Sensient Technologies Corporation

Moderator: Hauser, Lori

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OPERATOR: This is Conference # 5866179

Operator: Good morning everyone and welcome to the Sensient Technologies Corporation 2019 First Quarter Conference Call. Today's call is being recorded.

At this time for opening remarks, I would like to turn the call over to Mr. Steve Rolfs. Please go ahead, Sir.

Steve Rolfs: Good morning. I'm Steve Rolfs, Senior Vice President and Chief Financial Officer of Sensient Technologies Corporation. I would like to welcome all of you to Sensient's Conference Call to discuss 2019 first quarter financial results. I'm joined this morning by Paul Manning, Sensient's Chairman, President, and Chief Executive Officer. This morning, we released our 2019 first quarter financial results. A copy of the release is now available on our website at sensient.com.

During our call today, we will reference certain non-GAAP financial measures which we believe provide investors with additional information to evaluate the Company's performance and improve the comparability of results between reporting period. These non-GAAP financial measures remove the impact of currency movements, depreciation and amortization, non-cash stock-based compensation, and other items as noted in the Company's filings. Non-GAAP financial results should not be considered in isolation from or as a substitute for financial information calculated in accordance with GAAP. A reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measures is available on the investor information section of our website at sensient.com and in our press release.

We encourage investors to review these reconciliations in connection with the comments we make this morning. I would also like to remind everyone that comments made this morning including responses to your questions may include forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. Our statements may be affected by certain factors including risks and uncertainties which are discussed in detail in the Company's filings with the Securities and Exchange Commission. We urge you to read Sensient's filings for a description of these factors. Please bear these factors in mind when you analyze our comments today.

Before I turn the call over to Paul Manning, I want to clarify an item that was included in the first quarter earnings release we issued earlier today. In that release, we reaffirmed local currency segment growth and earnings per share guidance for 2019. In the discussion of the headwinds impacting 2019 earnings per share could have been interpreted to imply that these headwinds would cause both consolidated operating income and earnings per share to decline 8% to 11% in comparison to prior year results.

I want to clarify, however, that this guidance should be read to apply only to earnings per share and not to consolidated operating income. Again, there is no change to our segment growth or our consolidated earnings per share for the year and we are reaffirming both.

Now, we will hear from Paul Manning.

Paul Manning: Okay, thank you Steve. Good morning. Sensient reported earnings per share of $0.78 in the quarter compared to earnings per share of $0.89 in last year's first quarter. Revenue in the quarter was up approximately 1% in local currency. These results are in line with my expectations. During our fourth quarter conference call earlier this year, we indicated that the first quarter results would be impacted by several challenges including continued destocking in the cosmetics makeup market, higher input costs, and timing of our pricing actions. As many of these challenges subside, we expect our overall results will continue to improve throughout the year with stronger results in the second half of 2019. I expect that we will deliver our guidance for our full year results.

Color continued to have positive local currency revenue growth in the first quarter despite a strong comparable from the first quarter of 2018. The group's revenue was up approximately 2.5% in local currency driven by a strong demand for natural colors in North America, Europe, and Asia. I'm pleased with our continued success related to our natural color wins which contributed a double digit growth in natural colors and high single digit sales growth across our entire food colors business during the quarter.

However, the profit in the quarter was impacted by higher input costs and mix. Starting in the second quarter, we expect to see an improvement in our food color margins but the more significant improvement will occur in the second half of 2019.

Moving on to cosmetics. During the first quarter, we began to see signs of positive improvement in the order patterns of our cosmetic business. As I discussed during our last call, we projected that our global cosmetic business would rebound first in North America followed by improvements in the second half of the year in Europe and Latin America.

While our overall cosmetic revenue was down in the first quarter, we had begun to see signs of recovery in North America and I'm confident that we will continue to see improvements throughout the rest of the cosmetic business as the year progresses. Our cosmetic business in Asia has remained strong and we expect this to continue throughout the year. Cosmetics continues to be a growing market with significant opportunities.

We knew that the first half, particularly the first quarter, of 2019 would be challenging for the Color Group but the outlook for the second half and full year of 2019 remains positive and consistent with my previous guidance of mid-single digit revenue and profit growth. We continue to experience strong natural color wins and we're starting to see improvement in the cosmetic makeup market. We expect to overcome the input cost and that will allow us to return to more profitable growth.

