cosmetic Ingredients and Aroma Molecules
2. **Flavor**, covering Beverages, Sweet and Savory sub-segments
3. **Nutrition,** world leader in natural ingredient-based solutions for the agro-food sector

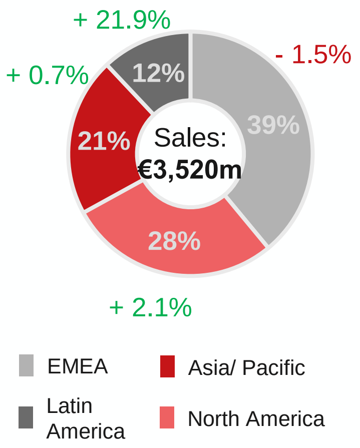
Symrise serves 6,000+ customers with a coverage ranging from manufacturers of perfumes, pharmaceuticals to producers of nutritional supplements and pet food

Sales and EBIT Growth by Geographical Area 2019-2020

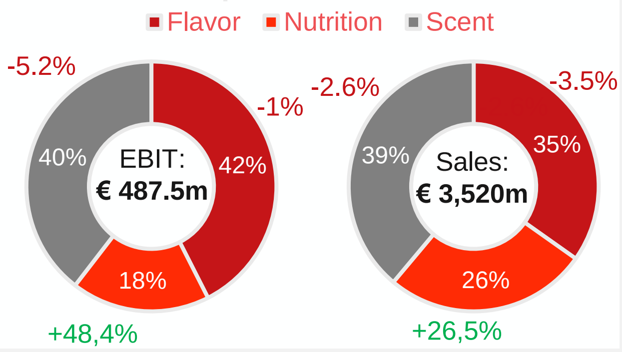
Flavor sales: Mostly unaffected in Latin America and North America by the pandemic. Same as the North American business. While organic growth decreased in Asia/Pacific and EMAE.

Nutrition Sales: Pet Food is strongest driver and saw growth in all regions especially, North and Latin America and EMAE. In contrast, Food declined especially in the USA and France but grew in China, Canada and Portugal.

Scent and Care Sales: Reduced travelling decreased demand for sun protection products worldwide. Other units saw growth everywhere but overall sales were below last years.



Sales and EBIT Growth by Activity 2019-2020



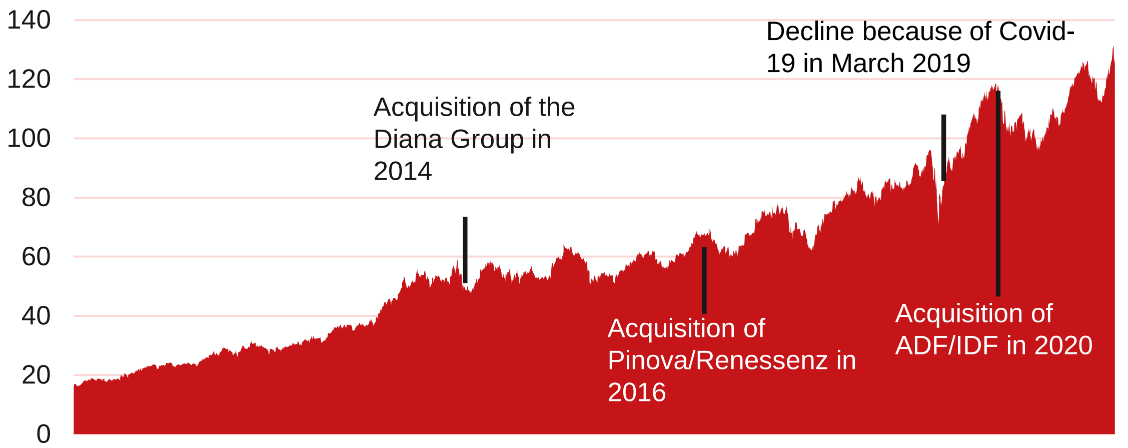
FX Impact: Symrise's Sales were **negatively impacted by FX**. Sales decline can be attributed by € -41,9m in Flavor (-3,3%), € -38,9m (-5,3%) in Nutrition and € -71,1m (-5%) in Scent & Care.

In 2020, Nutrition witnessed a high growth of 26.5% yoy mainly driven by the contribution of newly acquired ADF/IDF and growth within the Pet Food segment (organic growth 8.2%)

Flavor revenue decreases over the years with demand decrease for beverage products and sweets (mainly in EMEA)

Scent and Care revenues were down 3.5% yoy due to exchange rate differences (-71m, 5.0%), organic growth of the segment was 1.5% due to solid demand during COVID-19 pandemic

Symrise's Share Price Development from 11.2011-11.2021



Sources: Company Information, Yahoo Finance

Symrise’s highly differentiated business model and strong financial performance enables the company to leverage its weaknesses and stay competitive through new acquisitions and new innovations

SWOT ANALYSIS

STRENGTHS

- The highly differentiated business model and presence in various geographical markets ensures Symrise is not dependent on only one market
- Pet food subsegment remains a key differentiator versus peers
- Symrise has been able to successfully carry out acquisitions with impact on their topline
- Symrise’s strong financing strategy enables them to raise capital for future investments and pay off their financial obligations
- Liquidity ratios are well above standard and in a positive incline
- The Free Cash Flow is increasing mainly driven by a strong and steadily growing Operating Cash Flow, as well as a decrease in changes in NWC
- Strong and constant dividend payout policy

WEAKNESSES

- Symrise’s COGS are highly dependent on raw materials prices which they have no influence on
- OWC still needs improvements as it bears financial risk
- Revenue growth is mainly driven by acquisition, organic growth has declined
- Risk exposure to cyber attacks as shown in Q4 2020
- Although, Symrise revenues are increasing in the personal care sector, their market share is decreasing which indicates that the market is growing faster than Symrise
- Operating and gross margin could be better and might put pressure on their financial statement

OPPORTUNITIES

- Symrise has the opportunity to gain market share and increase revenues in the nutrition segment due to the acquisition of ADF/IDF and leveraging changing consumer preferences
- Accounts payable have been growing more than accounts receivable. This helps reduce Symrise’s NWC turnover and thus its cash constraints
- OWC has improved due to better Inventory management and a reduction in their receivable turnover but can still be improved over the next years
- Symrise can leverage their reputation to develop and introduce new products
- Good historical performance of acquisitions can be build on to make new acquisitions, establish their market power and enter new segments
- Symrise can focus on sustainability to avoid any greenwashing issue and establish a good reputation with stakeholders

THREATS

- The gross margin has decreased since % higher growth of COGS than % growth of revenue over recent years
- Demand for the second largest product segment, flavor, is decreasing as demand for flavored beverages and sweets is decreasing
- Strong competitors with a similar strategy of acquisition to enter new markets: IFF acquired Frutarom in 2018 and merged with DuPont in 2019
- Rapidly changing political environment and regulations can influence its expansion plans in different countries, especially in China and the US
- The COVID-19 pandemic is still not over and lockdowns negatively impact sales especially for the scent segment. It also influences availability of raw materials and procedures in production facilities
- Potential greenwashing can negatively impact Symrise’s reputation

Symrise can gain market share and increase profit in the nutrition segment due to the acquisition of ADF/IDF. Therefore, they should focus their resources more on the nutrition segment. In addition, further successful acquisitions can help Symrise gain market share, diversify and tape into new markets. Their past financial performance has proven their capability to pay back their obligations. Moreoverr Symrise should focus on reducing their OWC in order to avoid potential financial risks.

