Edited Transcript of DSM.AS earnings conference call or presentation 5-Nov-19 8:00am GMT

Thomson Reuters StreetEvents•November 7, 2019

Q3 2019 Koninklijke DSM NV Earnings Call

Heerlen Nov 7, 2019 (Thomson StreetEvents) -- Edited Transcript of Koninklijke DSM NV earnings conference call or presentation Tuesday, November 5, 2019 at 8:00:00am GMT

TEXT version of Transcript

==

Corporate Participants

==

* Dave Huizing

Koninklijke DSM N.V. - VP of IR

* Geraldine Matchett

Koninklijke DSM N.V. - CFO & Member of the Managing Board

==

Conference Call Participants

==

* Chetan Udeshi

JP Morgan Chase & Co, Research Division - Research Analyst

* Gunther Zechmann

Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst

* Laura Lopez Pineda

Baader-Helvea Equity Research - Analyst

* Martin Roediger

Kepler Cheuvreux, Research Division - Equity Research Analyst

* Mutlu Gundogan

ABN AMRO Bank N.V., Research Division - Analyst

* Neil Christopher Tyler

Redburn (Europe) Limited, Research Division - Research Analyst

* Reginald Leonard Watson

ING Groep N.V., Research Division - Research Analyst

* Sebastian Christian Bray

Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst

* Thomas P Wrigglesworth

Citigroup Inc, Research Division - Director and Chemicals and Basic Materials Analyst

==

Presentation

Operator [1]

Ladies and gentlemen, thank you for standing by, and welcome to DSM's conference call on the first 9 months results of 2019. Throughout today's presentation, all participants will be in a listen-only mode. After the presentation, there will be an opportunity to ask questions. (Operator Instructions)

Now I would like to turn the call over to Mr. Huizing. Please go ahead.

Dave Huizing, Koninklijke DSM N.V. - VP of IR [2]

Thank you, operator. Ladies and gentlemen, good morning also from my end, and welcome to this conference call on DSM's third quarter 2019 results, which we published earlier this morning. I'm sitting here with Mrs. Geraldine Matchett, Chief Financial Officer and Member of the DSM Managing board. Geraldine will give a short introduction, after which she will answer any questions you may have.

As always, I need to caution you that today's conference call may contain forward-looking statements. In that regard, I would like to direct you to the disclaimers about forward-looking statements as published in the press release.

And with that out of the way, please, Geraldine, go ahead.

Geraldine Matchett, Koninklijke DSM N.V. - CFO & Member of the Managing Board [3]

Thank you, Dave, and good morning, ladies and gentlemen. It's a pleasure to welcome you to this call on DSM's first 9-month results for 2019. I will provide you with a few comments on the key slides of our investor presentation that we published this morning together with our press release, and then we will open the line for the Q&A session.

Before starting, I have to point out that our 9-month 2019 results are reported against a set of prior year figures that included a significant additional benefit from an exceptional supply disruption in some of the key vitamins that we clearly communicated all along last year as the temporary vitamin effect. In order to provide as much transparency as possible, we continue to show this separately, calculating growth against 2018 total results, including the special event as well as the comparison excluding this event. Now of course, from a perspective of monitoring the progress of our business, the comparison to last year's underlying business is the only meaningful one. For this reason, in the remainder of my presentation, I will compare the 2019 results versus the underlying business as estimated and reported in 2018.

One more comment on comparisons. Please note that we adopted the new IFRS 16 standard on lease accounting as per its effective date of the first of January 2019, whilst the 2018 figures are not restated. You can find the full information on this on Page 19 of the press release.

This said, let's start with the year-to-date financial highlights on Slide 2. We're pleased to report a good performance for the first 9 months of 2019. Our group sales are up 3% with Nutrition delivering a 4% organic growth, fully offsetting the minus 7% organic growth in Materials sales, where volumes were down 5% on the back of continued weak market conditions in some end markets. Adjusted EBITDA is up 11%, which includes 3% positive effect from IFRS 16, well in line with our strategic target. In the period, Nutrition continued to perform strongly, whilst Materials showed its relative resilience with a flat adjusted EBITDA, which includes a 1% IFRS 16 benefit. During these 9 months, we continued to move forward with our large innovation projects such as Veramaris, Avansya and Clean Cow, reaching important milestones.