Flavors and Fragrances local currency revenue was in line with last year's first quarter results. The Group delivered solid sales growth in finished flavors and fragrance compounds. These results were offset by continued lower demand for certain ingredient product categories which we largely sell into markets such as yogurt and soup.

We continue to see improvements in our flavors business as we distance ourselves from restructuring and we expect a much improved second half of the year. The Group's profit was reduced by the lower demand in our ingredient product lines and by higher input costs.

Our production volumes were also lower this quarter as we intentionally reduced inventory levels. We expect improvement in our business as the year progresses and improved margins to cover our higher input costs which were most notable in our fragrance business.

Last year, we built inventory in the first quarter to improve our service levels to our customers. I'm pleased to say that our service levels remain robust. Consistent with our focus to reduce our working capital, particularly inventory, we reduced our Flavor Group inventory by more than $20 million in the quarter. This lowered our profit for the quarter compared to prior year's first quarter. As volumes continue to improve throughout the year and operating costs decline, I anticipate we will achieve a better balance to our inventory levels and therefore reduce the negative impact on profit.

Profit in our Sensient Natural Ingredients business was up nicely as our onion costs have normalized. However, some of this improvement was offset by erosion in our pricing as we defend in certain markets and price to win. We continue to drive the Flavors Group sales mix towards finished flavors, extracts, and fragrance compounds where our pipeline continues to be strong. We expect to see improvement as the year progresses and we capitalize on our new opportunities.

The outlook for the full year of 2019 remains positive and consistent with my previous guidance of low-to-mid-single digit revenue growth and mid-single digit profit growth. As we communicated during our fourth quarter call, we anticipate the results in both Color and Flavors to improve throughout 2019.

The supply chain dynamics in the cosmetic market are improving. We will also begin to see the benefits from improved margins in both groups. In short, the second half of 2019 will be improved and stronger for each group.

Steve will now provide you with additional details on the first quarter results.

Steve Rolfs: Thank you, Paul. Sensient's revenue was $347.5 million in the quarter compared to $356.5 million in last year's first quarter. Operating income was $49.4 million compared to $55.7 million in the comparable period last year.

Foreign currency translation reduced both revenue and operating income by approximately 3% in the quarter. Diluted earnings per share were $0.78 in the quarter compared to $0.89 in the comparable period in 2018. Foreign currency translation reduced EPS by approximately $0.03 in the quarter.

The company's consolidated tax rate was 25.5% in the quarter compared to 23.8% in last year's first quarter which reduced EPS by approximately $0.02 during the quarter.

As reported, cash flow from operations for 2019 was $23.4 million. Capital expenditures in the first quarter of 2019 were $8.3 million compared to $11.1 million in the first quarter of 2018. We now expect capital expenditures to be at the lower end of our previous range of $50 million to $60 million for the year.

Our free cash flow in the first quarter of 2019 was 15.1 million. We are focused on reducing inventories this year and we stopped progress on this front in the quarter. Our cash flow activity related to inventory improved by 17.7 million in comparison to last year's first quarter activity.

The company's total debt and leverage is consistent with the end of last year. I would expect that our leverage will continue to trend down throughout 2019 as we use free cash flow to reduce debt. Beginning in the first quarter of this year, we are now reporting our natural extraction business as part of our Color Group.

As you recall, we acquired this business in last year's third quarter Mazza acquisition. As we have begun to integrate this technology throughout the Color Group, the cost associated with this business lowered colors overall profit growth by approximately two percentage points in the quarter. Acquisitions added about 1% to the Color Group's reported first quarter revenue.

During our last call, we outlined three headwinds that we are facing in 2019 relative to our 2018 results. As an update, headwind number one relates to higher corporate expense as a result of anticipated higher non-cash stock-based compensation in 2019 compared to 2018. We now anticipate the total impact of this headwind to be approximately $0.10 to $0.12 of EPS for the full year.

The second headwind we outlined was a higher tax rate. We continue to anticipate the total impact of this headwind to be approximately $0.24 of EPS for the full year. The third headwind we outlined was currency. We continued to anticipate the impact of currency to reduce EPS by approximately $0.05 for the full year.