Symrise is overperforming against peers in the ESG score, but they are performing some level of greenwashing in Scope 2 and 3

Company‘s Policy

Official plan - Sustainability as integral part of the business model, taking customers, consumers, employees, society and environment into account.

Footprint

Minimizing the **environmental footprint across** the **value chain**

Sourcing

Maximize the **sustainability** of the **supply chain** and **raw materials**

Care

Improve the **well-being** of the **stakeholder** communities

Innovation

Maximize the **positive** social & environmental **impacts** of the products

2025 Goals

- Increase eco-efficiency by 60% compared to 2010 (currently 33%)
- 100% sustainable sourcing of all raw materials
- Reduce work accident – MAQ <1,5
- Increase percentage of women at first and second management level

Workforce

- Symrise signed the United Nations Global compact in support of Human rights
- Since 2010 – all Symrise production sites have been **externally audited** in 3-years intervals based on the SEDEX/SMETA 4-pillar standard

Performance

CDP : top 10 among 9600 companies on climate change, forests and water conservation
ETHIBEL : above average performance in coporate social responsibility
ISS ESG : top 10% of companies in the industry
SUSTAINALYTICS : 20th on 133 companies in the chemical sector
MSCI: « A » rating - **FTSE4GOOD** : « Good » rating – **Ecovadis** : top 2% in chemical sector

C02 Measurement

- Measured on scope 1, 2 & 3
- Increase eco-efficiency in CO2 emissions in 2021 by 13% by increasing energy efficiency in production sites – saved 68 000 tons of CO2 in 2021
- 3 million tons of CO2 saved through Symrise pressure on suppliers to comply to CDP program
- New initiatives : free-cooling methods, synthetic menthol, cardboard boxes improvements

Scope 1	Scope 2	Scope 3
214 000 → 299 000	107 000 → 1360	3,37m → 1,75m

Scope 1 : increase linked to new acquisitions
Scope 2 : huge decrease linked to use of 100% renewable energy
Scope 3 : reevaluated to take upcycling of raw products into account, no real improvement

Analysis

- Symrise overperforming in regards to ESG scores, often in the top 10% or higher in the chemical sector
- Very good improvements in energy-efficiency, social and environmental accountability since 2010
- Some level of greenwashing on the improvements in performance for CO2 emissions Scope 2 & 3
- Great involvement in the ESG of its suppliers, 87% of suppliers having developed climate targets in response to the pressure from Symrise

Sources: Company Information

Increasing Gross profit margin in both segments thanks to positive market trends, slightly offset by an increase in Raw materials and negative FOREX effects

Sales Assumptions

Market growth

- As overall market growth we assumed **5%** market growth in **Scent & Care** and **7%** market growth in **Flavor & Nutrition**
- We assume a relatively **stable geographic split** with roughly **40% in the Americas** after a strong increase in 2020 with a slight shift from North to South, and a **shift from EMEA to APAC** (roughly 5%) with **Europe remaining** as **core market** for Symrise
- Successful **acquisitions and expansion into new markets** will help maintain sales growth in line with market growth in following years

Scent & Care

- **Expected 6%** growth in **2021**, **slowing down** significantly **after 2025** which terminates Symrises high growth strategy
- **Sensient division** acquisition expected to **provide significant gr**owth in 21/22
- **Fine Fragrances** expected to **rebound from COVID-low** due to increased mobility and travel and growing demand in emerging markets
- Assumed **growth in cosmetics ingredients** due to recent strategic investment in Kobo Products Inc.

Flavor & Nutrition

- Expected **organic growth** from **ADF/IDF** to result in strong segment growth in 21/22 (**10%**) but **offset by FOREX to 8%** (main driver for F&N)
- **Pet food** assumed to remain **a growth segment** for Symrise, otherwise Symrise will focus on **core competencies** in taste, nutrition and health.
- In addition, expected **synergies from combination of segments** resulting in cost-savings and cross-selling to existing customers

General

- We assume **prices** remaining at a **stable 2020 level** with **volume** being the **main driver of revenue growth** in the forecasted period, therefore selling and marketing costs have been kept at a stable level while COGS increase
- America being a strong growth driver, **FOREX** will reduce growth in all segments, **partly offsetting growth** initiated through innovation & sustainability strategy
- Assumed capability to capture market share based on past **successes in developing innovative and patentable products** (high R&D)

Cost Assumptions

COGS

- **Raw materials** expected to **grow by 1%p.** in first two forecasted years but **compensated by Symrise's Efficiency strategy** of **backward integration** for raw material and decreasing slowly in following years with the integration of **IDF Innovation Center** technology to reduce waste

R&D

- We expect **R&D spendings to increase** in the short-term but to **converge to 6.3%** of sales to incorporate the companies' goal of reaching the pre-COVID level. **Innovation** has been and will be of **great importance for Symrise to stay competitive**. R&D expenses growing on the **Scent & Care** segment to try to compensate the lower market growth

SG&A

- Assumed to grow by **1% per year**. Administrative costs are mostly fixed and as only employee growth follows sales growth it **remains mostly stable**, only **decreasing in 2021 and 2022** thanks to **synergies** from combination of the two segments
- Other Operating Income & expenses have been kept stable at 2020 levels

Revenues and EBIT per segment

Base case - by Segments (€m)	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
Revenue breakdown											
Scent& Care	1.451,7	1.524,2	1.593,8	1.659,5	1.720,7	1.776,6	1.826,6	1.870,0	1.906,2	1.934,8	1.963,8
% growth		*5,0%*	*4,6%*	*4,1%*	*3,7%*	*3,3%*	*2,8%*	*2,4%*	*1,9%*	*1,5%*	*1,5%*
Flavor & Nutrition	2.323,0	2.462,4	2.596,3	2.722,9	2.840,3	2.946,8	3.040,7	3.120,6	3.184,9	3.232,7	3.281,2
% growth		*6,0%*	*5,4%*	*4,9%*	*4,3%*	*3,8%*	*3,2%*	*2,6%*	*2,1%*	*1,5%*	*1,5%*
EBIT breakdown											
Scent & Care	307,6	319,3	349,2	378,0	405,4	431,1	454,8	476,2	494,9	510,8	527,0
Segment margin (%)	*21,2%*	*20,9%*	*21,9%*	*22,8%*	*23,6%*	*24,3%*	*24,9%*	*25,5%*	*26,0%*	*26,4%*	*26,8%*
Flavor & Nutrition	447,0	473,0	525,3	575,5	622,6	666,2	705,3	739,5	768,0	790,3	813,1
Segment margin (%)	*19,2%*	*19,2%*	*20,2%*	*21,1%*	*21,9%*	*22,6%*	*23,2%*	*23,7%*	*24,1%*	*24,4%*	*24,8%*