As for our cash generation, the net adjusted -- sorry, the net -- adjusted net operating free cash flow is up 4% from last year at EUR 550 million, and we are on track to meet our strategic targets of a 10% increase for the full year. And finally, we are pleased to reiterate our outlook 2019 for the full year.

Now for the rest of this presentation, I will focus on Q3. So let's move to Page 3 with the Q3 highlights. We have called Q3 a solid quarter in the press release. But when considering the economic backdrop in which we operate, I believe we could have also called it a good quarter. Nutrition delivered once again a strong performance, reporting a 4% organic growth with an adjusted EBITDA up 12%, which includes 3% from IFRS 16. As for our Materials businesses, despite ongoing challenging condition in some of the end markets resulting in volumes being down 3%, they delivered an adjusted EBITDA almost in line with prior year. Overall, we are pleased with this performance as it proves the relative resilience of our Materials portfolio. Our Innovation Center also performed well, continuing its step-up in adjusted EBITDA as seen already in the first half of this year. All put together, this results in an overall adjusted EBITDA growth for the quarter of 9%, including 3% for IFRS 16.

Let's move now to Page 8 for a few more comments on Nutrition. Overall, Nutrition delivered again a good top line growth with 7% in Q3, supported by 4% organic growth with volumes up 3% and prices up 1%. This was achieved through solid animal nutrition sales, while Human Nutrition showed some softness in food and beverage but with strong results in personal care and food specialties. As already mentioned, we realized a 12% EBITDA growth in the quarter, including 3% from IFRS 16.

The adjusted EBITDA margin remained strong at 20.5%, including 50 basis points from IFRS 16 versus 19.7% in Q3 last year.

Looking now more specifically at animal nutrition, let's go to Page 9. Overall, business conditions for animal nutrition in Q3 remained good across species and geographies, except for the swine business in Asia where we saw a bigger negative impact than earlier estimated from the African swine fever. The disease has spread rapidly and to such a scale that the decline in pork production can no longer be offset by other species and regions in the short term. The reduced feed demand for swine in Asia has therefore impacted our growth in the short term. The estimated impact on our animal nutrition volume growth in Q3 is of the order of about 3%. We believe, however, that the measures taken to bring back full production to the necessary levels in Asia as well as the new measures to prevent such significant outbreaks of the disease will be eventually beneficial for DSM.

Let's move now to Human Nutrition on Page 10. Human Nutrition reported a 1% organic growth in the quarter with volumes up 2% and prices down 3%. Softer volumes were driven by ongoing soft demand in food and beverage, while all other segments in early life nutrition and dietary supplements performed well. Our health sales remained particularly strong. The minus 3% price effect was driven by mix and lower prices for our Chinese vitamin C. As always, please remember that due to our large portfolio of ingredients, changes in top line due to price do not equate a change in our margin as you have seen with our margins being up in the quarter. As for our other nutrition activities, Q3 was also a good quarter for food specialties and personal care.

Moving on to our Materials business on Page 12. For our Materials businesses, Q3 was essentially a continuation of what we saw in the first half of the year. Challenging end market conditions for engineering plastics and resins continued, while Dyneema continues to enjoy strong business conditions especially in personal protection. This resulted in volumes down 3% in the quarter. However, the adjusted EBITDA margin were slightly up at 18.8% including 30 basis points from IFRS 16. This results in an adjusted EBITDA down only 2% or when we include IFRS 16, 4%. We believe this demonstrates the relative resilience of our Materials portfolio in the current adverse market circumstances.

Now let's turn to Page 16 for a couple of quick comments on the cash flow and working capital. The adjusted net operating free cash flow increased 4% to EUR 550 million. And as already mentioned, we are on track to meet our strategic target of a 10% increase for the full year. Total working capital as a percentage of sales was up about 200 basis points to 22.5% resulting from a combined negative effect of IFRS 16, foreign exchange movements and our 2019 acquisitions.