As we discussed during our February earnings call, these headwinds will cause our reported earnings per share to be below prior year levels. We still expect to be within our original EPS range. However, we expect the second half of the year to contribute a larger portion of the full year results. As a reminder, our original EPS range anticipated a decline of approximately 4% to 7% in comparison to our adjusted 2018 EPS of $3.55. When we report this in US dollars, EPS will be down an additional 1% to 2% or an additional $0.05 per share.

As a result of the headwinds we faced in 2019, we introduce the metric of adjusted EBITDA as a supplemental measure of the performance of Sensient's underlying business in 2019. This metric represents local currency EBITDA before non-cash stock-based compensation. This metric was down approximately 5% during the current quarter; however, we expect continued improvement throughout the year and expect mid-single digit growth for the full year of 2019 consistent with our guidance communicated during our last call.

Thank you very much for your time this morning. We will now open the call for questions.

Operator: Today's question and answer session will be conducted electronically. If you would like to ask a question, please signal us by pressing star one. We will take as many questions as time permits. Once again, if you would like to ask a question, please signal us by pressing star one.

Your first question is from Brett Hundley from Seaport Global.

Brett Hundley: Good morning and thank you for taking my questions. I guess --.

Paul Manning: Good morning, Brett.

Brett Hundley: Good morning. I guess I'll start with the Flavor segment. I just have a pacing question for you, Paul. So it was good to see this business pick up sequentially in the manner that it did. From a forward growth standpoint, your comp in Q2 is a bit more challenging and then that's followed by an easier comp in Q3 this year. How might your low-to-mid-single digit growth forecast for this business trend across coming quarters just so that we're all on the same page?

Paul Manning: Sure. So, yes, I'll start a kind of with the macro view and then maybe I can get as granular as reasonable. So to reaffirm we believe low-to-mid-single on top line, mid-single digit on profit. So that would be the year view of things. I think then as we look at the back half versus the first half, certainly we see a better outcome if you were to take the second half versus the first half. So from a sequential basis, yes we would anticipate Q3 and Q4 being better than Q1 and Q2, all within the parameters what I just described for our annual guidance.

I think as you look at this sequentially, Q2 versus Q1 and then Q3 versus Q2, you know those movements are a little bit harder to predict. I would tell you that certainly we would expect, I can tell you, definitely a sequential uptick from Q2 going into Q3 but in terms of projecting precisely where we would be in any one of those quarters, that's a little bit more difficult to get at but let me just kind of tell you what some of the variables are in terms of what makes that a little bit challenging to predict at all times. So, you look at some of the headwinds we faced in Q1, not only in Flavors but also in Colors, pricing was a big part of that. Input costs were a big, big headwind.

I think that's pretty well publicized throughout many of the industries that were in that there were some pretty well publicized issues on certain fragrance related raw materials, for example, but there were many others. There are a number of synthetic raw materials that we faced in our food colors business and in our ink business.

I think what makes this inflation a little bit different than say previous years is that not only is there an inflation but there are also availability issues with the number of the raw materials. So that had an impact not only on margin but to some degree revenue and as much as there were times in Q4 and Q1 where you just don't have as much of that raw material available as you would have historically. So I think raw material has created that variability.

Now, the hallmark of these businesses is that we can formulate out certain raw materials, we have the ability to price certain raw materials, and so I think that fundamental of this company is still very, very true. The timing, however, can fluctuate and I think because of the nature of these raw material input cost issues, it's making that timing a little bit more variable than say it might have been in previous years.

So to get back to your question about Flavors and how does this play out for the rest of the year, I think it's very safe for me to say the back half of the year will be better than the front half of the year. There are still these headwinds to contend within Q2 for Flavors and for Colors and then certainly that has an EPS impact which Steve will get to when he talks maybe some more of the modeling issues.

Brett Hundley: Actually that's really helpful and maybe I can ask a follow-on question that relates more to the you know the purely commercial side of things. So, and I'm talking specifically to your Flavors and Fragrances business here. So we've talked to some of your peers about the broader macro and at least a couple of them have spoken to a perceived customer turn towards innovation again, right?

A lot of food and beverage companies in particular, even HPC have really been focused on the middle of the P&L in recent years and there's a belief that these guys are coming back to the top line so to speak. I'd love to get your views on that dynamic as it relates to Sensient and maybe you can filter in any added confidence that you might have about your own pipeline and growth expectations in Flavors heading into the summer just given that you know there was a lot of disruption for you guys heading into last summer and I'm sure you missed out on some business because of that and so perhaps as we enter May here, maybe you have some anecdotes to talk to your confidence in the pipeline. So two parts of the question there if you would.