Sources: Statista Market reports, Symrise Annual reports

R&D, high growth strategy and decreasing NWC sustain a consistent FCFF generation

Forecast - Income Statement and FCFF

Base Scenario (€m)	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**TV**
Revenues	**3.774,7**	**3.986,7**	**4.190,1**	**4.382,4**	**4.561,0**	**4.723,5**	**4.867,4**	**4.990,6**	**5.091,2**	**5.167,5**	**5.245,0**	
% growth		*5,6%*	*5,1%*	*4,6%*	*4,1%*	*3,6%*	*3,0%*	*2,5%*	*2,0%*	*1,5%*	*1,5%*	
- COGS	2.325,8	2.496,4	2.613,9	2.723,5	2.823,7	2.913,1	2.990,4	3.054,3	3.103,7	3.138,0	3.172,7	
Gross profit	**1.448,9**	**1.490,3**	**1.576,2**	**1.658,9**	**1.737,3**	**1.810,3**	**1.877,0**	**1.936,3**	**1.987,4**	**2.029,5**	**2.072,4**	
% margin	*38,4%*	*37,4%*	*37,6%*	*37,9%*	*38,1%*	*38,3%*	*38,6%*	*38,8%*	*39,0%*	*39,3%*	*39,5%*	
- Post-synergies SG&A	352,5	349,9	372,0	370,4	369,1	368,1	367,3	366,4	365,6	365,5	365,4	
- R&D expenses	262,5	274,2	285,0	294,9	303,6	311,0	317,0	321,5	324,3	325,6	330,4	
R&D Exp./Sales	*7,0%*	*6,9%*	*6,8%*	*6,7%*	*6,7%*	*6,6%*	*6,5%*	*6,4%*	*6,4%*	*6,3%*	*6,3%*	
EBITDA	**833,9**	**866,3**	**919,2**	**993,7**	**1.064,6**	**1.131,2**	**1.192,7**	**1.248,4**	**1.297,4**	**1.338,4**	**1.376,5**	
% margin	*22,1%*	*21,7%*	*21,9%*	*22,7%*	*23,3%*	*23,9%*	*24,5%*	*25,0%*	*25,5%*	*25,9%*	*26,2%*	
- D&A	110,4	117,9	124,8	131,4	137,7	143,7	149,7	155,7	161,7	167,1	172,5	
% of Revenues	*2,9%*	*3,0%*	*3,0%*	*3,0%*	*3,0%*	*3,0%*	*3,1%*	*3,1%*	*3,2%*	*3,2%*	*3,3%*	
EBIT	**723,5**	**748,4**	**794,4**	**862,3**	**927,0**	**987,5**	**1.043,1**	**1.092,7**	**1.135,7**	**1.171,3**	**1.204,0**	
% margin	*19,2%*	*18,8%*	*19,0%*	*19,7%*	*20,3%*	*20,9%*	*21,4%*	*21,9%*	*22,3%*	*22,7%*	*23,0%*	
- Tax	195,4	202,1	214,5	232,8	250,3	266,6	281,6	295,0	306,6	316,3	325,1	
NOPAT	**528,2**	**546,3**	**579,9**	**629,5**	**676,7**	**720,9**	**761,4**	**797,7**	**829,1**	**855,1**	**878,9**	
+ D&A	110,4	117,9	124,8	131,4	137,7	143,7	149,7	155,7	161,7	167,1	172,5	
- CAPEX	280,0	250,0	230,0	220,0	210,0	200,0	200,0	200,0	200,0	180,0	180,0	
Capex/D&A	*253,7%*	*212,1%*	*184,3%*	*167,5%*	*152,5%*	*139,2%*	*133,6%*	*128,5%*	*123,7%*	*107,7%*	*104,4%*	
- Change in NWC	127,0	45,4	40,9	35,8	30,2	24,0	17,4	10,5	3,3	-3,9	20,2	
FCFF	**231,6**	**368,8**	**433,8**	**505,0**	**574,2**	**640,6**	**693,7**	**742,9**	**787,4**	**846,1**	**851,3**	**18.332**
DFCFF	**225,3**	**339,4**	**377,7**	**416,1**	**447,6**	**472,5**	**484,1**	**490,5**	**492,0**	**500,1**	**476,1**	**10.253**

Comments

- Given the **positive market trends** on both segments and Symrise's **recent growth on emerging markets**, as well as our vision on Symrise (strong development in the near future), we expect Symrise to **reach market maturity by 2031**
- Given this maturity, the **sales growth rate is expected to decrease incrementally until it reaches 1,5% in 2031**, from which we use our **Terminal Growth Rate of 1%.**
- This strategy drives a **FCFF growth between 2021-2031**, but **insufficient to justify the current share price** as of Nov.26, 2021

Assumptions

CAPEX & ROCE convergence

- We expect **CAPEX to double in 2021** according to **strong expansion**, slowly **converging to maintenance level** as Symrise gets closer to maturity
- **CAPEX investments reflect** the **high growth strategy** and the potential acquisitions of Symrise and are calculated according to a CAPEX schedule with D&A based on 30-year depreciation period and 10% salvage value of 2020 assets
- **D&A are converging to CAPEX** expenditures (2031 D&A/CAPEX almost equals 1)
- **ROCE converges toward target WACC of 5.7%** which proves state of maturity

	Strong investment period					Reduced growth			Soft landing		
	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	2031
Capex/D&A	254%	212%	184%	167%	153%	139%	134%	128%	124%	108%	104%
ROCE	9,3%	8,7%	8,4%	8,3%	8,2%	8,0%	7,7%	7,4%	7,1%	6,8%	6,6%

Taxes

- Stable at **27%.** Based on previous years average tax rate and slowly decreasing because of Symrise's optimization of tax burden and the growth in operating result in countries with lower nominal tax rates.