Inventories, which are over time the key drivers for our desired reduction in working capital, were flat in the quarter when adjusting for the impact of the acquisitions and the FX. This said, we are continuing our active programs aimed at improving overall working capital performance over time.

And now let's turn to Slide 18 for final comments on the outlook. Finally, on our outlook, we can be short. Overall, we continue to see good business conditions in Nutrition, and we continue to expect a relatively resilient performance in our Materials businesses even in the current macroeconomic environment. And on that basis, as indicated in our press release, we maintain our full year outlook.

And with this, I would like to open the floor for questions. Operator?

===

Questions and Answers

Operator [1]

Ladies and gentlemen, we will start a question-and-answer session now. (Operator Instructions) First question is from Mr. Neil Tyler, Redburn.

Neil Christopher Tyler, Redburn (Europe) Limited, Research Division - Research Analyst [2]

Start with 2, please. Firstly, the Nenter acquisition, were there any additional costs in the quarter? Or are you assuming over the next 9 to 12 months before production starts any additional costs at a net level will be impacting the results? And second question. On the large innovation programs, can you provide us perhaps with your latest thoughts on when we should expect a visible revenue contribution from each of those?

Geraldine Matchett, Koninklijke DSM N.V. - CFO & Member of the Managing Board [3]

Thanks for joining the call. So when it comes to Nenter, the acquisition was effective end of August, 27, 28. And as you know, we went straight into shutdown in order to upgrade the site. So what you're seeing from that is actually -- partly actually one of the effects is on our ratios to the balance sheet because you consolidate the acquisition. And of course, from a P&L side, we get no top line at present. And to your question, we are carrying a bit of costs as well. So we don't have precise guidance on that, but we will be carrying indeed during this shutdown period a bit of cost related to Nenter.

As for the innovation projects, so what we are seeing, maybe if I start with Avansya, so our Stevia joint venture, the production is up and running. And we're seeing product which is being from a taste profile point of view, well received by customers. We're seeing some of the products going to test markets. So at this point, it remains relatively small, but you can say that it's on its way and it's on track.

Then Veramaris, so here we are also up and running on production. If you recall, we opened the production facility this summer, and we are bit by bit increasing the capacity. And here, thanks to particularly a relationship with a salmon farmer in Norway, we are now supplying 3 big retail chains, 1 in Germany, 1 in France and 1 in the U.K. So that is also scaling up nicely. And in terms of Veramaris, it's going to be very much a factor of how quickly we can ramp up actually the production of these fermenters.

And for Clean Cow there, we are in that registration phase that we mentioned last quarter as well. So July, we were able to file everything in terms of the papers for the EU registration. And in New Zealand, we are trying to find the right way forward in terms of classification of Clean Cow. So here, Europe, we're still thinking that we're looking at end of 2020, beginning of 2021.

So that's broadly the status on our 3 big tickets on which we put an update in the press release.

Operator [4]

Next question is from Mr. Mutlu Gundogan, ABN AMRO.

Mutlu Gundogan, ABN AMRO Bank N.V., Research Division - Analyst [5]

Two questions from my side. The first one is on animal, Geraldine. Why is the African swine fever having a negative impact on your results this quarter while in the previous quarter, you indicated that you had a net benefit due to your strong presence in poultry? The second question is on M&A. It's now been, I think, more than 2 years when you received the significant proceeds for the sale of Patheon, and we haven't seen any noteworthy acquisitions since then. So perhaps can you tell us why that is? I mean what are your thoughts on valuation currently in the market? Is that perhaps an issue of proceeding?

Geraldine Matchett, Koninklijke DSM N.V. - CFO & Member of the Managing Board [6]

I think if I recall correctly, we didn't -- we never said we would have a net benefit of the African swine fever, but that we would be able to broadly offset the impact through different species and also different geographies. And by the way, this is happening partly. Now what is a bit different this quarter, and as I mentioned in my opening comments, the 1% volume growth in animal nutrition is reflecting the fact that we probably lost about 3% linked to African swine fever is simply the scale of what is happening here. I mean this is pretty unprecedented.

