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IFF - Q4 2016 International Flavors & Fragrances Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 16, 2017 / 3:00PM GMT



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PRESENTATION

Operator

At this time, I would like to welcome everyone to the International Flavors & Fragrances fourth-quarter and full-year 2016 earnings conference call.

(Operator Instructions)

I would now like to introduce Michael DeVeau, Vice President Global Corporate Communication and Investor Relations. You may begin.

Michael DeVeau - *International Flavors & Fragrances Inc. - VP of Global Corporate Communications and IR*

Thank you. Good morning, good afternoon, and good evening, everyone. Welcome to IFF's fourth-quarter and full-year 2016 conference call.

Yesterday evening, we distributed our press release announcing our financial results. A copy of the release can be found on our IR website at IR.IFF.com Please note that this call is being recorded live and will be available for replay on our website.

Please take a moment to review our forward-looking statements. During this call, we will be making forward-looking statements about the Company's performance, particularly with regard to our full-year 2017. These statements are based on how [we see things] today and contain elements of uncertainty. For additional information concerning the factors that can cause actual results to differ materially from forward-looking statements, please refer to our cautionary statement and risk factors contained in our 10-K filed on March 1, 2016, and our press release that we filed yesterday.

Today's presentation will include non-GAAP financial measures, which exclude those items that we believe affect comparability. A reconciliation of these non-GAAP financial measures to their respective GAAP measures is set forth in our press release that we issued yesterday.



With me on the call today is our Chairman and CEO, Andreas Fibig, and our Executive Vice President and CFO, Rich O'Leary. We will start with prepared remarks, and then take any questions that you may have. With that, I would now like to introduce Andreas.

Andreas Fibig - *International Flavors & Fragrances Inc - Chairman and CEO*

Thank you, Michael. I'd like to start with an executive overview of our operational performance for the full year. Then I want to provide an update on the progress we are making in terms of our long-term vision 2020 strategy. Once finished, I will ask Rich to cover our financial results in greater detail, including a comprehensive review of our fourth quarter, cash flow statement and cash returned to shareholders. Then we will both provide commentary as it relates to our outlook for 2017, and finish by taking any questions that you may have.

Starting with a financial review of our consolidated results for the full-year 2016, I'm pleased to report that consolidated currency-neutral sales grew 5%. Both business units successfully delivered growth, with 6% in Flavors and 4% in Fragrances. Overall, top-line growth was supported by our organic business, which grew 3% on a currency-neutral basis, as we continue to benefit from strong new win performance. In addition, Ottens Flavors, Lucas Meyer Cosmetics, and David Michael contributed 2 percentage points of growth.

For the full-year 2016, consolidated adjusted operating profit on a currency-neutral basis increased 4%, led by volume growth for activity initiatives, and the contribution of acquisitions. This improvement in currency-neutral adjusted operating profit, when combined with the more favorable effective tax rate and the reduction in shares outstanding, led to a 6% increase in our currency-neutral adjusted EPS in 2016.

On a full-year basis, we continued to make strategic progress. Starting with our innovating first pillar in 2016, we commercialized four highly anticipated captive fragrance ingredient molecules, which was 2 times our historical average. All four molecules add unique and distinctive characteristics to give our perfumers a competitive edge in creating the next great fragrance for our customers.

The strong growth trend for encapsulation-related sales continued in 2016, led by Fabric Care. For the full-year 2016, Fabric Care was our highest growing category in fragrance, led by strong double-digit growth in North America and Greater Asia.

We also set a new benchmark for fragrance sustainability with the release of our first-ever cradle-to-cradle certified fragrance, PuraVita. The fragrance is an innovative approach to sustainable fragrance creation that aligns well with our circular economy strategy. PuraVita is a model for what can be achieved when perfumers pair creativity with sustainable design principles.

From a Flavors perspective, sales of our sweetness and savory modulation portfolio continued to produce strong results, as well improving strong double digit in 2016. Growth was broad based, led by savory, beverage, and sweet, an example that we are providing our customers with innovative solutions that win in the marketplace with the consumers.

In 2016 we also launched and commercialized four new flavor modulators to further strengthen our capabilities and give our flavors a greater palette to work with. We also would like to recognize that IFF Lucas Meyer Cosmetics won two silver innovation awards in 2016. They won a silver innovation award at the In-Cosmetics Conference held in Paris for Miniporyl and a silver innovation award for [Defense Sculpt] in Cosmetic Asia. Both are fantastic achievements and we look forward showcasing at our dinner next week at the CAGNY Conference.

We continued to see accelerated growth in the areas where we are targeting market leadership position. While leveraging our long-standing presence and in-depth consumer knowledge, the Middle East and Africa continue to be a growth driver for us, as the currency-neutral sales improved strong double digits in 2016. Strong growth was achieved across both Flavors and Fragrances.

In North America consumer fragrance, we saw an 8% increase in 2016, driven primarily by strong double-digit growth in both Fabric and Home Care, a direct correlation to our industry-leading technologies. Home Care also improved mid-single digits globally, led by a robust growth in North America, which I just mentioned moments ago. In 2016, in North America, we further strengthened our number-two market share position in Flavors with the acquisition of David Michaels, which I will touch on shortly.

In addition to the strides we have made from a market share and innovation perspective, we continue to position ourselves to be our customers' partner of choice and to go supplier. So in 2016 we expanded our business access through gaining core-list status with two multi-national customers. This is a significant achievement as we will ultimately lead to more growth longer term.