NWC

- We assume **Inventory/COGS will decrease** from 25% to 22**%**, thanks to **better post-acquisition management**
- The ratio of **Receivables is assumed to decrease** from around 18% of Sales to 16%, as we think the Company can improve slightly after penetrating and settling in new markets
- The ratio of **payables** is **assumed to decrease** from 13% to 12% of COGS to **reflect Symrise's trend in recent years** to gradually reduce payables

NWC forecast (€m)	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**
Accounts Receivable	690,8	719,4	745,4	768,4	788,0	804,0	816,1	824,0	827,6	826,8	839,2
Inventories	951,2	990,5	1.026,1	1.057,6	1.084,5	1.106,3	1.122,7	1.133,4	1.138,2	1.136,9	1.153,9
Accounts Payable	*502,0*	*530,2*	*557,3*	*582,9*	*606,6*	*628,2*	*647,4*	*663,7*	*677,1*	*687,3*	*697,6*
NWC	**1.140,0**	**1.179,6**	**1.214,2**	**1.243,1**	**1.265,9**	**1.282,2**	**1.291,5**	**1.293,7**	**1.288,6**	**1.276,4**	**1.295,5**
% sales	*30,2%*	*29,6%*	*29,0%*	*28,4%*	*27,8%*	*27,1%*	*26,5%*	*25,9%*	*25,3%*	*24,7%*	*24,7%*
Days of Sales	*110,2*	*108,0*	*105,8*	*103,5*	*101,3*	*99,1*	*96,8*	*94,6*	*92,4*	*90,2*	*90,2*
Change in NWC	**127,0**	**39,7**	**34,6**	**28,9**	**22,8**	**16,2**	**9,3**	**2,2**	**-5,0**	**-12,2**	**19,1**

Sources: Symrise Annual reports

With an estimated target price of 92,65€ based on our DCF Valuation, Symrise's stock appears over-valued by more than 26% compared to its current market price

DCF Valuation

Projections	2021E	2022E	2023E	2024E	2025E	2026E	2027E	2028E	2029E	2030E	2031E
FCFF	231 572	368 782	433 779	505 027	574 209	640 589	693 731	742 910	787 434	846 058	851 263
Discount period	0,5	1,5	2,5	3,5	4,5	5,5	6,5	7,5	8,5	9,5	10,5
Discount factor	0,973	0,920	0,871	0,824	0,780	0,738	0,698	0,660	0,625	0,591	0,559
Discounted FCFF	225 252	339 406	377 732	416 098	447 628	472 491	484 140	490 549	491 956	500 124	476 110

DCF Valuation		
WACC	5,69%	
Perpetual growth rate	1,00%	
Termial Value		
FCF 2031 *(1+g)	859 775	
Terminal Value	18 332 097	
PV Terminal Value	10 253 124	
DCF outputs		**% EV**
Sum of discounted FCFF	4 721 486	31,5%
PV of Terminal Value	10 253 124	68,5%
Enterprise Value	14 974 610	
bridge EV-EQV	2 025 051	
Equity Value	12 949 559	
Number of outstanding sl	139 772	
Share price	92,65 €	

Bridge EV-EqV	**H1 21**
Diluted NOSH (m)	139.8
Share price (as of 26.11.21)	125.4
Market Cap (€m)	**17,522**
+ Net debt	1,538
+ Minorities	60
+ Provisions for pensions	607
- Associates	(92)
- Other financial assets	(89)
Enterprise Value (€m)	**19,547**
Bridge EV-EqV (€m)	**2,025**

The target price of our DCF valuation is **92,65€**, far below the current market price of **125,35€** (26,08% decrease vs Close price as of Nov. 26, 2021)

Perpetual growth rate:

- To estimate the perpetual growth rate for Symrise, we take a look at the German forecasted Inflation rate up until 2031 (1,64%) and the expected GDP growth in Germany (1,12%), as well as the Global GDP growth (3,3%). The sales growth rate in 2031 in our Forecast is 1,5%.
- The perpetual growth rate will be less than the Global GDP growth rate and we put it just below the local GDP growth rate as we believe this will be a mature market with small growth opportunities, while staying close to the inflation rate (even though lower as we will perform a sensitivity analysis).

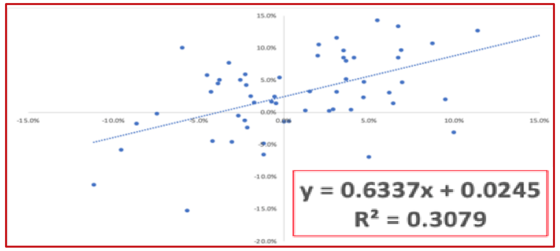
Discount rate : the FCF are discounted by $(\frac{1}{1+WACC})^{Period}$ to get their Present Value and summed.

Maturity: We believe than the markets Symrise is operating in will mature during the upcoming 10 years, as it is currently transitionning towards a more sustainable one, and thus transforming by means of backward integration and sourcing policy.

TV/EV ratio : given our maturity assumptions, we adjusted our forecast to cover an extended number of years of Cash Flows, resulting in a 68,5% PV of TV to EV ratio. Even though acceptable, this high ratio makes Symrise's target price very sensitive to changes in WACC and Terminal Growth rate.

Minority and partner adjustments for the bridge EV-EqV are detailed in the Multiple Valuation.

WACC calculation method (using CAPM)



Cost of Equity = 6.12%

Risk free rate	**= 1.47%**
Beta	**= 0.85**
- Calculated Beta	0.63
- Industry Unlevered Beta	0.78
- Industry Levered Beta	0.93
Market Risk Premium	**= 5.5%**

Cost of Debt = 2.14%

Tax Rate = 30%

KPMG Corporate Tax Rates - Corporate tax rate in Germany

WACC = 5.69%

MV Equity	= €17.95 Bn
MV Debt (BV used)	= €2.09 Bn

Beta

- The low R² (0.19) of the regression of Symrise's returns to the MSCI led us to not consider the calculated Beta of 0.6337 significant, as we consider it too low, even for an industry hardly hindered by market movements due to a strong underlying consumer behavior.
- As Specialty Chemicals industry unlevered beta is 0.78, levered 0.93, as variable costs/OPEX are 71% which explains a lower margins volatility, we think systematic risk will remain stable. Therefore, we assumed a relevered beta of 0.85 considering Symrise's gearing of 0.12.

Risk-free Rate: We assumed a risk-free rate of 1.47%.

Market Risk Premium: We believe that a 5.5% Market Risk Premium represents the current global market risk premium

Tax Rate: Based on KPMG Corporate Tax Rates in Germany

Cost of Debt (before tax)

- Symrise's corporate credit rating is BBB with a corresponding credit spread of 1.56%
- Estimated by adding the risk-free rate (0%) to the credit spread (1.56%)

Cost of Equity:

- Estimated with a CAPM approach at **6,12%**, which fits in terms of required market returns compared to the CoD

WACC: Weight of debt and equity are obtained with the market value of Equity and the book value of debt (total debt). We assume the target gearing to be similar to the current gearing given Symrise's active debt management and currently low debt/Mkt cap level

Sources: Yahoo Finance, Damodaran, KPMG, Company Information / Statista, OECD, IMF

The sensitivity analysis supports our view of Symrise being overvalued, but illustrates potential downside risks from decreasing EBIT margins and upside potential from focusing on the Flavor & Nutrition segment

Sensitivity analysis of different performance parameters

WACC

PGR	4,69%	5,19%	5,69%	6,19%	6,69%
1,00%	124,3 (-1%)	106,6 (-15%)	**92,6 (-26%)**	81,4 (-35%)	72,2 (-42%)
1,25%	132,1 (+5%)	112,3 (-10%)	97,0 (-23%)	84,8 (-32%)	74,9 (-40%)
1,50%	141,1 (+13%)	118,8 (-5%)	101,8 (-19%)	88,5 (-29%)	77,8 (-38%)
1,75%	151,6 (+21%)	126,2 (+1%)	107,3 (-14%)	92,6 (-26%)	81,0 (-35%)
2,00%	164,0 (+31%)	134,8 (+7%)	113,5 (-9%)	97,3 (-22%)	84,6 (-33%)

