SENSIENT TECHNOLOGIES CORPORATION

Moderator: Stephen J. Rolfs
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Operator: This is conference # 6468858

Operator: Good morning, everyone, and welcome to the Sensient Technologies Corporation 2017 Fourth Quarter and Year-End Conference Call.

Today's call is being recorded.

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

Stephen J. 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 2017 fourth quarter and full year financial results. I'm joined this morning by Paul Manning, Sensient's Chairman, President and Chief Executive Officer.

Yesterday, we released our 2017 fourth quarter financial results. A copy of the release is now available on our web site 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 periods. These non-GAAP financial measures remove the impact of restructuring costs, currency movements, the impact of the 2017 U.S. tax legislation and other costs 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 measure is available on the Investor Information section of our Web Site 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 on 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.

Now we'll hear from Paul Manning.

Paul Manning: Thanks, Steve. Good morning. Sensient reported adjusted earnings per share of $0.84 in the quarter compared to $0.80 in last year's fourth quarter. For the full year, adjusted earnings per share were $3.42, an increase of 6.5 percent over last year's results of $3.21.

Color has delivered a great quarter and Asia Pacific has begun to rebound with solid revenue growth in the fourth quarter. Flavors & Fragrances has finally completed restructuring and there will be no restructuring charges in 2018.

In the fourth quarter, the group's revenue and operating profit were (off) compared to last year's results. The underperformance is almost entirely due to issues related to the final restructuring transition in North America. Unfortunately, the businesses served by this plant continue to experience the lingering impact of the plant consolidations that I described in a previous call. As you will recall, this site had significant production and shipping backlogs earlier in the year, which delayed orders and increased production and logistics costs. As I reported last quarter, we cleared the sales backlog and improved our service levels considerably. But the costs incurred to accomplish this were higher than we expected. This issue was compounded by lower volumes, some of which are related to softness in the yogurt and ice cream markets. We have taken corrective actions, including making several management changes and we continue to focus on reducing our costs.

The other businesses in the group performed very well in the quarter and, in particular, the BioNutrients, European Sweet and European Savory businesses delivered strong profit growth. And we continue to have commercial successes with a number of significant wins throughout the group.

These results are encouraging and sustainable. We are recovering from the 2017 performance and I expect Flavors & Fragrances to deliver both revenue and operating profit growth in 2018.

Restructuring has been a significant drain on our resources across the entire company and now that it is complete, we have more capacity to look at other opportunities, including acquisitions. We have been more actively looking at potential acquisition targets to add capabilities to both the Flavors & Fragrances and Color Groups. I expect that Sensient will be adding several acquisitions to our operations in 2018.

During the fourth quarter, we signed an agreement to acquire the natural color business of GlobeNatural and we expect to close on this acquisition in the first quarter. This acquisition expands Sensient's vertical integration in several important product lines. Our strategy for food colors includes broadening our product offerings and continuing to invest in the core production of natural colors. Adding the capabilities of GlobeNatural sends a strong message to our customers that we are a vertically integrated supplier with a secure supply chain and an optimized cost position for several important raw materials.

Color delivered another strong performance in the fourth quarter and met my growth expectations for the year. In the quarter, the Color Group revenue was up over 5 percent and operating profit increased by more than 11 percent. As forecasted, revenue for the full year was up mid-single digits with high-single-digit operating profit growth. The results in cosmetics were outstanding with strong revenue and profit growth. The Food Color businesses in North America and Asia delivered solid profit improvement for the year. Pharmaceutical and (technical) colors also delivered solid results for the year.

Looking forward to 2018, we expect Color to deliver mid-single-digit revenue growth with high-single-digit profit growth. The conditions in cosmetic end markets remain strong and we have high expectations for our cosmetic businesses in 2018. We also expect solid growth from the Food Color business, driven by natural color conversions. We have already won several natural color projects with high-profile brands earlier in 2018 and we are optimistic that we will secure more wins in the U.S. natural color market this year.