Just to put things in perspective, China represents about half of the world's pork production. And if you look at the various estimates which are out there, the disease has impacted probably in excess of 30% of that production. So it's very difficult for the other species to ramp up fast enough and the import/export for the other geographies to fully offset this. Now this has also actually been accentuated by the fact that this is a disease that really requires very little movements of animals around the world so really to get it going again requires doing it in-country and not shipping animals from country to country. So it is a temporary effect. And I think it's important to also highlight that when it starts coming the other way, either rebuilding takes place, we will be very well positioned to benefit from that because younger animals take a lot more feed ingredient supplementation, but there will also be a professionalization of the pork industry in China with fewer backyard animals and much more in the hands of professional meat producers who are classically our customers. So that's what we're seeing.

And let's not forget the proportions that swine in China is about 78% of our animal nutrition business. And if you put it in the context of total DSM, we're looking at about 2%. But it is causing quite a disruption to the industry itself, and you can see that reflected in the price of pork currently as we are consuming stocks of meat at present. So that's really the bigger picture around the African swine fever.

When it comes to M&A, I mean if you recall earlier this year, we decided to announce a share buyback of $1 billion. That was in response to your comment earlier, the fact that we had a balance sheet that benefited from disposals but also because of our confidence in the cash generation of the company. And as you can see, year-to-date, our cash generation is up 4%. We're very happy with the fact that we are delivering on cash generation. And therefore, we had space to do both.

Now in terms of M&A, you know that our strategy is predominantly an organic growth strategy, and we said we would enhance it with potential M&A in Nutrition & Health if and when we find opportunities that are value enhancing. And we don't see it as a must, but if we can find these opportunities, then we would have the financial flexibility to do that. And as such, we are continuing to look into it.

Operator [7]

Next question is from Mr. Thomas Wrigglesworth, Citi.

Thomas P Wrigglesworth, Citigroup Inc, Research Division - Director and Chemicals and Basic Materials Analyst [8]

A couple of questions, if I may. Firstly, on food and beverage. You talked about the softness in the second quarter. The text, if I'm interpreting it correctly, reads a little bit more positive. But could you elaborate on what's going on in food and beverage and specifically in the U.S. where we've heard some of your related peers talk about a slowdown there?

Secondly, on Materials. Obviously into the fourth quarter, what are your -- can you share any updates on what the order book looks like running through the year-end maybe into next year, how that business is progressing given that auto's production is supposed to be up year-on-year in the fourth quarter according to most estimates?

Geraldine Matchett, Koninklijke DSM N.V. - CFO & Member of the Managing Board [9]

So maybe food and beverage first. Indeed, the softness we are observing as well, softness in the U.S. market with a little bit of a question mark as to the why. I mean intuitively one would expect, given the U.S. having a stronger economic environment, let's say, that food and beverage should also see a reasonable pattern. But we are -- we have a bit of a question mark. We don't quite get to the bottom of it right now as to the why, but it is a contrasted picture in the U.S. because for instance our i-Health business is continuing to grow very nicely double digits. So it's a bit of a mixed bag there. And for the rest on food and beverage, it's very much in line with the trends that we have seen in the recent couple of quarters where the larger customers are struggling to capture growth and where we're seeing more growth in our regional, local customers. And therefore, we are doubling down on making sure that we capture as much of the regional and local business as we possibly can but to watch a little bit how that develops.

Now when it comes to Materials, so what we're seeing is -- I'll maybe start -- let me start with E&E. We're seeing a bit of a stabilizing there in terms of number of devices. We're seeing the success of the new iPhone, et cetera. Things like that are certainly giving signs of a bit of an uptick on E&E. On automotive, not really. And in fact, if we look at the overall space, in Q4, we tend to have destocking anyway, and we're thinking that maybe Q4 we will see at least the usual destocking if not a bit more than usual due to uncertainty and hesitation, et cetera.

We're also seeing a little bit of a slower pattern in functional materials, so that's the fiber optic cable business where we're seeing clearly less investment in 4G networks but a bit of a delay in the real ramp-up of 5G. So when it comes, we will be very well positioned, but we're seeing a bit of a delay there.

So I would say overall, a mixed bag but more -- we expect a bit more of the same to be honest in Q4 and not much upside before next year. But let's see, very limited visibility. And maybe when we talk with the full year results, we will be able to have a bit more at hand to figure out what 2020 is going to be made of.