Normative blended revenue growth (%)

Normative EBIT margin (%)	1,00%	1,50%	2,00%	2,50%	3,00%
19,0%	78,5 (-37%)	78,8 (-37%)	79,2 (-37%)	79,5 (-37%)	79,8 (-36%)
21,0%	85,4 (-32%)	85,7 (-32%)	86,1 (-31%)	86,5 (-31%)	86,8 (-31%)
23,0%	92,3 (-26%)	**92,6 (-26%)**	93,0 (-26%)	93,4 (-25%)	93,8 (-25%)
25,0%	99,1 (-21%)	99,6 (-21%)	100,0 (-20%)	100,4 (-20%)	100,8 (-20%)
27,0%	106,0 (-15%)	106,5 (-15%)	106,9 (-15%)	107,4 (-14%)	107,8 (-14%)

2022 Revenue growth (Scent & Care)

2022 Revenue growth (Nutrition & Flavor)	4,00%	4,50%	5,00%	5,50%	6,00%
5,00%	88,1 (-30%)	89,0 (-29%)	89,8 (-28%)	90,7 (-28%)	91,6 (-27%)
5,50%	89,5 (-29%)	90,4 (-28%)	91,2 (-27%)	92,1 (-27%)	93,0 (-26%)
6,00%	90,9 (-27%)	91,8 (-27%)	**92,6 (-26%)**	93,5 (-25%)	94,4 (-25%)
6,50%	92,4 (-26%)	93,2 (-26%)	94,1 (-25%)	95,0 (-24%)	95,9 (-24%)
7,00%	93,8 (-25%)	94,7 (-24%)	95,6 (-24%)	96,4 (-23%)	97,3 (-22%)

1) Note: For sensitivity purposes revenue growth of all following years in the forecast period has been linked to 2022 revenue growth (progressive decrease in growth until maturity)

Comments

- Based on our DCF, **we view Symrise as overvalued**
- **Main drivers** for this are the **limited market growth**, high raw materials prices that keep **COGS at a high level throughout the forecast period** and **high CAPEX** (and therefore D&A) needed to accomplish the companies' **high growth target**

- Our sensitivity analysis shows that the share price is **highly sensitive to WACC and PGR** with a range of **- 42% and +31% of current share price**

- Our analysis shows that share price is more **dependent on the normative EBIT margin** than the normative blended segment revenues (12% difference vs. 1% difference between min and max price) which **highlights the impact of COGS and Capex development** during the forecast period

- Lastly, we analyzed our share prices **sensitivity to 2022 revenue growth**^{1} of both segments to investigate the importance of each segment for the companies' future growth (potential). Our analysis shows that the share price is **more sensitive to changes in revenue from Nutrition & Flavor** (5% range) with a higher max share price from N&F growth than from S&C growth. Symrise should therefore **focus on growth within the N&F secto**r as it bears the highest upside potential (based solely on this analysis)

❯ Further upside and downside potentials will be discussed in our blue & grey sky scenarios

Sources: xxx

Blue sky scenario with target price of € 131.90 demonstrates Symrise's upside potential, however grey sky scenario with 44% discount from current price curbs enthusiasm and strengthens SELL recommendation

FCFF Forecast (€m)

Blue Sky scenario	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**TV**
Revenues	3.845	4.123	4.395	4.655	4.901	5.128	5.332	5.509	5.655	5.769	5.884	
% growth		*7,2%*	*6,6%*	*5,9%*	*5,3%*	*4,6%*	*4,0%*	*3,3%*	*2,7%*	*2,0%*	*2,0%*	
- COGS	2.331	2.499	2.654	2.800	2.937	3.061	3.170	3.262	3.336	3.389	3.443	
Gross profit	1.514	1.624	1.741	1.855	1.965	2.068	2.162	2.247	2.320	2.380	2.441	
% margin	*39,4%*	*39,4%*	*39,6%*	*39,8%*	*40,1%*	*40,3%*	*40,5%*	*40,8%*	*41,0%*	*41,3%*	*41,5%*	
- Post-synergies SG&A	338	350	372	370	369	368	367	366	366	366	365	
- R&D expenses	267	283	299	313	326	337	347	355	360	363	371	
EBITDA	909	990	1.070	1.172	1.270	1.362	1.448	1.526	1.594	1.651	1.705	
% margin	*23,6%*	*24,0%*	*24,4%*	*25,2%*	*25,9%*	*26,6%*	*27,2%*	*27,7%*	*28,2%*	*28,6%*	*29,0%*	
- D&A	110	118	125	131	138	144	150	156	162	167	172	
EBIT	799	873	945	1.040	1.132	1.218	1.298	1.370	1.432	1.484	1.530	
% margin	*20,8%*	*21,2%*	*21,5%*	*22,3%*	*23,1%*	*23,8%*	*24,3%*	*24,9%*	*25,3%*	*25,7%*	*26,0%*	
- Tax	216	236	255	281	306	329	351	370	387	401	413	
NOPAT	583	637	690	759	826	889	948	1.000	1.046	1.083	1.117	
+ D&A	110	118	125	131	138	144	150	156	162	167	172	
- Capex	280	250	230	220	210	200	200	200	200	180	180	
- Change in NWC	148	65	60	55	48	40	32	23	13	3	30	
FCFF	**265**	**440**	**525**	**616**	**706**	**793**	**865**	**933**	**994**	**1.067**	**1.079**	**26.144**
DFCFF	**258**	**405**	**457**	**508**	**550**	**585**	**604**	**616**	**621**	**631**	**604**	**14.623**

Blue sky scenario

5.69% WACC; 1.5% PGR

- Assumed **stronger sales growth** due to (1) higher demand in **emerging markets**, (2) higher **impact of sustainability transition**, (3) **favorable FX** lowering FX adjustments, (4) stronger **sales growth of F&N segment**
- Assumed **higher gross margin** due to **lower increase in raw materials** and companies' **ability to compensate inflation** through backward integration & IDF technique

FCFF Forecast (€m)

