



Letter from the CEO

# Amplifying the impact of biological solutions in tough markets

## **In 2016, Novozymes delivered 2% organic sales growth and strong earnings with significant progress in a number of areas. 2017 will be a year with sustained investments in new innovation.**

Our financial results for 2016 showed strong earnings, and we were able to expand our EBIT margin despite weak organic sales growth of 2%. Sales growth was moderate across industries and, from a regional perspective, we saw growth in Europe and Asia Pacific, whereas sales in North America in particular proved challenging. We were able to deliver strong earnings due to very low cost expansion and our continued efforts to optimize productivity in our facilities.

Novozymes' key growth driver is delivering solutions that improve the sustainability performance of our customers and partners. We are performing against a set of ambitious sustainability targets to drive our company toward delivering on the UN Sustainable Development Goals. In 2016, our customers avoided an estimated 69 million tons of CO<sub>2</sub> emissions by applying our solutions. The savings achieved are equivalent to taking approximately 30 million cars off the road. I am proud of this achievement, but at the same time, we were unable to meet some of our other sustainability targets, for example water efficiency, frequency of occupational accidents and diversity. This is not satisfactory, and in 2017 it will be key for us to deliver a better performance.

### **Delivering value**

Novozymes operates in more than 40 different markets. During the years I have been with the company, most markets have seen positive as well as negative developments. However, whenever there have been negative developments, we have been able to deliver solid growth over time, as the combination of diversified markets and strong innovation provides a balance in favor of positive development.

2016 was a year with more headwind than usual. A company such as Novozymes that sells biological solutions that reduce the use of raw materials and energy in various processes, creates less value for its customers when energy and raw materials are cheaper. In 2016, our customers started planning and designing their offerings based on cheaper raw materials. If we compare 2015 and 2016, the world has not changed significantly, but customer perception of what adds value has changed.

We were not able to fully predict these developments when planning for 2016. We expected 3-5% growth and ended the year on 2%. As the market leader in industrial enzymes, we were able to retain our global market share of an estimated 48%.

2016 was also a year when we adjusted our product portfolio to create growth in a world with low-priced raw materials. We maintained our dedicated focus on innovation and continued research as part of long-term programs aimed at developing more sustainable solutions. At the same time, we re-evaluated how programs are tailored and altered to address changing customer perceptions. Improvements in operational efficiency and general cost awareness have been important levers to deliver on our earnings target.

### **"Novozymes' key growth driver is delivering solutions that improve the sustainability performance of our customers and partners."**

### **Innovations and recognitions**

In 2016, we launched a number of exciting new innovations that set us apart in the marketplace. For example, at the beginning of the year, we started marketing our first probiotic for poultry together with our partner Adisseo. In September, we complemented our microbial capabilities with the acquisition of Organobalance GmbH, a German company that researches and develops microbial solutions.

In December, we launched the first product from The BioAg Alliance with Monsanto – a new yield-boosting microbial seed coating for corn. On top of this, we announced plans to build a new production and supply chain facility near Mumbai, India, and broke ground at our new innovation campus in Lyngby, near Copenhagen, Denmark, to secure the long-term future of the business.

Our customers continued to show their appreciation for our innovation efforts in 2016. Novozymes received the prestigious Best Business Partner of the Year Award from P&G for the seventh time and we were recognized for our consistent high-level performance with their Excellence Award. The Best Business Partner of the Year Award has been given out eight times, and no company has received it as many times as Novozymes. These are very important recognitions of Novozymes and its employees from one of its largest customers.

Our continuous sustainability efforts also won recognition this year. Once again, we scored 90 out of 100 in the chemicals sector of the Dow Jones Sustainability World Index, placing us among the top companies in terms of sustainability in the competitive chemicals sector.

## From commitment to action

The political and economic developments we saw in 2016 did not drive the world to become more sustainable. The current low raw material prices are not sustainable, and while increased consumption at low cost may be attractive in the short term, it is unsustainable in the long term. Over the past couple of years, we have seen strong commitments from companies, experts, politicians and NGOs, and there is no doubt that sustainability is high on the agenda. Now is the time for action. Helping to make the world become more sustainable is Novozymes' most important driving force. We invest in delivering biological answers to some of the world's most pressing problems.

## Adjusting for growth

In February 2016, we changed our organizational structure to bring decisions about customers, positioning and investment in our innovation pipeline even closer to customers.

We see early signs of progress from the reorganization, but also see that we need to add further force in order to deliver more impactful innovations to our customers and protect our earnings. We will prioritize harder and reallocate resources to the areas with the biggest growth potential. Unfortunately, we need to lay off 198 employees across the organization. It is always hard to lay off colleagues, but it is necessary for us in order to develop our company and ensure enough power to our customer-facing activities. We will do our utmost to support the colleagues affected and help them find new employment.

## Looking ahead

We have a strong innovation pipeline. In 2-3 years, the key programs in our pipeline will be successfully commercialized, and we are confident that it will then be possible to achieve organic sales growth in line with our historical performance.

Novozymes' two other long-term financial targets – that of an EBIT margin at 26% or above, and a ROIC including goodwill of 25% or above – are unchanged. Achieving these targets requires that we constantly build our operational efficiency and optimize our processes in order to achieve higher enzyme yield and produce enzymes with higher activity. We will also keep our six impact targets and long-term non-financial targets, to continue to drive Novozymes' actions toward supporting the UN Sustainable Development Goals.

Although 2017 looks slightly better than 2016, we also know that it will be challenging. We will continue to invest for a future with a higher demand for sustainable solutions, building our leadership position within industrial biotechnology.



Peder Holk Nielsen  
President & CEO

# 6,500+

patents held by Novozymes



# 100+



# 13%

of Novozymes' total revenue  
dedicated to R&D