In addition, we expect continued solid results in the pharma and technical color businesses. In Asia Pacific, we're looking for mid- to high-single-digit growth in both revenue and profit for the year. I expect Flavors & Fragrances' performance to get stronger as the year progresses. Revenue will be flat to down in the first quarter because, as I previously noted, we completed our culling efforts in the first quarter of 2017 and we will finish lapping those sales in the first quarter. After the first quarter, I expect low- to mid-single-digit revenue growth for the remainder of the year.

We expect first quarter profit in the Flavors & Fragrances Group to be flat and we are targeting mid-single-digit profit growth and margin improvement on the order of 100 basis points for the remainder of the year. We have had some nice wins across the Flavors group already this year, but the group will also face some headwinds in the first half of the year. One headwind relates to the aforementioned restructure site in North America, which will see some additional cost flow through early in 2018. We expect this to be a $0.02 impact in the first quarter and negligible thereafter.

Another headwind relates to pressure on onion pricing due to higher-than-normal supply of onions on the market. We believe this will be a $0.03 impact in the first quarter and will be mitigated in the second quarter to about $0.01 per share. I expect onion pricing to improve with the midyear harvest, which should lead to much better results in the second half of the year.

Combining these results for all the groups, I expect EPS to be between $3.70 and $3.90, which will be up in the range of high single-digit to low double-digit growth over 2017 adjusted EPS.

In 2017, Sensient delivered 6.5 percent adjusted EPS growth and the Color Group delivered strong performance. Flavors & Fragrances has completed restructuring and is on track for a solid performance in 2018.

Steve will now provide you with additional details on the fourth quarter and full year results.

Stephen J. Rolfs: Thank you, Paul. In my comments today, I will be explaining some of the differences between our adjusted results and our GAAP results. These differences relate to our restructuring activities and to the one-time charge tied to the recent tax legislation. Beginning in 2018, we will not be talking about restructuring charges.

Sensient's operating income was $47.4 million in the quarter compared to $43.3 million in last year's fourth quarter. The operating income results include restructuring and other costs at $2.9 million in the quarter and $6.2 million in the comparable period last year. The restructuring costs in this year's fourth quarter are primarily due to the wind-down and sale of the last site closed in North America. Excluding the restructuring and other costs, adjusted operating income was $50.3 million and $49.5 million in the fourth quarters of 2017 and 2016, respectively.

Foreign currency translation increased revenue by approximately 3 percent and operating income by approximately 2 percent in the quarter. Diluted earnings per share from continuing operations were $0.31 in the quarter compared to $0.70 in the comparable period last year. Restructuring and other costs reduced earnings per share by $0.11 in this year's fourth quarter and $0.09 in last year's fourth quarter.

We had a one-time income tax expense in the fourth quarter due to the changes in the U.S. tax law. The change in the tax rules reduced fourth quarter earnings by $18.4 million or $0.42 per share. Approximately $7.5 million or

$0.17 per share relates to the toll charge on the repatriation of foreign earnings and the balance of the charge relates to the revaluation of deferred tax assets in light of the new law.

Adjusted earnings per share were $0.84 in the quarter and $0.80 in the comparable period last year. The increase in adjusted EPS was driven by higher operating income in Color, lower corporate costs and a lower effective tax rate. Foreign currency translation increased adjusted EPS by $0.01 in the quarter.

Operating income was $167.8 million for the year and $185.6 million in 2016. The operating income results include $48.1 million and $26.1 million of restructuring and other costs in 2017 and 2016, respectively. Removing the impact of the restructuring and other costs, adjusted operating income was $215.9 million in 2017 and $211.7 million in 2016. Adjusted diluted earnings per share from continuing operations were $3.42 this year and $3.21 in 2016. Foreign currency translation did not have a significant impact on adjusted operating income or adjusted diluted earnings per share in terms of our full year results.