I'm also very proud of the recognition we received from our customers in 2016. Over the course of the year, we won several awards across both businesses, showcasing our collaborative work and inspirational sessions with our customers. As a committed global citizen, we became the first flavor and fragrance company to join the World Economic Forum in 2016 to partner with other leading organizations dedicated to creating positive, lasting changes in society. In addition to leveraging new relationships, our collaboration with the Forum allows us the opportunity to engage with many of our large customers in new, non-traditional ways.

Our business strategy is built on the enable of creating a sustainable future. This directive led us to launch an enhanced sustainability strategy in Vision 2016 (sic) that focuses on positive transformational changes toward a regenerative, healthy, and abundant world. Under this umbrella we opened an on-site wind turbine at our Tilburg, Netherlands, facility that is unique to the flavors and fragrance industry. We were rated gold and top suppliers by EcoVadis, and identified as a global leader for action and strategies regarding climate change. For the second consecutive year, we were also honored by being awarded a leadership position on the CDP Climate A list for advances in carbon management and disclosure.

As part of our efforts to further fortify the cross-sections between sustainability and business I was elected to the World Business Council for Sustainable Development Executive Committee in 2016. This CEO- led organization of forward-thinking companies works to accelerate the global business community to create a sustainable future for business, society, and the environment, qualities that are parallel to our own commitment to eco-effectiveness. In 2016 we also partnered with Unilever for Vetiver Together, a program designed to enhance the lives of smallholder vetiver farmers in Haiti by sustainably improving food security, increasing yields, and diversifying income while working to support women's empowerment and environmental conservation.

In line with our ambition to accelerate growth and increase shareholder value, we are proud of the progress we have made in terms of acquisitions. During 2016, we added approximately \$160 million of future annual revenue with the acquisition of David Michael and Fragrance Resources, the latter of which closed in January of 2017. David Michael is well known for his vanilla expertise, strength in the dairy and beverage categories, and relationships with dynamic, faster growing middle-market customers. Whereas Fragrance Resources, which increases our participation in specialty fragrances, is a faster growing subcategory with fine fragrances and strengthening our market share position with a regional customer base. These two acquisitions, as well as a 2015 acquisition of Ottens Flavors and Lucas Meyer Cosmetics, I expect to add approximately \$265 million in annual revenue, putting us on track to achieve our \$500 million to \$1 billion goal by the end of 2020.

We also announced that IFF Lucas Meyer Cosmetics made a strategic investment in Bio ForeXtra in Quebec City, Canada, based R&D laboratory, highly specialized in the development of active cosmetic and botanical extracts. This investment expands IFF/LMC's access to raw materials for the cosmetic active business. We believe the access we will gain to sustainable source extracts from Boreal Forest of Canada will provide us with a competitive edge.

Overall, I'm very pleased with the progress we have made in 2016. With that, I would like to turn the call over to Rich.

Rich O'Leary - International Flavors & Fragrances Inc. - EVP and CFO

Thank you, Andreas. The fourth quarter came in consistent with our expectation, as all of our key financial metrics accelerated sequentially versus the third quarter. Currency-neutral sales growth of 7% was driven by new wins across both businesses, with improved volume trends on our historical business and the benefits associated with our recent acquisition. Our acquisition of David Michael contributed approximately 3 percentage points of growth to the fourth-quarter results.

From a profit perspective, consolidated adjusted operating profit on a currency-neutral basis increased 6%, as volume growth, the benefits of productivity, and the contribution of M&A drove results. Bottom line, currency-neutral adjusted EPS increased 6%, as we had lower shares outstanding versus the prior-year period driven by our share repurchase program, offset by a higher tax rate.

Turning to business performance for the fourth quarter, Flavor's currency-neutral sales increased 14%, driven by broad-based growth across all categories, as well as the contribution of sales from David Michael. From a regional perspective, I'm pleased to say that each region delivered double-digit growth. North America grew 22%, reflecting additional sales related to the acquisition of David Michael, as well as strong double-digit growth in dairy.

EAME increased 12% on a currency-neutral basis, as growth was led by new win performance, with strong double-digit growth in both beverage and sweet. Africa and Middle East continued its impressive growth trend, improving strong double digits in the fourth quarter.

Greater Asia posted 10% currency-neutral growth, led by strong double-digit growth in India, ASEAN, and Indonesia, plus low single-digit growth in China. On a category basis within Greater Asia, we achieved broad-based growth amongst all our categories, led by strong double-digit increases in savory and beverage.

Growth in Latin America continued, improving 13% on a currency-neutral basis, led by strong double-digit increases in both Mexico and Brazil. Flavor's currency-neutral segment profit grew approximately 27%, led by volume growth, the benefits from productivity, and to a lesser extent, the contribution of David Michael.

From a Fragrance perspective, fourth-quarter currency-neutral sales grew 1%, driven by growth in Fabric Care, Home Care, and fragrance ingredients. From a category perspective, Fine Fragrances declined, driven by abnormally high volume erosion, weak economic conditions in Latin America, and the portfolio transition of two large customers. Consumer fragrances grew 3% on a currency-neutral basis, led by double-digit growth in Home Care and high single-digit growth in Fabric Care, partially offset by personal wash.