Operator [10]

Next question is from Mr. Martin Roediger, Kepler Cheuvreux.

Martin Roediger, Kepler Cheuvreux, Research Division - Equity Research Analyst [11]

First, on animal nutrition. Prices are up by 4%. You say it is positive sales mix and some price increase in some ingredients. Can you shed some light on this? Because I thought some vitamin prices were heading downwards and also some premium ingredients you use and buy in. And also, these prices were down. So maybe you can give more details on this pricing in animal. And secondly, on the profit of associates, quite high figure of EUR 39.3 million. Can you also explain that? And what do you expect go forward?

Geraldine Matchett, Koninklijke DSM N.V. - CFO & Member of the Managing Board [12]

Yes, sure. So when it comes to animal nutrition, this is a quarter which is a good example of why there is no one trend in vitamins. Some are up, some are down. And as a result -- and we could go through ingredient by ingredient, but what we're seeing is actually quite a balanced mix of ups and downs and overall a bit up. We do see a bit of a small benefit in the quarter on vitamin E and a bit of a benefit as well on vitamin A. But at the same time, some of others are down. And when you put it all together and you on top of that add the mix because what the

African swine fever has done is that it shifted our mix from straights towards actually more premix versus straights. And that is also having an impact, which leads to this plus 4%. So I think this is a very good example of a quarter where it just shows how you cannot take 1 or 2 data points and come to an overall impact.

As for associates, indeed we've had in Q3 some onetime income on associates. We had a dividend from our AnQore associate that came in. And due to the accounting treatment of that actually delivers a gain of EUR 28 million in the quarter. So we see a bigger impact there or bigger benefit. And we also actually had a gain on a venturing investment that came through this quarter. That happens from time to time. But if I neutralize those, we're still up in terms of adjusted net profit. And I would say we will probably resume a level that's more in line with previous quarters going forward.

Operator [13]

Next question is from Mr. Gunther Zechmann, Bernstein.

Gunther Zechmann, Sanford C. Bernstein & Co., LLC., Research Division - Research Analyst [14]

Just following up on the mega tickets. You, I think, missed out on Niaga or maybe I missed it, so maybe you can tell us what we should expect for 2020 revenue and also earnings contribution because of the licensing income with a different business model there.

And secondly, on the mega tickets. Can you give some guidance overall for all of them, what we should expect in terms of contribution for next year?

And then lastly, you mentioned, Geraldine, in the intro that the inventories were only flat even if you adjust for currencies and for acquisitions. Can you just shed some light on why that is? Because the raw material costs seemed to be going down suddenly in the Materials division. So one would expect that inventories would also get a tailwind from that. So what's working against that, please?

Geraldine Matchett, Koninklijke DSM N.V. - CFO & Member of the Managing Board [15]

Yes. Absolutely. So firstly, Niaga, so this is another nice innovation projects that we have, and we are gaining traction with various carpet makers in the U.S. but also in Europe a bit more. And we're working with some brands on mattresses. But at this stage, it remains very much in initiation phase. So there's a lot of piloting, a lot of product positioning, but it really is too early to put a number there. But the progress from the technology and the uptake is going nicely. So we will over time update you as and when we can have a number that is meaningful and solid to share.

As for the other big tickets, I think it's good to remember that during the strategic period, the contribution of our big tickets is very much in the order of the rubber hitting the road as opposed to an incremental additional top line and earnings to be factored in. And it was always assumed to be part of our 2021 targets but with clearly significant upside potential thereafter.

So it's a critical moment in time for all of them. And we will, over time, continue to update. And maybe actually, with the full year results, we'll see if we have a little bit more to share there. But it's part of our overall DSM targets.

And now for inventories. So what we are seeing is, of course, you're right, that raw materials are a bit down, which is by the way nicely reflected in our margins. And so you're seeing a margin increase in both Nutrition and Materials. But what you're also seeing is that when you have a bit of a soft top line in terms of inventory, that can also have a bit of an impact.