Corporate costs were lower in the quarter due to lower performance-based compensation. A significant portion of management's compensation, including our annual incentives and our equity-based compensation, is directly linked to performance metrics. When we have a challenging year, corporate costs go down. Our compensation structure effectively serves as a hedge and a protection for our shareholders if the business does not perform to expectations. For purposes of 2018 guidance, my estimate for corporate costs is approximately $40 million.

The changes in the U.S. tax rules will be positive for Sensient. I just discussed the impact of the one-time charge in 2017. And going forward, we will benefit from a sustainable lower effective tax rate. Ordinarily, we would have expected our tax rate in 2018 to be between 26 percent and 27 percent under the old law. With the new law, we are currently estimating that our effective tax rate will be about 25 percent in 2018.

Cash flow from operations was $69.4 million in the quarter compared to $71.9 million in last year's fourth quarter. Sensient entered into accounts receivable securitization transactions in both 2017 and 2016 to reduce the company's effective borrowing costs. The cash flow results included $20 million benefit in 2017 and a $40 million benefit in 2016. Removing the impact of these transactions, fourth quarter cash flow was up over 50 percent.

Capital expenditures were approximately $23.5 million in the quarter and $56 million for the year, which is in line with our last estimate of $50 million to $60 million. We expect capital expenditures to be around the same level, $50 million to $60 million, in 2018.

We repurchased 300,000 shares of common stock in the fourth quarter and more than 1.1 million shares in 2017.

Our balance sheet remains strong. Our adjusted debt to adjusted EBITDA was 2.6 at the end of the year. We plan to keep debt levels in line with an investment-grade profile to maintain flexibility for capital expenditures, acquisitions, dividend payments and share repurchases. We will continue to take a balanced, prudent and long-term approach to deploying our capital, which includes evaluating acquisitions and share repurchases on an opportunistic basis.

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

Operator: Today’s question and answer session will be conducted electronically. If you’d 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’d like to ask a question, please signal us by pressing “star,” “one.”

Your first question comes from the line of Mike Sison from KeyBanc.

Michael Joseph Sison: Paul, when you think about the restructuring challenges you've had in the fourth quarter and you're going to see a little bit of the impact in the first quarter, what gives you confidence that you'll be sort of out of the woods, if you will, as you enter 2Q and beyond?

Paul Manning: Well, I think you look at it from 2 standpoints, from the standpoint of what does the customer notice and what, from the standpoint, do you notice internally. So from the customer's standpoint, you can clearly look at service levels and those have rebounded to where we had been previously. So that's a pretty good indication to me that we have a much better and sustainable production process in that newly consolidated facility.

You see a little bit of an uptick -- or you -- will in Q1 in Flavors, particularly in certain businesses like that to provide us a little bit of additional insurance moving forward. To the second piece of maybe what your customer doesn't notice, but what you certainly notice operationally and this is principally taking out costs, running more efficiently, running with fewer people, these are things that are well underway to being addressed and corrected.

And costs are coming out of that plant. We've obviously spoken about savings to be generated from restructuring. And so there's certainly savings that are going to be generated for all the reasons I just described, internal cost structure, which, again, had been inflated to ensure that we get out of the situation and improve the service levels to our customers. I applied a tremendous amount of resources to the problem -- to address the problem from the customers' standpoint as quickly as possible. The implication is the costs were rather significant in the tail end of Q3 and into Q4 and then that's of the lingering effect into Q1.

Michael Joseph Sison: Right. OK. And then when you think about the rest of the year, you -- I think you talked about 100 basis points improvement in your operating margin. Is this new facility? I mean, shouldn't it be more efficient and generate better profitability? And I guess, the outlook for volume growth is pretty healthy. So should leverage be a little bit better than 100 basis points?