Paul Manning: Yes, so the first part related to innovation. Yes, I would agree with that. I think that -- and let me split the market up a little bit here. I think for -- let me just say there's a big multinational such as called an A customer. And then there's more local and regional folks, let's call then B and C customers. I think the focus on innovation continues to be the case for these B and C folks and innovation whether it's natural colors, the use of extracts over a flavor, organic, non-GMO project verified, these are all very – I don't want to say standard request but pretty consistently being driven by these local and regional folks and I think to mix in part two of your question, our pipeline, right.

That has been a big part of our focus. We see very, very good projects across those types of customers. You know when you look at our Q1 results, if you take flavors, what we would call a traditional flavor, not a flavor ingredient but a flavor, that part of our business is up mid-single digits in Q1 and so I think that is very much aligned to this notion that more of the innovation will be driven through flavors and extracts then obviously you would see and say what we would call flavor ingredients, something like for example a fruit prep.

So let me go now talk about these larger, what we say maybe is an A customer. I would agree in general, there has been a stronger emphasis from many of the multinationals on innovation on whether it's being driven by a realization that yes, in fact this move towards natural for example is true and we need to embrace it or it's being driven by something else. We definitely see some improvement there. Not quite universal yet, but there is definitely a stronger emphasis coming along the lines of innovative products that do more, products that can make claims that are much more compelling to the consumer. So yes, I would agree with that trend and then I think that trend also overlaps into food colors as well. You saw we had a tremendous Q1 following on an outstanding 2018 and 2017 on natural color wins.

A lot of these wins have been driven by new-to-the-world products. A few are driven by I got an existing synthetic color product that I'm now converting to a natural color. Perhaps, the pipeline has more of that activity now. So that would also support the notion that perhaps the larger multinationals are emphasizing more innovation even with respect to natural colors.

So the real essence here is, does this bode well for the business? I say, yes, absolutely because the new wins are where we can sell flavors is where we can sell natural colors and it's less about sort of defending an existing base of business. But yes this is -- I would agree with your comment here about the market.

Brett Hundley: Okay good and then just one last question for me is high level on your Colors business and the margin structure there. So I probably just over model this to the downside but your margin for the quarter was obviously lower than what you typically do during Q1 but it was better than I'd feared just given some of the headwinds in place and I don't know if there are any unanticipated benefits in that business for you but like I said, it was all that better than I was expecting and you guys sound very confident in your ability to execute in the back half, both from a top line and a bottom line standpoint in what remains a strong business.

I guess my question is, when I look at what you guys do historically in the back half of the year, do you think that there are opportunities for you whether internally or externally driven where you can perform at a more robust margin structure and then what you would typically have in place? Thank you.

Paul Manning: So I think if I were to go back to the answer I gave you for Flavors looking at this on a macro basis for Color, right? So to begin the year, I believe that we will achieve our mid-single digit top line, mid-single digit bottom line. So if you look at Q1 and you infer from my comments about raw material that okay, Colors is going to have some headwinds and Flavors got some headwinds in Q2, it must mathematically be the case that we have an outside success rate in Q3 and Q4 versus Q1 and Q2.

So now to the other part of your question, well okay Q4 tends to be a lower margin for example, EBIT quarter for Color then say two or three.

I think, yes, that is the case but I think as you think about this year's Q4 versus last year's Q4 for example, we had a lot of that raw material and input cost inflation already starting in Q4. We had a lot of that mix with respect to cosmetic and some of our other products, we were feeling that in Q3 and Q4 of last year too in 2018.

So I would anticipate that if you look at Q3 and Q4 of 2019 versus Q3 and Q4 of 2018, right? Mathematically you suggested that and I would suggest and agree with that there should be some inherent incremental improvement available in EBIT margin. So that would be that answer but you know I think for Colors it's a tremendous business, we're in great markets, the things we've been focusing on are really coming into play, investments we made in innovation coming into play, and so I'm very optimistic for the back half of the year.

You know the headwinds are raw material and input costs related principally and so those are things that we always demonstrated an ability to overcome and this year will be no different than any other year in that matter. Again, just a little bit on the timing front, I think.