On a geographic basis, we achieved double-digit growth in North America, and high single-digit increases in EAME. Fragrance ingredient sales were up 2% on a currency-neutral basis, as strong growth in EAME was offset by softness in North America and Latin America. From a profit perspective, Fragrances' currency-neutral segment profit was flat year over year, as volume growth and benefits from productivity were offset by mix, and unfavorable price and input costs.

Before moving on to cash flow, I'd like to take a minute to provide you greater insight with respect to our full-year 2016 organic top-line performance, including foreign exchange-related pricing, to provide a better comparison with our peers. As a reminder, when reporting, we exclude the indexation effect on local currency invoicing from our currency-neutral sales growth calculations. This is different from our competition, and can impact performance comparisons. For 2016, adjusting our currency-neutral sales growth calculation to a basis similar to how our competition reports, our consolidated organic currency-neutral sales would have increased by 1 percentage point to approximately 4%, Flavors would have increased to 5% versus 3%, and Fragrance would have been up 3% versus 2%.

From a cash flow perspective, our core working capital levels continued to show improvement year over year as a percentage of sales, as our five-quarter rolling average figure through the end of Q4 was down about 50 basis points to approximately 28.4% of our annual 2016 sales. This change was driven by our core working capital level improving versus the year-ago period, principally driven by improvements in accounts receivables and inventories.

Operating cash flow for the full year was \$535 million. This increase was principally due to lower core working capital requirements, higher depreciation and amortization, and lower pension contributions. Operating cash flow increased 23% to \$535 million, or 17.2% of sales, an improvement of 280 basis points versus the full-year 2015. Capital expenditures for the year finished at \$126 million, or approximately 4% of sales, as we continue to make investments to support new technologies and infrastructure.

We delivered on our commitment to return cash to shareholders in 2016. Dividend payments were \$185 million, reflecting a 15% increase in August, as we look to provide a more competitive yield while simultaneously balancing our growth objectives.

Supplementing our dividend, we spent \$127 million in share buybacks. Over the course of the year, we repurchased approximately 1.1 million shares and lowered our diluted shares outstanding by approximately 900,000 to 79.9 million shares. When combining both dividends and share



repurchases, we achieved a 71% total pay-out ratio of adjusted net income, exceeding our target range of 50% to 60%. With that, I'd like to turn the call back over to Andreas.

Andreas Fibig - *International Flavors & Fragrances Inc - Chairman and CEO*

Thank you, Rich. In large part to our industry-leading innovation and the ability to provide our customers with superior products, IFF has a history of strong sales growth, proven profitability, and industry-leading returns. Over the past two years, however, we have seen the global operating environment become more volatile as the global consumer staples volumes are soft, currencies are fluctuating, and raw material costs are on the rise.

To put this in perspective, we have seen top-level consumer product companies' volumes decelerate from an average of 2.5% in 2013 to an expected average of 0% in 2016. We have seen emerging market GDP growth slow significantly from 7.5% in 2010 to 5% in 2013, and to approximately 4% in 2016. Key markets such as Brazil and China have been under pressure.

The US dollar has although continued to strengthen versus many global currencies. As the US dollar strengthens, many global customers increase pricing in the emerging markets, which has an adverse effect on the end market volumes. In addition, the strengthening of the US dollar has an adverse impact on multi-national organizations domiciled in the US.

Raw materials have also exhibited inflationary pressures. On the natural side, the demand for all-natural products has driven the cost of natural ingredients higher over the past few years. This can be best seen in the vanilla and citrus markets where increases have been two- or three-fold. More recently, we have seen synthetic raw materials rise off their lows.

With that as a backdrop, and fully recognizing the changing landscape, we are taking action to continue to deliver winning solutions to our customers while achieving sustainable profit growth. To start, with the launch of multi-year productivity program to allow us the flexibility to invest in the Business to drive greater competitive advantage, and deliver the target financial results we set out to achieve.

Over the course of the next few years, we expect to unlock savings through the application of enterprise-wide zero-based budgeting, elimination of open positions, streamlining of our organizational structures, and the optimization of our global network. Once fully implemented, we expect savings from this productivity program to reach an annual run rate between \$40 million and \$45 million by the end of 2019. We believe that by taking these steps, we should be a stronger, more successful Company for our customers, employees, and shareholders.

To provide additional insight into our expected profitability growth for 2017, we want to highlight the main drivers of change. In the table we anchored on full-year 2016 adjusted operating profit, and built out a reconciliation to bridge to 2017 operating profit. Starting with the second bar, you will note that we expect approximately a 3.5 percentage point headwind related to the reset of our incentive compensation cost. In the third bar, we have included the projected growth of our organic business, including our extended cost and productivity initiatives. This takes into account the external factors that I mentioned moments ago.

To ensure we continue to deliver an improved profit performance in 2017, I want to focus on the fourth bar where we have highlighted the potential benefit related to our multi-year productivity program. As you can see, the contribution from this program expects to yield 4 to 4.5 percentage points of growth in 2017. To round this out, we also expect 1 percentage point contribution from our recent acquisition of David Michael and Fragrance Resources.

Looking at 2017 holistically, we are optimistic that all of our financial growth rates should accelerate versus our 2016 performance. From a top-line perspective, we expect 7.5% to 8.5% currency-neutral sales growth inclusive of approximately 4.5 percentage points related to David Michael and Fragrance Resources acquisitions.

From an organic perspective, growth is expected to accelerate, largely driven by improving trends in Flavors North America as volume erosion improves and a return to growth in China Flavors following the order issue we faced. In addition, we expect fragrance ingredients to continue to improve, a direct result of our revised strategy, and Fine Fragrance to return to modest growth driven by strong new wins.