Paul Manning: Well, I think we've certainly -- as you just noted in your question, I mean, there's a Q1 Flavors and then there's the rest of year Flavors. And the rest of year, I feel very good, first and foremost, on the basis of new wins. I mean, that's fundamentally where we need to deliver and to deliver consistently and deliver consistent with our strategy related to Flavors and technology platforms supporting Flavors to the customer base that is, perhaps, a bit underserved with other parts of the market. So I feel very good about that, yet there's definitely some costs to take out as well. So I think for Q2 to Q4, on the order of 100 basis point is a good goal. Hey, if we overachieve, that would be great. But I certainly don't want to disappoint anybody. And I think it's a fair estimate for where we stand today.

Michael Joseph Sison: Got it. And then in terms of acquisitions, it sounds like there are opportunities out there that are a little bit more exciting or affordable now. Any particular areas you think would be the best opportunities for Sensient to maybe beef up certain product lines? Or are you looking to get into new areas? Maybe just give us a backdrop of what you're seeing out there.

Paul Manning: Yes. So I think this, we -- there's a lot of opportunities across the corporation. As I mentioned in my opening monologue, with restructuring being over, we can have a significant amount of resources redeployed throughout the organization. One of those areas is in acquisition. So I guess, the philosophy that we have here is if we're going to buy it, we need to integrate it in a way that it makes sense and complements our existing businesses, you see this first run out of the gate is a natural color related one. I think you could potentially see others in that area related to a vertical integration move. I think that would not only support improvements to the supply chain and the product safety issues that we see in natural color raw materials. But it could also help mitigate some of the price volatility that you see in some of these raw materials, whether they're botanicals or natural sources of our products.

But certainly, there's opportunities within Flavors. We have some portfolio gaps in the Flavor department that, I think, could be important. So if natural color is more along the lines of vertical integration, I think Flavors would be in an effort to fill in gaps in the portfolio, in particular product lines may be in the realm, for example, or hypothetically in savory flavors, which, I think, as I've noted previously, is an area that we were farthest from being a really true flavor house in the savory section of the business.

But inks, cosmetics, these are all areas that are very strong technical businesses that require a lot of ongoing innovation and R&D, which we have undertaken considerably over the years. But where we have an opportunity to fill in a portfolio gap, to fill in a technology gap, I think that's definitely our focus. I don't, at this point, believe you would necessarily see an acquisition related to the attainment of additional market share. And that these fundamentally specialty chemical businesses, that's not precisely the model that we're after here.

Operator: Your next question comes from the line of Brett Hundley from The Vertical Group.

Brett Michael Hundley: I wanted to follow on with that same line of questioning, maybe just starting with Flavors. If you can, can you just take me a little bit further under the hood with why costs are lingering at this particular facility? What is it about this particular facility? Is it something that kind of filters its way back through end market-related? Is it something operational? Just -- can you give us further color on this particular facilities issues?

Paul Manning: Yes. So I think that from a purely accounting definition of the issue, we're amortizing costs over the inventory holding period. So that would be the most direct specific answer I could give you to why the cost would linger into Q1. Now in terms of why is this plant -- why was it perhaps more challenging than others, each plant has a unique set of challenges that we've experienced over the years. We've done a number of these, obviously.

And I think most of the time, we weren't really talking about it with the larger investment community because I think they went reasonably well. The nature of this acquisition was very different and as much as it was a different product line, not one we had moved and there were a lot of different complexities from the logistics side. There were a lot of complexities from formulation side. That is always a consideration when you're moving from one country to another and there are different requirements for formulation.

I think that, by and large, I think the way we break the problem up around here is what is affecting the customer. and so I feel very good that we've addressed those issues. We've got internal things that we're going to continue to get better at in terms of operating in a new plant. But I can't underestimate for anybody the complexity of a restructuring. And from time to time, you have issues like this. I think that, unfortunately, it came at the very end, but, fortunately, it is now over.

And so the distraction that it represented organizationally, the distraction that it represented to our customers who we were asking to obviously requalify products for another plant, those are past us. And so I think it's fundamentally between that, the culling coming to an end in Q1 and, I think, an ongoing commitment to the sales and technical side of this business, I think, bodes very well for Flavors.