Brett Hundley: Thanks for the comments.

Paul Manning: Okay, thanks Brett.

Operator: Your next question comes from Mike Sison from KeyBanc.

Mike Sison: Hey guys.

Paul Manning: Good morning, Mike.

Mike Sison: In terms of 2Q, how much improvement do you think you'll see sequentially and what momentum do you see in some of the organic growth initiatives you have near term heading into 2Q?

Paul Manning: So 2Q there's a continued emphasis on flavors, fragrances, extracts and obviously on the Flavor side of things and then natural colors, I think it's going to be a big driver in food colors. In addition, as you heard me say in the prepared comments, we're already starting to see the rebound in the cosmetic makeup market. And let me just go on a brief tangent here.

When you think about cosmetics, there's makeup, there's hair care, and there's skin. The makeup part of that market has what had tremendous spike in demand going back even three years ago, that demand has moderated but it is still positive growth, positive demand in that market place. There's just sort of a re-calibration around stock level held by customers.

But we see that playing out as we described last quarter that North America would rebound first, followed by Europe in the second half of the year, as well as Latin America probably towards the back end of the year, with Asia being successful I think all along. So the fundamentals of each of those markets – flavors, extract, natural colors, and cosmetics for example - are all quite good, all quite sound. Again, very defensible business; business that's really being driven by innovation and business that is firmly in the crosshairs of our strategy for the last number of years. So I feel very good about our pipeline on each of those product categories.

Where we need to be very, very – you know where we have a very different set up is on the flavor ingredients part of our business. Now let me make this distinct. So there's Sensient Natural Ingredients, where we all sell onion and garlic, our agricultural products and then there is flavor ingredients. I don't need to split hairs too much here but I think it's an important concept that everybody understands.

Flavor ingredients would be things like fruit prep. That's something that goes in the yogurt. We all know and you can look at any graph for the last three years that market has declined you know nearly 10% every year and the decline has moderated a touch last year and into Q1 but yogurt is in an industry overall in North America in decline. I think it's kind of bottoming out here in 2019 but that I think will be a bit of a headwind. I think we can overcome that as the year continues because of the outsized growth in flavors.

So I think that'll be something to be thinking about as we look at Q2 but as Q3 and Q4 come, I think a lot of that flavor ingredients headwind kind of moderates and then we get the natural uplift from this flavor and extract side of the business. I think on colors, my answers to Brett are I think would be pretty consistent with my projections here for you for Q2 but we're going to continue to focus in these areas of the business, these areas of the business are doing quite well and then it's just a matter of moderating the headwinds around some of this flavor ingredient business.

Mike Sison: Got it and then when you think about the second half, it does sound like you know getting to your low-to-mid-single digit growth goals is more within your control, do you need a lot of help from the macro environment or is it the lot of the growth that you're going to see within your control via new products, new wins, some of the headwinds following you know gone away if you will.

Paul Manning: Yes, I think what you know certainly having a good macro environment is a nice thing and I think that the parts of the food industry for example, or personal care are growing and there are good trends within each one of those. So I think that always bodes well for new product introductions and new product introductions, you know that's a great part of the business because they tend to be very technically driven and they tend to be more defensible than perhaps compared to some of the more legacy products that we may have in the portfolio.

So I think the macro environment is good but you know the way we drive success is very much driven by customer selection. There are always customers who are growing, no matter what. You know you look at yogurt, I've been talking about the yogurt market, it's down, right? But they're still customers within the yogurt market who are growing. But then again, there's a lot of customers in the yogurt market who've been declining significantly and you know the names of them better than I do for a number of years now.

So I think our continued focus on these B and C customers is very, very important to that success because they benefit from the macro environment because the folks have more consumable income they're willing to try new products, even higher priced products for example. But at the same time B and C customers are not – they don't face the internal constraints around trying to protect an existing legacy set of products. So they tend to by nature be a bit more innovative in my opinion than perhaps some other customers may be.

So I think those are a little bit of the macro events. I foresee continued very good macro environment for personal care. I mentioned how I think those businesses will come back from the makeup standpoint and in the back half of the year. So you know I think the environment is quite good right now.

Mike Sison: Great. Thank you.

Paul Manning: Okay, thanks Mike.

Operator: Once again if you would like to ask a question, please signal us by pressing star one. Your next question comes from Heidi Vesterinen.