But just to put things in perspective, if I look at inventory days we are holding, so we're not going backwards but we are indeed flat. And our intention is, of course, to keep working on that and bring it down over time. But I would say if I was to point to one thing in particular that's holding us back is a little bit the softer top line.

Operator [16]

Next question is from Ms. Laura Lopez Pineda, Baader-Helvea.

Laura Lopez Pineda, Baader-Helvea Equity Research - Analyst [17]

So I have 3 questions as well. So on dairy and baking enzymes, you also reported ongoing good progress. So do you think that DSM is gaining market share in this market? Because some of your other peers have actually highlighted some weakness in those 2 markets, also in different regions. And this business is still rather small compared to the whole DSM Nutrition business. And I remember, I think 1 year ago, you had some issues with capacities, which were limited. So what is the situation now? And if you continue to grow and, let's say, gain market share, then is it easy to continue to expand capabilities to supply that growth expectations?

And the second one is on Veramaris. So in the presentation, it says that you expect it to achieve full capacity in 18 months since the start-up in July, so -- and I think building a new plant or spending will also take a similar time. So could we expect maybe in 2020 that a new plant will start to be constructed there?

And lastly, on yeast technologies, you also had there some product launches recently. How are those developed? Because there were some weakness in the U.S. due to the floodings. How are your technologies developing for POET?

Geraldine Matchett, Koninklijke DSM N.V. - CFO & Member of the Managing Board [18]

Okay. Great. So let me cover the food specialties parts. So as we put in the press release, we've had a really good quarter in food specialties. So you're absolutely right. That was both in cultures and enzymes. We've definitely a good performance in dairy but also in baking where we released some new products in the quarter, so a good performance.

Now in terms of read across with other players, I would say be careful there because we don't have that much overlap and we are quite specific in terms of the markets that we cover. As you said, we are smaller, so I wouldn't translate the fact that we're doing well as us gaining share but more us doing a good job and growing in our respective spaces.

Now you're absolutely right that we had flagged some capacity issues a while back, but these are solved. So we've done the debottlenecking. We stabilized the production. And so we have the capacity to grow. So we are well positioned there.

And when it comes to Veramaris, indeed the ramp-up of the fermenters will take a number of quarters to get there. And the order book is looking very, very good. Now we haven't quite decided on a second plant yet, but we will let you know when and if we get there. But it's certainly going well.

And I'm afraid I missed the fourth question that you had, if you could help me with that one.

Laura Lopez Pineda, Baader-Helvea Equity Research - Analyst [19]

Yes. The last one was on yeast technology for bioethanol production. So on POET, how is that developing your new product launches? Because we have also heard some weakness from other players due to the floodings in the U.S. And so maybe how is that developing recently?

Geraldine Matchett, Koninklijke DSM N.V. - CFO & Member of the Managing Board [20]

Yes. No, absolutely. So there, the progress relates to our on-site manufacturing. So we are actually producing now the enzymes that we need for the plants, and it's going well. So in that sense, they are very effective. The cost base goes down, so that is positive. In POETs, we are still finding some issues when it comes to the pretreatment, the technology there. So the testing is not on a continuous basis but much more sort of, let's call them, batches but in sprints. And that is still causing us a bit of struggles from a technology point of view. But having said that, what is great is that this year, our platform of yeast and enzyme technologies has increased our earnings through the licensing model. And that we see as a positive so that we are able to expand the use of this technology beyond POET, and that's where we're heading at present.

Operator [21]

Our next question is from Mr. Watson, ING.

Reginald Leonard Watson, ING Groep N.V., Research Division - Research Analyst [22]

I'd just like to come back to the issue around African swine fever. I think you mentioned earlier on that there's a 3% impact on growth in the quarter. Am I right in thinking that's roughly a EUR 20 million hit to the top line?

Geraldine Matchett, Koninklijke DSM N.V. - CFO & Member of the Managing Board [23]

Yes. Absolutely.

Reginald Leonard Watson, ING Groep N.V., Research Division - Research Analyst [24]

And then I think...

Geraldine Matchett, Koninklijke DSM N.V. - CFO & Member of the Managing Board [25]

I thought you paused. I thought that was the question.