Blue Sky scenario	**2021E**	**2022E**	**2023E**	**2024E**	**2025E**	**2026E**	**2027E**	**2028E**	**2029E**	**2030E**	**2031E**	**TV**
Revenues	3.669	3.802	3.927	4.043	4.150	4.246	4.330	4.402	4.460	4.505	4.550	
% growth		*3,6%*	*3,3%*	*3,0%*	*2,6%*	*2,3%*	*2,0%*	*1,7%*	*1,3%*	*1,0%*	*1,0%*	
- COGS	2.269	2.352	2.426	2.496	2.559	2.618	2.670	2.715	2.751	2.778	2.806	
Gross profit	1.400	1.450	1.500	1.547	1.591	1.628	1.660	1.687	1.710	1.727	1.744	
% margin	*38,2%*	*38,1%*	*38,2%*	*38,3%*	*38,3%*	*38,3%*	*38,3%*	*38,3%*	*38,3%*	*38,3%*	*38,3%*	
- Post-synergies SG&A	367	364	372	370	369	368	367	366	366	366	365	
- R&D expenses	255	261	267	272	276	280	282	284	284	284	287	
EBITDA	778	824	861	905	946	980	1.011	1.037	1.060	1.077	1.092	
% margin	*21,2%*	*21,7%*	*21,9%*	*22,4%*	*22,8%*	*23,1%*	*23,3%*	*23,6%*	*23,8%*	*23,9%*	*24,0%*	
- D&A	110	118	125	131	138	144	150	156	162	167	172	
EBIT	667	707	737	774	808	836	861	882	898	910	910	
% margin	*18,2%*	*18,6%*	*18,8%*	*19,1%*	*19,5%*	*19,7%*	*19,9%*	*20,0%*	*20,1%*	*20,2%*	*20,0%*	
- Tax	180	191	199	209	218	226	232	238	242	246	246	
NOPAT	487	516	538	565	590	610	628	644	656	664	664	
+ D&A	110	118	125	131	138	144	150	156	162	167	172	
- Capex	280	250	230	220	210	200	200	200	200	180	180	
- Change in NWC	95	22	19	15	11	7	3	-1	-5	-9	12	
FCFF	**222**	**361**	**414**	**461**	**506**	**547**	**575**	**600**	**622**	**661**	**645**	**13.891**
DFCFF	**216**	**333**	**360**	**380**	**395**	**403**	**401**	**396**	**389**	**391**	**361**	**7.769**

Grey sky scenario

5.69% WACC; 1.0% PGR

- Assumed **weaker sales growth in 21/22** due to (1) **slower recovery from COVID-19** low, (2) **less favorable FX** increasing FX adjustments, and for **overall forecast period** due to **slower overall market growth**
- Assumed **lower gross margin** due to (1) higher increase in raw materials prices resulting in lower gross margin, (2) **lower realizable synergies** from acquisitions and combination of business segments resulting in lower EBIT margin

Blue sky
€ 131.90

Current price
€ 125.35

Target price
€ 92.65

Grey sky
€ 69.89

For the multiple valuation, peers were selected based on six criteria: product mix, geographical coverage, scale, operating margins, indebtedness and forecast growth

	symrise	Givaudan	iff	ROBERTET	KERRY	SENSIENT
Business Model, Sales mix by end-market and by geography	• Major provider of fragrances, flavors and active ingredients as well as aroma chemicals • 2020 Sales split by end market: Fragrance (39%), Flavor (35%), Nutrition (26%) • 2020 Sales split by geography: EAMEA (39%), North America (28%), APAC (21%), LatAm (12%)	• Switzerland-based and leader in the Fragrances and Flavor market • 2020 Sales split by end market: Fragrance (46%), Flavor (54%) • 2020 Sales split by geography: EAMEA (36%), North America (28%), APAC (25%), LatAm (11%)	• Supplier in the F&B, fragrance, home and personal care, and health and wellness • 2020 Sales split by end market: Fragrance (39%), Flavor (61%) • 2020 Sales split by geography: EAMEA (39%), North America (24%), APAC (23%), LatAm (14%)	• French player in the Flavor and Fragrance end market • 2020 Sales split: Fragrance (36%), Flavor (36%), Raw materials (27%) • 2020 Sales split by geography: EAMEA (38%), North America (37%), APAC (18%), LatAm (7%)	• Key pure-player in the Nutrition segment, and also operating in other consumer products • 2020 Sales split by end market: Taste & Nutrition (82%), Consumer Foods (18%) • 2020 Sales split by geography: Europe (38%), North America (44%), APMEA (18%)	• Leading global manufacturer and marketer of colors, flavors, and other specialty ingredients • 2020 Sales split by end market: Flavor (60%), Colour (40%) • 2020 Sales split by geography: Europe (22%), North America (55%), APAC (15%)
2020 Revenues and 2021e growth	€3,520m / 7.2%	€6,006m / 5.7%	€4,474m / 7.0%	€538m / 5.0%	€6,953m / 3.9%	€1,172m / 1.8%
2020 EBITDA Margin	21.1%	22.1%	20.7%	17.9%	14.4%	13.8%
2020 EBIT margin	13.8%	15.8%	14.3%	13.2%	10.2%	11.5%
Total Debt / Equity[1]	11.9%	12.0%	11.6%	3.7%	12.6%	11.6%
Net debt / EBITDA[2]	2.1x	3.4x	3.6x	n.m.[3]	1.9x	2.5x
Comparability and weighting		◕ 30%	◕ 30%	◕ 20%	◑ 10%	◑ 10%

Sources: Company Information, Broker Reports. Notes: (1) Market value of Equity as of 26.11.21 (2) Latest reported (Dec-2020), (3) Negative net debt (minus 0.7x) due to high cash reserves

According to our relative valuation using Trading multiples, Symrise is overvalued and the target price is €120.1 (4.2% discount vs. 26-Nov closing at €125.35)

	(In €m, %)	Mkt cap	2021e					2022e					21e EBITDA / EBIT margins	21e / 22e EPS growth	Debt / Equity
			EV/Sales	EV/EBITDA	EV/EBIT	P/E	PEG	EV/Sales	EV/EBITDA	EV/EBIT	P/E	PEG			
	Symrise	17,522	5.2x	23.4x	27.0x	35.6x	5.0	4.9x	22.6x	26.1x	34.4x	4.4	22% / 19%	7% / 8%	11.9%
30%	Givaudan	39,579	6.9x	30.3x	45.0x	47.7x	2.7	6.5x	29.0x	45.1x	43.4x	4.4	23% / 15%	18% / 10%	12.0%
30%	IFF	33,614	3.6x	16.9x	32.8x	49.1x	2.0	3.4x	14.9x	27.0x	38.4x	1.8	22% / 11%	25% / 22%	11.6%
10%	Sensient	3,799	3.5x	18.8x	26.4x	33.0x	1.7	3.3x	16.6x	23.5x	29.0x	2.1	19% / 13%	20% / 14%	11.6%
20%	Robertet	2,362	4.1x	22.5x	30.5x	43.6x	6.2	n.a.	n.a.	n.a.	n.a.	n.a.	18% / 13%	7% / n.a.	3.7%
10%	Kerry	19,877	3.0x	20.2x	27.7x	31.2x	2.1	3.0x	19.1x	27.0x	30.3x	10.4	15% / 11%	15% / 3%	12.6%
	Weighted ave.		**4.6x**	**22.6x**	**34.9x**	**44.2x**	**3.0**	**3.6x**	**16.7x**	**26.7x**	**30.5x**	**3.1**			