Heidi: Hi. Good morning.

Paul Manning: Hi, Heidi.

Heidi: Hi. Could you clarify your inflation expectation for the year, please? We all know that input costs are at a high level but is it going up further from here? So what is your outlook for the two businesses, please. And I think you had highlighted specifically in Colors, it was particularly painful in Q1. There was scope for that moderate, so what are you seeing now? And then related to that how much pricing are you therefore expecting and what is baked into your top line guidance in terms of prices, please?

Paul Manning: So inflation I think we felt the brunt of it in Q3 and Q4 and even into Q1 here. I don't anticipate significant inflationary headwinds. We'll just say input costs related to raw material and energy. I don't want to necessarily project my thoughts on any other input costs, so let's just stick to those two. So, yes the worst of it has passed us, I believe. The other point I raised I think is also important in this discussion, the availability of certain raw materials because what drove their inflation on many of these raw materials was you know their exogenous events. I don't know acts of god, fires, and other disruptions to many of these manufacturers of these products, again many of these well publicized, particularly in the fragrance industry. Those are kind of one-time events and I don't see that as being an overall macro-trend that's going to impact the business long term. So those issues have largely begun to moderate whether we get pricing or whether we reformulate or whether we substitute a new raw material for the inflationary raw material, I can tell you this, I can tell you that I feel very good about our full year guidance for Flavors and for

Colors. How that is enacted whether pricing or otherwise, I don't necessarily want to get into the specifics of that but I would tell you that we feel very, very good, I feel very good about our ability to drive operating profit in Flavor and Color through those actions for the back half of the year.

Heidi: And if we then move on to your confidence on margins, please, could you talk about the drivers? Is it mix? Because cosmetics will you know improve, is there you know operating leverage? Are there efficiencies? You know what are the big drivers of margin improvement going forward, please?

Paul Manning: Well you need the three of the big ones. Certainly number one, mix. When you sell cosmetic products or when you don't sell as many cosmetic products that can strongly impact your mix. But I think our continued efforts around selling flavors and extracts for our business that is a considerable uplift and improvement to mix. Not only are those products better from a profit standpoint, they're far more defensible pieces of the portfolio. So yes, I think mix is going to be a big driver.

You know number two you mentioned input costs, so yes. I think everybody's kind of heard my comments there. And then number three on efficiencies. So yes, we went through a very painful and disruptive restructuring program which had a big impact on Flavors and really distracted us internally. And I think you know no customer wants to go through a restructuring process where they have to re-qualify our products and do all these other things, right?

So we went through this restructuring. We shrunk the footprint considerably but whether we're talking Flavors or Colors, we always will continue to match our capacity to our market demand. So I don't subscribe to the logic of sell products to fill your plant. I subscribe to the logic of sell products profitably and if you have to fill a plant, you better make that plant smaller. So start taking out fixed costs. So this will always be a dynamic model that we operate under and so there, number three the efficiencies will be driven by a continued examination of fixed costs throughout the company where our fixed costs are too high then we lower those fixed costs and I think that's an important piece of the profit picture as well but those three are too very good and then I'll just go back to my point from before, right?

The types of customers that you really focus on and engage with certainly a lot of that is going to impact your mix. But I think that can also be very, very helpful in the sustainability of your business and I mean financial sustainability of those results.

Heidi: Okay, thank you for that and then another one and if we could go back to your you know confidence over growth in the F&F business given that we've had quite a bit of disappointment in past years, right? What gives you the confidence that there will be this material pick-up in the second half? Is it you know are there new development projects that were not there, you know last year and where you have you know there is a launch plan and you basically know that the volumes will be there or you know what gives you the confidence, please?

Paul Manning: A number of factors. So number one: We have the right people running that business and they are focused on commercial activities. They're not focused on restructuring, our customers aren't focused on restructuring with us and so you know as I referenced before, restructuring was a process, it was an ugly process but we're through that and so now that's where our scientists, that's where our sales people, that's where our management is focused, design the pipeline and servicing customers and those are the fundamental areas of focus.

So I think management is the right management. The focus is there. The distractions have been significantly removed. And I think the dynamics of the types of customers we're going after is an important piece of that but I would also tell you that we're going after the right types of products too, right? I mean we've been talking about this for a number of years.