As I already shared, operating profit is expected to improve 5.5% to 6.5% on a currency-neutral basis. It should be noted that we expect raw material prices to increase low-single digits in 2017, with vanilla continuing to rise to very high levels. We are in pricing discussions with our customers, and are confident we can recover these increases. Currency-neutral EPS growth is expected to improve by 6.5 to 7.5 percentage points, led by a modestly lower effective tax rate and a continuation of our share repurchase program.

In terms of foreign exchange, for 2017 we expect currency translation to impact sales by approximately 2.5 percentage points. For adjusted operating profit, we expect to benefit from our euro hedging program, which we are approximately 70% hedged at [\$1.12] for 2017. In terms of the impact on operating profits and EPS, we expect currency-reduced results by approximately 2 percentage points and 2.5 percentage points, respectively.

So, in summary, we're pleased that we've achieved currency-neutral growth across all metrics in 2016, while also executing against our Vision 2020 strategy. As we look ahead to 2017, recognizing the reality of today's market environment, we are optimistic that our financial growth rates should accelerate versus 2016 performance. We are also taking proactive measures to allow us the flexibility to invest in the Business, to drive greater competitive advantage, and deliver the targeted financial results we set out to achieve, in particular, achieving our long-term financial targets in 2018. While leveraging our strengths, innovation, consumer insight, talent and diversification, we will continue to strive for improved growth and increase in profitability to deliver long-term sustainable value. With that, I would now like to open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Mark Astrachan.

Mark Astrachan - Stifel Nicolaus - Analyst

I wanted to ask what is implied in your organic sales guidance range of 3% to 4% for 2017? In other words, what has to happen to achieved the high end and the low end of the range? For example, is there any improvement embedded in emerging markets? Which I think I mentioned last quarter.

And then if you could also give the composition of sales from volume and pricing, especially given your commentary on [implied] cost? That would be helpful.

Andreas Fibig - International Flavors & Fragrances Inc - Chairman and CEO

Absolutely. As you well know, we have faced a couple of challenges over 18 to 24 months. Largely in North America Flavors, where we believe that we are over the volume erosion. And we are normalized to historical levels and we are stronger than we ever were in North America, which is important.

We anticipate the return to growth in China Flavors, where we had the issue with our manufacturing facility. We believe, as well, that Fine Fragrance will return to modest growth driven by strong new wins. So, all in all, I believe these factors, if they turn out as we have them right now in the plan, and we are optimistic they will, we will deliver on the growth rate. Probably, Rich can talk a bit more about the composition of the sales.



Richard O'Leary - *International Flavors & Fragrances Inc - EVP and CFO*

Mark, when you look at the improvement and where we were in 2016 versus 2017. The primary growth in improvements, call it the midpoint of that range, is going to be volume. Pricing, there's a couple of different aspects going on there. We have still have some of the carryover impacts from 2016, particularly on the fragrance ingredient side, that's going to have a drag on it.

On the other side, we're going to clearly have to have pricing, particularly in the Flavors business with what's going on with the input costs there. It's going to be substantially all of that, of the growth that we are projecting for 2017, is volume driven. It's both wins and more stable, I'll call it more stable volume erosion, with a slight impact on pricing.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Got it. Just to clarify, then. Is there any incremental impact, expectation from pricing in 2017? A separate follow-up, I wanted to ask about given the new productivity initiative, what your thoughts are long-term gross and operating margin expansion is? Is, call it, 30 to 50 basis points of margin expansion still reasonable? What's embedded for reinvestment in 2017? I don't think I explicitly saw that in the chart.

Richard O'Leary - *International Flavors & Fragrances Inc - EVP and CFO*

From a pricing standpoint it's not a significant amount. It's not significant either direction. From a long-term profitability standpoint, I think as you heard in Andreas' comments, 2017 puts us on the right trajectory. And I think we are confident, as we exit 2017 and we deliver upon the results for 2017, we're going to be in a good position to deliver on our long-term profitability targets.

That's really how we are looking at the business. From there, on a long-term basis, as the volatility stabilizes, we will be in a better position to make choices on how much and where the investment opportunities are. And how much falls to the bottom line and how much gets reinvested in the business.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Thanks.

Operator

Lauren Lieberman with Barclays.

Lauren Lieberman - *Barclays Capital - Analyst*

I wanted to follow-up again on the productivity program. One would be, Rich, in that bridge, the amount that you are showing. Is that the benefit of the small program announced in last year's fourth quarter? Then, some portion of what you had announced today?

In my mind, it seems like a bigger benefit from productivity than I would expect given this announcement. Maybe it's something you are already working on? First I wanted to ask about that.

Richard O'Leary - *International Flavors & Fragrances Inc - EVP and CFO*

The first column of productivities, which I think is the third column, is our normal ongoing productivity activities where we worked through. It's our organic business. Most of that is productivity. When you take into account volume growth net of input costs and pricing, net of our ongoing cost increases for merit, higher overhead count that's slightly favorable.



The vast majority of that third column is our ongoing productivity initiative. The fourth column is really what we talked about today. In terms of long-term productivity improvement from the program from today. And that includes both the organic piece of that or the existing piece, plus the value creation coming from the acquisitions.

Lauren Lieberman - *Barclays Capital - Analyst*

Okay. All right. Great. Then, I wanted to also talk a bit about the fourth-quarter performance in Flavors, overall. Really broad-based improvement. I know the two your comparison is in line with what the trend has been.