Bridge EV-EqV	**H1 21**
Diluted NOSH (m)	139.8
Share price (as of 26.11.21)	125.4
Market Cap (€m)	**17,522**
+ Net debt	1,538
+ Minorities	60
+ Provisions for pensions	607
- Associates	(92)
- Other financial assets	(89)
Enterprise Value (€m)	**19,547**
Bridge EV-EqV (€m)	**2,025**

Forecast - Base Case	**In €m**
2021e Sales	3,774.7
2021e EBITDA	833.9
2021e EBIT	723.5
2021e Net income	491.7

Multiple	**2021e**	**EqV (€m)**	**Share price**
EV/Sales	4.6x	15,490	110.8
EV/EBITDA	22.6x	16,790	120.1
EV/EBIT	34.9x	23,193	165.9
P/E	44.3x	21,782	155.8
Growth-adj. P/E	21.7x	10,689	76.5

- ✓ Relative Valuation using Trading Multiples gives a price range of **[76.5€ - 165.9€]**
- ✓ **EV/ 2021e EBITDA retained** for target price
- ✓ Target Price for the relative valuation set at **120.1€**

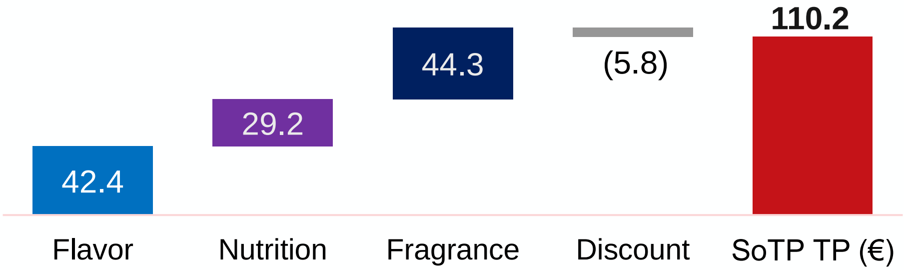
- 5 peers have been considered for EV multiples and a specific weighting has been applied (see previous slide on peers' selection). Givaudan and IFF are the most comparable to Symrise
- EV multiples show a wide range, comprised between EV/2021e Sales (110.8€) and EV/2021e EBIT (165.9€)
- Due to very similar debt levels as shown above (except Robertet), P/E multiples can be considered relevant for this valuation. Robertet has been excluded from the share price calculation using P/E
- Growth-adjusted P/E is more relevant and is calculated using weighted average PEG and assumed 2021e EPS growth for Symrise to derive growth-adjusted P/E. Shows the highest value given abnormal growth in 2021 EPS
- EV/ 2021e EBITDA to be retained, capturing differences in operating margins (from 15% to 23% EBITDA margins). We could have used EV/EBIT to capture the impact of D&A policy, which seems different from one peer to another. We did not proceed with an EBIT multiple given the relatively out-of-range target price.

Sources: Company Information, Broker Reports

According to SoTP valuation, Symrise is overvalued and the target price is €110.2 (12% discount vs. 26-Nov closing at €125.35)

A Price Target at a discount to share price, in line with Trading multiples

	Flavors	Nutrition	Fragrances
EBITDA contibution (2020)	35.9%	27.5%	36.6%
EBITDA contibution (2021e)	35.6%	27.2%	37.2%
2021e EBITDA	297	227	310
2021e Median EV/EBITDA	22.5x	20.2x	22.5x
EV by segment	**6,673.6**	**4,588.4**	**6,971.6**
Group EV	**18,233.6**		
Segment EV as % of group EV	37%	25%	38%
Pre-discount price target (€)	**115.96**		
SoTP discount	(5.80)	5.0% of pre-discount TP	
Target price using SoTP (€)	**110.16**		
Premium / (Discount) to Share price	*(12.1%)*		



Comments on methodology

- Symrise reports 3 segments serving distinct end-markets:

1) Fragrances, 2) Flavors and 3) Nutrition. We would have ideally chosen pure-players in each sub-market for our Sum-of-the-Parts analysis and valuation. The reality is that most players are focused on both Flavors and Fragrances. We have opted for a Sum-of-the-Parts isolating Nutrition from Flavors & Fragrances (Givaudan, IFF, Robertet) from Nutrition (Kerry)

- Sensient was not retained for this analysis due to its important exposure in the coloring segment (c.40% of 2020 sales)
- Even though we consider cost synergies at SG&A level between Flavors and Nutrition, a 5% discount to target price is still applied because we believe that there are no obvious synergies between the Fragrance division and the combined Flavor & Nutrition

2021e multiples by end markets: F&F[1] and Nutrition pure-play

(In €m, except per share)	2021e			
	EV/Sales	EV/EBITDA	EV/EBIT	P/E
Flavors & Fragrances				
Givaudan	6.9x	30.3x	45.0x	47.7x
IFF	3.6x	16.9x	32.8x	49.1x
Robertet	4.1x	22.5x	30.5x	43.6x
Flavors & Fragrances - Mean	4.9x	23.2x	36.1x	46.8x
Flavors & Fragrances - Median	4.1x	22.5x	32.8x	47.7x
Nutrition				
Kerry	3.0x	20.2x	27.7x	31.2x
Nutrition	3.0x	20.2x	27.7x	31.2x

Sources: Company Information, Broker Reports. Notes: (1) Fragrances and Flavors

All three valuation methods indicate that Symrise is overvalued - we therefore issue a SELL recommendation, at a target price of €92.65

Upside risks

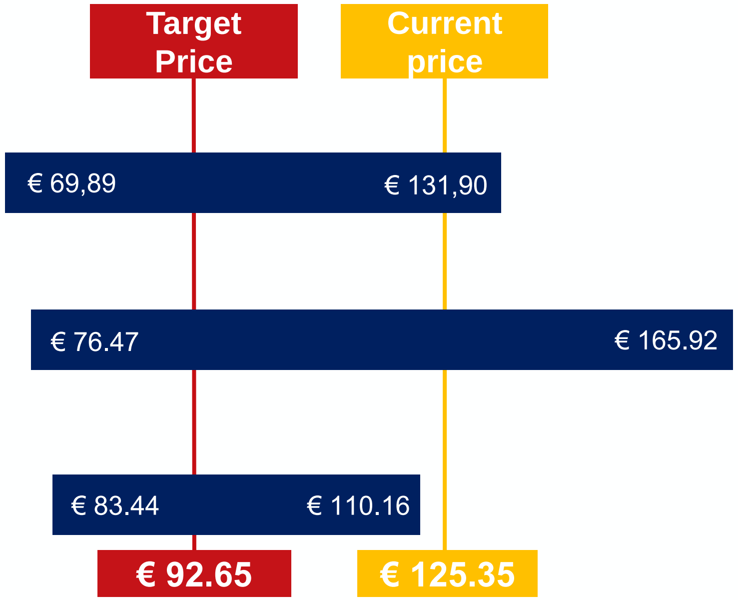
- Higher demand in emerging markets
- Higher impact of sustainability transition and backward integration, helping reduce the impact of Raw Materials on Profit margins
- Logistic improvements with recent acquisitions and creation of new facilities in emerging markets
- Inorganic growth in pet food can increase market share even higher to solidify Symrise as dominant player in this subsegment enabling a stronger pricing power
- Stronger than expected recovery in fragrances and OOH consumption