Reginald Leonard Watson, ING Groep N.V., Research Division - Research Analyst [26]

No, no. It was the question and I needed confirmation because if I was wrong, then I'd make a fool of myself. I just wanted to see how you expect this evolving. Because if I recall correctly, you first started to see the impact of swine flu in Q3 last year, which is roughly EUR 5 million, rising to about EUR 10 million in the quarter. So having expected us to sort of anniversary that, it now feels that actually the impact of this is starting to get worse again. So is it reasonable to assume that we continue to see this impact perhaps for another 12 months?

Geraldine Matchett, Koninklijke DSM N.V. - CFO & Member of the Managing Board [27]

Yes. It's so difficult to predict. Indeed, when it all started, the view was that this would -- the authorities would manage to contain it as much as possible. Now they've struggled doing that. And as a result, the numbers that we were sharing earlier, the sheer scale is unprecedented. And because of the challenges of this, it cannot be vaccinated. Therefore, you cannot move animals around, and that does mean that the recovery is going to take longer because you need adult female pigs to be able to have the piglets. And therefore, you have a time delay. So it is very difficult to call out how long it's going to take for that to happen. But let's be clear. When the market that has 50% of the production is down by 30%, then a lot of efforts are there to boost production. And the offsetting is happening. It's just not happening enough to fully compensate for this down in swine.

So you were absolutely right in terms of the number, and the 3% is about EUR 20 million. And when we look at EBITDA, we'd probably have an impact a bit above the EUR 5 million that we had indicated before on the quarter. And we will be doing everything we can to of course offset it in other geographies and through other species. But I wish we had a better crystal ball on this one to see how long it's going to last. Having said that, please don't forget, when this starts recovering, we are very well placed to take advantage of it.

Operator [28]

Next question is from Mr. Sebastian Bray, Berenberg.

Sebastian Christian Bray, Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst [29]

I would have 2, please. The first is on the margin profile in Nutrition relative to the mix of human and animal. Usually, one would think that human nutrition makes substantially higher EBITDA margins than animal, yet it's been outgrowing animal nutrition for several quarters now, and EBITDA margins in Nutrition have remained quite robust. Why is this? Is there a mix shift within animal that is driving this? Or is it simply because the vitamin A and E prices have remained quite robust? And if so, would I be right in saying that on the quarter, it's roughly 50 basis points of EBITDA across those 2?

And my second question is on Veramaris. Am I right in saying that DSM is likely to pursue any further expansion in cooperation with Evonik? Or could it go its own way with the technology for this area?

Geraldine Matchett, Koninklijke DSM N.V. - CFO & Member of the Managing Board [30]

So in terms of margins in Nutrition, of course, there's a big number of moving parts in there, so it's very difficult to point exactly to where that is happening. Now one element that I would throw in, in addition to what you were saying is the fact that in animal nutrition, I mentioned earlier we have been selling more through premix than we have been selling through straights because of the African swine fever, which of course has a beneficial impact in terms of earnings and margin as a proportion. So you're seeing lower volumes but a bigger -- a price effect. And therefore, we're seeing some support to our margins.

And when it comes to the Human Nutrition softness, we do have a lot of different price points in there, and therefore top line being a bit soft has not translated in our margins going down for Nutrition, which to a great extent shows the resilience of the business. And across the board, we are of course always very diligent and disciplined in the way that we manage our operations and we manage our cost base. So it's a whole bundle of things that is leading to that.

And then on Veramaris, which is indeed the joint venture with Evonik, what we have in terms of the aquaculture space is clearly that, that is the scope of the joint venture. So if the expansion was for the purpose of animal nutrition, particularly aquaculture end markets, it would be in the context of the joint venture.

Operator [31]

Next question is from Mr. David Symonds, JPMorgan.

Chetan Udeshi, JP Morgan Chase & Co, Research Division - Research Analyst [32]

This is actually Chetan. Just one question, Geraldine, on any structural impact you guys are seeing from what's happening in the swine flu to the extent of how it's sort of spread outside of China? As well are you seeing maybe different behavior in terms of how -- in terms of competitive environment? Or structurally, any change in the sort of the whole environment around swine as a sort of species? That's one question.