If I recall, in the beginning of the year, you guys had talked about the potential for significant new wins that could fall in the back half of the year. I think it was reformulation activity around naturals or health and wellness stuff. If you could just talk about whether or not any of that was in this quarter's numbers? Or if that's still something to look forward to next year? Thanks.

Andreas Fibig - *International Flavors & Fragrances Inc - Chairman and CEO*

What we have seen, Lauren, this is Andreas. We have seen an improved commercial performance which resulted into new wins as well. So, that's actually a very, very high level right now on the Flavor side. That's helped us, as well.

Another effect, which is partially organic from this year onwards. Partially non organic, is the companies we acquired like Ottens Flavors and David Michael. They had a bit of a higher organic growth rate than our core business. With all the, let's say, improvements we're taking, the profitability will be good, as well. These are two extra engines for our Flavors business, as well, was will yield us some results. Now, the acquisitions are becoming a bit more of the bigger piece of our whole business that will help us going forward.

Lauren Lieberman - *Barclays Capital - Analyst*

Okay.

Richard O'Leary - *International Flavors & Fragrances Inc - EVP and CFO*

Lauren, let me add one thing. From a profitability standpoint, I think the other thing is a favorable mix. We started the year in the Flavors business with a weaker sales mix and we ended the year with a stronger sales mix. So, that's another factor that contributed to the fourth quarter for performance.

Lauren Lieberman - *Barclays Capital - Analyst*

Okay. That's great. Okay. Then, on the Fragrance side of the business. Can you talk a little bit about any incremental investment that you have planned? Obviously the Flavors, like you just described, the Flavors momentum is great. But, as you have been talking about in your 2020 vision, your 2020 plan, is there also some incremental investment built into the 2017 plan?

Andreas Fibig - *International Flavors & Fragrances Inc - Chairman and CEO*

First of all, let's start with the fundamentals. Which is always, let's say, research and development and new molecules. We are on an all-time high in terms of coming out with new patent protected molecules, which is actually a great progress. It's actually double the rate we had before. I think that's important. The encapsulation is helping us, as well. That's the reason why Fabric is growing so well.



And then in our Fragrance business, now, we have Lucas Meyer. So the whole skin care and active cosmetics, which has, per se, a higher growth rate, as well. That's helping us, actually, pretty much. We did an investment on a newer extension of our Singapore plant for encapsulation. That was something for business which will come over a couple of the next years. So, all in all, there's optimism, as well.

If you look at the whole business, the consumer fragrance still grows a very strong business. Ingredients, and we talked about this for many, many quarters, is finally back and it's turning positive. The problem for us, let's face it, was Fine Fragrance. That, we have to fix. But, there is nothing, I'd say, structural. I would say it's a blocking and tackling to get this back on track.

Lauren Lieberman - *Barclays Capital - Analyst*

Okay. Great. Thank you so much.

Operator

Faiza Alwy with Deutsche Bank.

Faiza Alwy - *Deutsche Bank - Analyst*

I just had a couple questions. First of all on the productivity program and just the margin bridge in general. You've talked about accelerating value realization of recent acquisitions. Are those synergies? I know you talked about David Michael and Ottens both being in Philadelphia and consolidating those operations. Is that part of the productivity program?

Richard O'Leary - *International Flavors & Fragrances Inc - EVP and CFO*

Yes. Out of the overall productivity program that we've announced, it combines both factors. It's looking at our existing structure, streamlining our organization, doing things more efficiently, standardizing it. The other part is accelerating the benefits coming from the recent acquisitions. We still have a lot of work to be done in terms of where the specifics come from.

There's a lot of logical opportunities. When you look across the footprint, that we will take advantage of, where it makes sense to do that. Both of the businesses provide tremendous opportunity, particularly in the local and regional customers. And we want to be able to continue to maximize that. But, there is opportunities in some of the procurement. And some are activities which we are able to leverage while continuing to grow the business.

Faiza Alwy - *Deutsche Bank - Analyst*

Okay. Your largest competitor, Givaudan, had talked about increasing high investments and growth this year in particular. And they talked about specific R&D labs and things like that. Do you feel like from a global point of view you are well placed? Or do you think you need to make more investments? Maybe as you answer that, if you could also talk about your cash flow guidance and what you expect for CapEx this year?

Andreas Fibig - *International Flavors & Fragrances Inc - Chairman and CEO*

I would say we are very well placed in terms of innovation. And because we put basically money behind the programs where we really think we can make a difference. For example, modulation encapsulation or now even the active cosmetics, because with some small acquisitions like Bio ForeXtra, we are really building a competitive advantage.

Actually, we have done quite a bit on CapEx investments in our facilities. Not just in buildings, but in robotics, for example. Which help us actually to increase the output for more R&D labs quite significantly. If you are asking me whether we are well positioned, I believe we are actually very well positioned and we feel strong about the future.

Richard O'Leary - *International Flavors & Fragrances Inc - EVP and CFO*

From my perspective, two comments. One, I would say, again, the intent of this program is to ensure that we are competitive. And we drive improved results after a challenging 2016. I think, as the benefits associated with these programs take hold in both 2017 and 2018, it gives us the flexibility to then selectively go back and reinvest and increase our investments in the highest opportunity and highest probability activities. And we will look at that during the course of 2017 and 2018. As I said earlier, we will manage that dynamic between bottom-line and growth opportunities on a case-by-case basis.