Downside risks

- FX risk
- Lower than expected top line growth resulting from decrease in consumer spend on food and personal care products due to e.g. recession
- Inflationary raw material pressures can continue to affect negatively the growth profit margin
- Higher market saturation than expected
- Overestimation of impact of backward sustainable integration of suppliers
- Cost of sustainable transition not covered by increase in returns
- Supply chain shock having an impact on Payables, especially with the return of Covid
- M&A activity may not be as strategic because current M&A activity is at a high and aggressive sellers' behaviors with elevated current multiples' level
- Failure to integrate bolt-on deals such as ADF/IDF acquisitions
- Inability to continue expand in Asia and South America, due to increasing competition of IFF, Givaudan and Firmenich in those developing markets

The football field clearly highlights overvaluation of Symrise

Method	Range
DCF	[Grey sky - Blue sky]
Trading Multiples	[2021e g-adj. P/E, 2021e EV/EBIT]
SOTP	[2021e EV/Sales, 2021e EV/EBITDA], 5% SOTP discount



Final recommendation

Based on our analysis, Symrise is overvalued with a

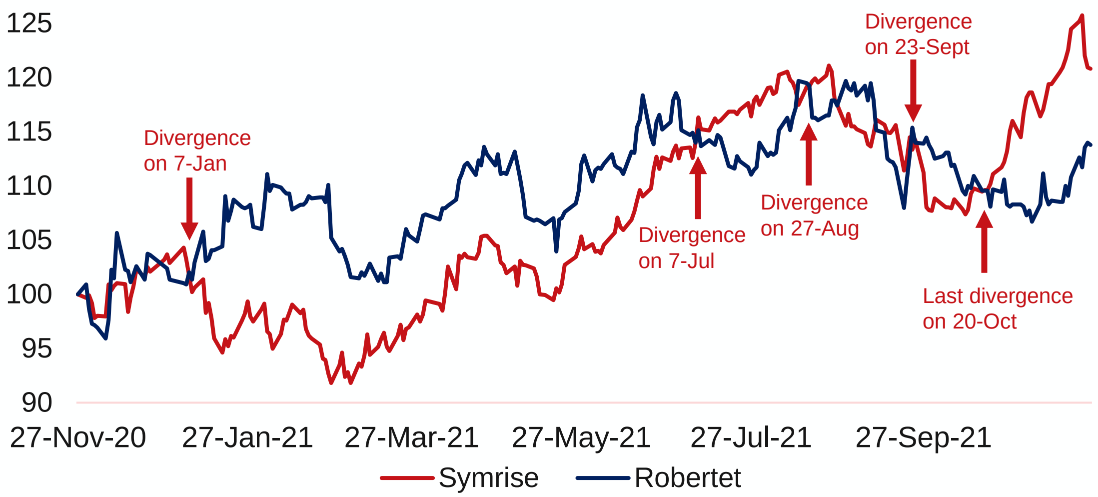
Target Price of **€ 92.65**

We see a 26% discount vs. current price of €125.35 (26-Nov closing) which is why we make an

SELL recommendation

Currently seizable Symrise (Sell) / Robertet (Buy) pair-trading opportunity

12-month price performance: a correlation of 0.677 over last year



	Symrise			
Robertet	0.945	0.677	0.492	-0.434
Correlation factor	over 5 years	over 12 months	over 1 month	over 1 week

Over last year, there were many pair-trading opportunities involving Symrise and Robertet, as shown above through multiple stock price divergences. Both stock have always converged given their historical high positive correlation, making possible to generate profit by closing the position.

Rationale

Symrise and Robertet are historically highly correlated

- The correlation currently reaches a level of 0.492 over last month. However, the two stocks had a high correlation of 0.677 over 12 months. This correlation level is also noticed when looking at both stocks' performance over last 5 years (0.945), which shows a near perfect positive correlation
- Consequently, the two stocks move in a similar fashion due to: similar segment exposure, similar geographical coverage, similar risks

A trading opportunity given recent stock divergence on 20-Oct-2021

- Given stocks last divergence last October and currently negative correlation (-0.434) observed over last week, this deviation from historically high positive correlation is a pair-trading opportunity to capture
- Robertet: we believe that the stock is currently undervalued compared to the peers and sector
  - 2021e EV/EBIT of 30.5x vs. 33.6x peers' average (non-weighted and excl. Robertet)
  - Likelihood to outperform the market in the LT, according to brokers(1)
- Symrise: we recommend selling the stock according to our valuation, we believe it is currently overvalued with a target price of € 92.65, 26.1% discount to current share price of €125.35.

Conclusion: Robertet share price will converge with that of Symrise (because of the historically observed high correlation) so that a profit can be made.

Recommended pair-trade strategy: **Long Robertet**, **Short Symrise**

Sources: Company Information, Broker reports. Notes: (1) Sadif Investment Analytics

We recommend the below actions to the management of Symrise with different levels of criticality for each

If we were CEO for a day, our recommendations would be

Critical

- Focus on **new acquisition** in flavor market to compensate the declining growth in the flavor segment
- **Leverage first mover advantage** in pet food market to capture high market share early on and solidify operating margins
- Reduce **dependence on raw materials market and currencies** through financial hedging instruments
- Plan a **strategy to hedge** against increasing **raw material costs** (e.g. with derivatives or by signing long-term contracts with suppliers)
- Focus on **ESG initiatives** to avoid any greenwashing conflicts
- Expand the share of **private labels and e-commerce** to produce **new sales channels**
- Implement new **pricing strategy** with **increased prices** to compensate for inflation of raw material prices

Less Critical

- Leverage customer data in order to adapt product offerings to specific customers‘ needs
- Focus on **talent management activities** in order to reduce employee turnover
- Upgrade **data-driven tools** to enable a better **demand forecast analysis,** achieve a **leaner process** and a **controlled backlog**
- Invest in **artificial intelligence solutions** to **drive efficiency** and **exploration** of new fragrance creations wich leads to new market-ready products
- Explore **streamlining options** of inventory and recipes across sites
- Seize M&A add-on opportunities for **incremental market share and local expertise**

Broker Recommendation & Conclusion

We believe Symrise is **OVERVALUED**, we suggest a target price of **€92.65**. Our recommendation on this stock is **SELL**.
Symrise is seeing a **decline in the flavor segment** as the demand for unhealthy drinks and food is shrinking in many countries. The flavor segment is **their biggest market** and therefore, the company needs to either adapt to trends or leverage its existing capabilites to **strengthen its other business segments through acquisitions or new innovations**.
Symrise is highly dependent on raw materials and is exposed to currency risk. This risk could be mitigated through hedging the risk or protecting operating margins by implementing the best fit-in pricing strategy.