And the second question was it's not been asked so far, so maybe I should probably give a go. Any sort of comment around this whole news flow that we are seeing around DuPont and DSM's interest in the bees business?

Geraldine Matchett, Koninklijke DSM N.V. - CFO & Member of the Managing Board [33]

Okay. Well, maybe I'll start with the second. As you said it yourself, you'll have a go but I hope you appreciate that we never comment on specific M&A speculations. So good on you to have a go, but you won't get much here.

And when it comes to the African swine fever structural impact, what we are seeing -- and I'm not sure that's the way you're heading, but we are seeing, of course, it's not exclusively China, so there is some spreading to the Asia region. So far, it seems to be relatively well managed, but we need to keep an eye on that.

Now do we believe that this will have a structural impact on the pork, I don't know, global footprint, et cetera? Actually, at this point, no. I think what we're seeing is, of course, a time delay in the recovery of this, but we have no reason to believe in -- that we are looking here at something which is structurally shifting. Now having said that, if one would imagine that there would be for some reason a different pattern going forward, as we are saying, we are, of course, very well positioned because not only do we have the full species coverage. As you know, 45% of our animal nutrition sales is already poultry. We have absolute global footprint there. We are also increasingly present in plant-based proteins. So protein overall is what we play in. And so we are well positioned to manage whatever shift could potentially occur. But at present, we have no reason to believe that's going to be the outcome.

Operator [34]

Ladies and gentlemen, the next question is from Mr. Neil Tyler, Redburn.

Neil Christopher Tyler, Redburn (Europe) Limited, Research Division - Research Analyst [35]

I didn't expect to get back on that quickly but it was really, Geraldine, just picking up on the very last comment that you made around your presence in plant-based proteins. Can you just, for those of us that aren't particularly familiar with sort of products exposures, run us through where those are and a little bit of an outlook for your technology development in that field?

Geraldine Matchett, Koninklijke DSM N.V. - CFO & Member of the Managing Board [36]

Yes. I mean that's a very interesting space for development. I mean if you have a look, we have -- you may have heard us talk about CanolaPRO, which is a plant-based protein out of canola, rapeseed for -- depending which geography you're sitting in. And it's very much about extracting a very high-quality protein from canola. It's one of the products that we're working on. But interestingly when it comes to plant-based, I think what needs to be understood is that any alternatives to animal protein require a lot of technology. So when you look at a plant-based burger, for example, there are a lot of ingredients that go into that, that very much is looking into both flavors, the texture, stability, et cetera. And these are all the kind of things that we are very good at.

So what we're seeing and very much keeping an eye on is what are the contributions that we can make in that space as it develops and doing the innovation that comes with that.

Neil Christopher Tyler, Redburn (Europe) Limited, Research Division - Research Analyst [37]

I look forward to hearing more a bit later or next year.

Geraldine Matchett, Koninklijke DSM N.V. - CFO & Member of the Managing Board [38]

Yes. Okay, we'll make sure to bring that at our Innovation Day.

Dave Huizing, Koninklijke DSM N.V. - VP of IR [39]

Operator, I think we've come at the end. Maybe Geraldine, you want to say a few closing remarks?

Geraldine Matchett, Koninklijke DSM N.V. - CFO & Member of the Managing Board [40]

Yes. Thanks, Dave. So basically, in summary, we saw a good performance in Nutrition and a relative resilience in our Materials in the quarter. Business conditions in Nutrition remain supportive for our plans for the full year, and we continue to make good progress on our innovation tickets. This leads us to maintain our outlook for the full year, and we are very well positioned to deliver on our ambitious Strategy 2021.

So these are my closing remarks. And with that, I thank you all, and I wish you a very good day.

Dave Huizing, Koninklijke DSM N.V. - VP of IR [41]

Thank you, Geraldine. This concludes our conference call for today. Thank you very much for your attention and your questions. And as always, if you have any further questions, you know where to reach us, yes? We're on the phone and on the e-mail.

And with that, I wish you a good day, and I hand it back to the operator.

Operator [42]

Ladies and gentlemen, this concludes the DSM Q3 Results 2019 Event Call. You may now disconnect your lines. Thank you and have a very nice day.