In regards to cash flows, CapEx, as I said, 2016 was about 4%. I see 2017 and 2018 being the peaks of probably 5% of sales for those two years. As you get through the last legs of some of these investments, particularly in greater Asia. Then, trending down towards I will call it 3.5% level, which I consider a long-term level that's sufficient to support the business. But we will start trending down off of that number.

Faiza Alwy - *Deutsche Bank - Analyst*

Okay. Great. Thank you so much.

Operator

Jeff Zekauskas from JPMorgan.

Silke Kueck - *JPMorgan - Analyst*

It's Silke Kueck for Jeff. I start with your restructuring first if that's okay. Of the \$30 million to \$35 million in cash costs, how much of that will you accrue in 2017 and how much will you actually pay out in 2017?

Richard O'Leary - *International Flavors & Fragrances Inc - EVP and CFO*

It's about two-thirds of that, is people-related costs. The other one-third of it is facility-related and integration-related activities and support activities. I think the bulk of those amounts will be paid out in 2017. They may be a small amount of carryover into 2018, more on the facilities side. But, I think the bulk of that will be paid out this year.

Silke Kueck - *JPMorgan - Analyst*

Okay. In terms of run rate savings, \$40 million to \$45 million. Where do you think you are going get to in 2017 and what's your target for 2018? It seems like if you plan to pay most of the cash comes out in 2017. It seems like a lot will get done in year one. Can you get to a run rate of I don't know \$30 million in year one and ramp-up pretty quickly? Or what are your internal targets?

Richard O'Leary - *International Flavors & Fragrances Inc - EVP and CFO*

If you take the \$40 million to \$45 million, it's about 7%. We've said it's about 4 percentage points to 4.5 percentage points the bulk of the remaining amount will come in 2018. There may be a small amount, mostly facility related or footprint related is the way I would call it. That's the better way to think about it. That may spillover into 2018. The vast majority of the remaining savings we should see in 2018.



Silke Kueck - *JPMorgan - Analyst*

I have a question about your cost of goods sold. What percentage of your domestic raw materials do you actually have to import? Is it 10%, 15%? 20%? Is that the ballpark order?

Richard O'Leary - *International Flavors & Fragrances Inc - EVP and CFO*

Off the top of my head, I'm going to have to get back to you. If you're trying to get to a question around the border tax?

Silke Kueck - *JPMorgan - Analyst*

Yes. Right (laughter).

Andreas Fibig - *International Flavors & Fragrances Inc - Chairman and CEO*

You see, we are reading your mind (laughter).

Richard O'Leary - *International Flavors & Fragrances Inc - EVP and CFO*

We've taken a look at it and based on, I'm going to call it the congressional plan. I would say when you look at both materials and services, it's basically a negligible event for IFF, based on our current estimates. Again, a lot depends upon where the legislation comes out. If you look at the overall portfolio, it would be basically breakeven to slightly positive. I mean slightly positive.

Silke Kueck - *JPMorgan - Analyst*

Okay. Let's see when finally, there's some wording around how this will work out. You think in terms of the amount of materials that you have to import in the US, it's a negligible amount?

Richard O'Leary - *International Flavors & Fragrances Inc - EVP and CFO*

No. I'm not saying that. Because, I mean --

Silke Kueck - *JPMorgan - Analyst*

So what's that percentage? Because nobody knows how the regulations will work.

Richard O'Leary - *International Flavors & Fragrances Inc - EVP and CFO*

I don't want to give you a percentage because I've got to look back over the specifics to North America. I've looked at the values of what we sell out, what we export. I looked at the values of what we import. Again, when you add that all up, plus our service fees around the world, it nets to slightly favorable.



Silke Kueck - JPMorgan - Analyst

Okay. The last question I have may be more of a comment, but it's also a question. The business model for IFF for many years has worked in a really nice way. Where if you had mid-single-digit sales growth, you would have double-digit earnings growth. This is before any benefit from share repurchase. Which was, it has a nice high incremental margins.

In 2016, total sales grew 3% and I guess your net income before your share repurchase grew 3%. And next year, you think your sales are going to grow all in 5% or 6%, and your earnings are growing 4% to 5% with share repurchase. Is the business model impaired in some way? Do you think we're going to get back to a period when your sales grow 5% your earnings grow double digits? What needs to happen for things to get better?

Richard O'Leary - International Flavors & Fragrances Inc - EVP and CFO

For me, Silke, the fundamentals of the business are still quite strong. And we believe strongly in the fundamentals of the business. There is no doubt that 2016 was a challenging year. As you said, the fundamentals, when we are growing mid-digits, mid-single digits, between 4% and 6%, particularly when you go up [on the higher ends] the leverage in the business is tremendous. But when we're growing between 2% and 3% on an organic basis, the opposite happens.

So, I think when I look at 2016, and we have an incentive comp reset that we've highlighted. If you take that out and you say all else is equal, then there is, I consider very good, profit growth if we have a stable environment going forward. I think I feel confident, that as we said in the call earlier, both myself and Andreas. We feel confident that our long-range targets are still achievable. Particularly as we get traction and fully realize the benefits associated with the programs that we've discussed today.

Andreas Fibig - International Flavors & Fragrances Inc - Chairman and CEO

I would say, as one final remark, Silke, is the business model is still intact. The only thing what has changed is the volatility in the environment. And the action we're taking, we are taking care of the volatility. Because we are creating flexibility for ourselves to deal with that in the best possible way. That's how I would describe it.