When you go back many years in Flavors, I mean we were largely I mean flavor ingredient business and we've had to re-create in many ways that the capabilities within the Flavor and Fragrance Group to be more focused on flavors and extracts and fragrance compounds and less focused on these ingredient businesses which I've said many times are more price sensitive, less defensible, fewer barriers to any type of competition. And they're also ironically enough quite capital intensive compared to producing say extracts and flavors.

So I think those dynamics within the company have changed significantly over the years. And so we had to make a lot of those changes, a lot of those painful changes and I feel very, very good. Again going back to my first comment about the people running this business now. They have the right focus and the right service level to our customers and that is always fundamental.

I talk to customers a lot. I like to go see customers and I see owners and I see CEOs and I see heads of purchasing and I see heads of R&D and I've made a point of spending more time doing this in the last year. And the thing that they tell me that they want more than anything, it's not innovation or marketing insights or the cure for some disease. What they want is number one, their stuff to be shipped on time and they want their stuff to be of high quality and they want good documentation. They want the basics of a vendor to work.

And that is not universally achieved throughout the industry. And so servicing the customers is still very, very fundamental and I think again, not to ramble on here too long but to remove those distractions and to focus into those areas is the key part of what I think will drive a lot of this success.

Heidi: Thank you for that and then as a final question if that's okay. Can you tell us what happened in the Asia Pacific business: growth declined, the performance was not as good as I had expected, and what is your outlook? Why do you think that the growth will come back?

Paul Manning: Well I think Asia Pacific you know I've mentioned on some of the previous calls that Asia Pacific is an area that we have been making a number of investments in. It had largely operated as a distribution arm for Colors and Flavors for many years. And so, not unlike Flavors, there were a lot of growing pains that had to come with making them into a business that could be more stand-alone.

So we made a lot of investments in R&D and personnel in the region. We opened up an innovation center in Singapore and so these have been very, very good investments but these have been you know these have been investments. So there has been a significant uptick in SG&A for example in that region.

But you know not unlike what you saw in Flavors playout, there is this transition to flavors that's been underway. There's also been a similar transition within Colors, right? Focusing more on natural colors, for example. So I think it's just they're in this transition phase. I think it's certainly going to benefit from these investments and quite frankly, a lot of the aspects of Asia Pacific, I mean the cosmetics business is doing very well, the food colors business is doing very well. You'd see those in the Color Group though. Those don't get reported as Asia Pacific and here again this is where I might get a little bit confusing.

But very important aspects of the Asia business are growing quite nicely and we still have very good growth in many of the regions. We struggle really in more of the North Asia region right now. But I think those are areas that they're working through and we would anticipate ongoing improvements. But those are not necessarily unlike Color or Flavor where I think we talked about back half, we talked about a lot of these factors that'll improve us. I think Asia will continue to improve but certainly not to the magnitude and the speed with which Color and Flavor would.

Heidi: Okay, thank you very much.

Operator: We have reached the end of the question and answer session. Please contact the company with any additional questions.

At this time, I will turn the conference back to the company for closing remarks.

Steve Rolfs: Okay, thank you everyone for your time this morning. I did just want to touch on a couple of modeling items that did not come up in the Q&A but I want to get out there. First, our tax rate.

Our tax rate was 25.5% in the first quarter and was a slight headwind for the full year, still expect the tax rate between 22% and 23%. So that's consistent with what we said last call. I do want to draw your attention to the comparables for the prior year; however, so beginning in Q2 that's when we began to see a much lower rate in 2018 and so that will be a headwind in Q2 and should cause you to temper your earnings expectations for Q2. Together with the comments we made today about sequential improvement as the year goes on that should also cause you to place your expectations on greater growth in the second half of the year.

And then I'll just touch on the preamble I gave to this call when I made the clarification on our earnings guidance. Obviously, we've talked about three headwinds which are our stock-based comp being higher this year, foreign currency, and our tax rate. Obviously, currency and stock-based comp impact operating income as well as earnings but tax does not impact our earnings. So that is purely a headwind to EPS and not operating income.

And in the wording in our press release this morning, it might have lead some people to interpret that the percentage changes we're talking about apply to earnings per share and operating income and obviously that's not the case, and were only meant to apply to earnings per share.

Paul Manning: Good. So if you have any questions, we're always available. Give us a call.

Steve Rolfs: Thank you. That'll conclude our call.