Silke Kueck - JPMorgan - Analyst

Okay. Thanks for your comments. I will get back in the queue.

Operator

Jonathan Feeney with Consumer Edge Research.

Jonathan Feeney - Consumer Edge Research - Analyst

A couple of questions, small picture and big picture. Small picture, on the Flavors side, how much of this pick up is related to either cross-selling new Ottens or David Michael capabilities? Or new customers associated with them cross-selling in that direction? And, the big picture is, somebody already asked about border tax.

What about the regulatory environment, globally? It seems like such a no-brainer of a positive back drop over the past five years. And now with regulations seemingly in the cross hairs for food, household products, everything, does that slow down what had been a key driver of your business? Have you had any communication with your customers about regulatory mandated re-formulations and that sort of thing? Any sense of that? Thanks very much.



Andreas Fibig - *International Flavors & Fragrances Inc - Chairman and CEO*

Jonathan, I'm taking the broader bigger question first. Indeed, we have seen a tightening of the regulatory environment across the globe. I can tell you, the regulatory costs for the industry went up. I see it even in our own cost center here, as well. We want to be best-in-class in regulatory because we believe that it basically creates a competitive advantage.

Let me explain. What we see in our industry, is that some of the smaller companies have a hard time to catch up with the regulations. And to invest as much as we do, which creates opportunities for us in the business and in the M&A space, as well. I don't expect that the regulatory pressure will go down. Probably not even in the US despite the new president. We are actually prepared for a tough regulatory environment. And we believe it could create a competitive advantage for us as a company. That's number one.

Number two, on the Flavors side, we have not seen too much cross-selling opportunities. Right now, it's too early. This is exactly what we want. I give you just one idea, here. We had, just two weeks ago, the first sales meeting for the combined entity. For the middle market, which is ex-David Michael [ex-office] with the salesforce and they have their territories in place and they are now rolling.

Now, we have basically a force for the big customers and a force for the smaller and midsize customers. And I think you will see a lot of that, because we can deliver now to the smaller customers, not just the service, but we can deliver innovation, as well. I believe that will create a great advantage for us.

Jonathan Feeney - *Consumer Edge Research - Analyst*

Okay. Thanks very much.

Operator

John Roberts of UBS.

John Roberts - *UBS - Analyst*

I think we know many of the raw materials that are up, vanilla, citrus, acetone. Are there any raw materials that are down significantly? It's such a diverse set of raw materials that you buy. Usually, something is going down when something has gone up.

Andreas Fibig - *International Flavors & Fragrances Inc - Chairman and CEO*

You would think.

Richard O'Leary - *International Flavors & Fragrances Inc - EVP and CFO*

One would hope. John, I think you've highlighted where the pressures are in citrus and vanilla and some of the naturals. I think when I look at it, 2016 as an example, input costs were basically up slightly but very negligibly. It's more what's going on in the specific buckets, that's what's driving the upward pressure. There is nothing significant that's going the other way.

John Roberts - UBS - Analyst

When petrochemical, raw materials, in particular, rise, usually we see the customers start to reformulate because their bulk ingredients like surfactants go up even more. And then you get to repriced on the reformulation. Are we seeing any product reformulation acceleration and activity because of the rise in raws?

Richard O'Leary - International Flavors & Fragrances Inc - EVP and CFO

I don't know if I would characterize an acceleration. To me, it's a constant part of our business. It helps us manage our relationship with each of the customers. Where we help them and they help us deal with these pressures on both sides. Probably the one exception is vanilla. It's gone so much in such a relatively short period of time, that those are where a lot of customers are looking for other alternatives.

John Roberts - UBS - Analyst

Thank you.

Operator

Gunther Zechmann with Bernstein.

Gunther Zechmann - Sanford C. Bernstein & Co. - Analyst

A couple of questions from my side, please. First, on Flavors and the strong performance there. You mentioned it was very broad-based, the growth rates there. I suppose that's a comment on the regional split.

Can you just give us an idea what the split on the customer base, especially the [MNCs] versus the regionals were? Also you just noted that the Flavors division's performance was [on] improved commercial performance and new wins. Is that something you see continue in 2017, please?

The second question I've got is on the raw materials. Has the split between synthetic and natural raw materials changed in any way over the last few years? If you run rate the acquisitions that you've made recently, as well? Thank you.

Andreas Fibig - International Flavors & Fragrances Inc - Chairman and CEO

We're just getting ready for all the questions, Gunther. Let me get started. First of all, on the customer base, what we have seen still is a 50/50 between globals and local and smaller customers. It's a good question. Because we saw [our] exposure in the US, which is a big [market] of the region to some of the smaller midsize customers. That might change, over time. We see good growth rates here.

On the commercial wins. We have seen a good and great performance. And we started well here as well. And we see continuation of what we are seeing last quarter. I think that's really, really good, as well. Raw materials, Rich, you take it.

Richard O'Leary - International Flavors & Fragrances Inc - EVP and CFO

One additional comment on the Flavors growth. As you said, wins are solid where we want them to be. Volume erosion, as I alluded to in my comments, was better than what it had been. So, it was stronger than the long-term average. Volume erosion was better in Q4.

That is obviously and clearly one of the most volatile components of our business. So, that's one of the factors to keep in mind for Q4. In terms of raw materials, as we have talked about, it's more on the natural side. Particularly on the Flavors business, where we see more of the focus and more of the demand on that is on the flavors side.

Andreas Fibig - *International Flavors & Fragrances Inc - Chairman and CEO*

What you well know, Gunther, is that we are putting a particular emphasis on modulation. And what is really working very well at the moment is the sweetness modulation. Certainly, it's a sweet spot, literally. Many of our customers try to reduce sugar. And we are seeing actually an unprecedented flow of wins coming in for that technology.

Gunther Zechmann - *Sanford C. Bernstein & Co. - Analyst*

That's really helpful. Thanks. Maybe I can sneak in one more in. Lucas Meyer Cosmetics, would you be able to give a growth rate for that business?

Andreas Fibig - *International Flavors & Fragrances Inc - Chairman and CEO*

10% for the full year.

Gunther Zechmann - *Sanford C. Bernstein & Co. - Analyst*

Great. Thanks so much.

Operator

Curt Siegmeyer from KeyBanc Capital.

Curt Siegmeyer - *KeyBanc Capital Markets - Analyst*

Just a clarification on the productivity program. It seems your guidance implies, call it roughly \$25 million to \$28 million in savings in 2017. How should we think about that by quarter? And how much of that is headcount reductions in 2017 versus some of the other things, streamlining and integration savings?

Richard O'Leary - *International Flavors & Fragrances Inc - EVP and CFO*

It will accelerate as we go through the year. I think the bulk of the benefits associated with the position-related savings and people-related costs are going to be Q2, Q3. There will be a piece, but I think the bulk of that would probably be in those two periods.

I think the footprint type of benefits are really going to take longer. That involves us figuring out where the right locations are and how do we best optimize the footprint. So, that's the part that more drags into and has a bigger component that's going into 2018 versus 2017.

Curt Siegmeyer - *KeyBanc Capital Markets - Analyst*

Okay. That's helpful. Then, could you guys give a little more color on your expectations for Fine Fragrances as we move further into 2017 here? Do you expect North America and Latin America, the headwinds that you are seeing there, to improve, get worse, or to remain stable at low levels? Then, any other color on EAME, as well?



Richard O'Leary - *International Flavors & Fragrances Inc - EVP and CFO*

Okay. Sure. Several comments to that question. One, as I mentioned on the third-quarter call, the pressures that we're seeing related to Brazil, Latin America, as well as the customers working out their portfolio. We still expect that to continue in the near-term. Also, keep in mind that Q1 was a very strong quarter, last year. From a comparable standpoint, it's going to be our most challenging quarter.

I think for the full year, we expect, as Andreas commented earlier, I think for the full year we expected it to be -- I'm not going to call it a strong growth engine but it's going to be positive, as opposed to a significant tailwind in the past. I think it will improve. Not tailwind, headwind. The improvement will come later in the year. Q1 will be challenging.

Andreas Fibig - *International Flavors & Fragrances Inc - Chairman and CEO*

We have good visibility in terms of the new wins. But you never know how the new wins play out in the marketplace. That's how we will describe it.

Richard O'Leary - *International Flavors & Fragrances Inc - EVP and CFO*

The pipeline in wins, we feel very good about the pipeline of wins. It is the timing of when those things actually get launched by our customers that we still have to work through.

Curt Siegmeyer - *KeyBanc Capital Markets - Analyst*

Great. Thank you.

Operator

Brett Hundley with Vertical Group.

Brett Hundley - *Vertical Group - Analyst*

I just wanted to stay with Fine Fragrances, real quick. Certainly, given some recent commentary from some larger customers, it does sound like some existing challenges, maybe remain in place, especially for the early parts of 2017. You just talked about visibility of new wins. But I'm also curious about any visibility related to existing business picking up, potentially as we move into the back half of 2017 into 2018?

Richard O'Leary - *International Flavors & Fragrances Inc - EVP and CFO*

Again, I think what I can tell you is from my perspective, we have to wait. The two big customers have to work out the inventories and make those decisions. So, we are on hold. We know that they have been brining down inventories and that's been a significant drag in terms of volume erosion. I think we feel Latin America is getting a bit better, but I'm not going to consider it a huge opportunity. So, I think we are expecting improvement, as you said, as we get to the latter part of this year.

Brett Hundley - *Vertical Group - Analyst*

Okay. Just one other for me, if I may. You guys have started to pick up M&A in recent years. You've been able to do so. Is there anything on the horizon, as we've moved into 2017 here, that makes it any harder for you to add to your portfolio via M&A? Thank you.



Andreas Fibig - *International Flavors & Fragrances Inc - Chairman and CEO*

Actually, as you well know, the cost of M&A went up over the last couple of years. And it's getting a little harder to find good assets. What I have to say is the assets we've added in the last two years, we're very pleased for what we've found in terms of the quality of the assets and what they do for us after we have integrated. It makes me optimistic actually looking forward that we may find some other assets here to add as well. We're constantly looking. But, I can't be more specific on that one.

Brett Hundley - *Vertical Group - Analyst*

Understood. Thanks, guys.

Operator

That is the last question. We will now turn the call back over to Andreas.

Andreas Fibig - *International Flavors & Fragrances Inc - Chairman and CEO*

Very good. Thank you very much for participation and the good questions. I would like to remind you that we have next week the CAGNY Conference. Thursday is a big IFF day and you should not miss it.

Operator

Thank you for joining today's conference. You may now disconnect.

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