Brett Michael Hundley: OK. I appreciate that insight. And I guess, related, you guys mentioned yogurt and ice cream. Is it fair to assume that you have more exposure to some of the larger players out there?

Paul Manning: Yes. So this business was historically called dairy systems or something to that effect, which is to say was heavily linked to ice cream and yogurt. Over the years, we've expanded that focus to a more broader definition of this and effectively called it Sweet Flavors, of which dairy is a component, but then again, so is bakery and confectionery.

I think a lot of our effort has been to continue to diversify the customers and the products that we're selling. But, yes, to get specific about dairy, dairy tends to be a more consolidated segment, at least in North America than perhaps other food segments would be. And so to that end, it's -- you are dealing with a lot of the large players. And as you're very well aware, some of them are doing well and some of them are not doing well. When you look at the -- for the year, the yogurt category North America was down 9 percent.

Private label, just in the fourth quarter, was down 12 percent. But you're seeing some brands out there that were down as much as 20 percent for the year. So those could potentially hurt if you've got a strong emphasis in that particular area. But I think it's a continued effort to diversify the business into that broader category as sweet that, I think, it's going to be important to us.

Brett Michael Hundley: OK. I wanted to ask you about your guidance. I mean, I'm putting pieces together as you guys have given your prepared remarks and I appreciate all the details that you did give. But your guidance is much wider than it was around this time last year and I was wondering if you could just address that and kind of continue to build that up for us. And if you can, give us your best estimate of -- well, first of all, is any currency benefit included in that and what it might potentially be?

Paul Manning: Sure. So I think the range is a bit wider, that's intended. I think we've got a lot of potential wins that we're working on and some of them are easier to predict than others. So I think that is certainly one input here. The -- related to FX, with the assumptions that we've made up until this point, we could anticipate a $0.04 to $0.05 benefit, a tailwind, if you could believe I'm saying that, for a year here, so that would be additive to those figures. I mentioned some of the headwinds on onion. I mentioned a little bit of the restructuring headwind, but those are all very much first quarter and, for the case of onion, first half-related items. But I think, in general, the range is a good range.

We're north of 8 percent and close to 15 percent on the high end. So I tend to say that it's wider because it could be more positive and I don't want to necessarily commit us and I don't want to disappoint anybody. So as per custom, we'll certainly tighten that range as the years -- as the year moves on. But you can imagine with -- if you're talking about a conversion or you're talking about companies launching new products, there can be a lot of science saying that they will right up to the point where they don't. And we don't necessarily always -- we can’t always predict that.

But I will say that there are some definitely positive signs here that would also support this -- the high end of this range. New product introductions were up in the third and fourth quarter in North America and that's -- they were down overall for the year, but we saw a little bit of an inflection point there. And I think that's definitely playing out in a number of our businesses right now.

We've already generated a lot of very nice wins, not only within the world of natural colors, but in sweet flavors and cosmetics, in BioNutrients. A lot of our technically driven specialty businesses we’re seeing that. So I think that's a very, very positive trend. So what we're seeing from a launch standpoint, it's kind of playing out in some of our businesses right now as well. So in short, I think these are good numbers and I think that we will tighten these up as we proceed throughout the year.

Brett Michael Hundley: And just one last quick one for me. I appreciate it. As we come back to M&A, you're now around this restructuring. You can devote more resources into the evaluation of M&A. Against that, the macro has been choppy. It's been tough in certain areas of the world. Competitive activity, there is an argument that competitive activity is heating up for your company. As you -- as you've looked back out across M&A -or across the M&A landscape, do you start to evaluate larger strategic tie-ups with other companies as opposed to before maybe just looking at bolt-on-type acquisitions or smaller acquisitions that could add something for you in a certain area? Do you start to evaluate or become more open to larger strategic transactions?

Paul Manning: Well, when I look at our pipeline of acquisitions that we're either in conversations with or interested in moving forward with, these could be small, this could be quite large. And they can come suddenly without warning or, you know what, maybe it's a little bit a ways from now. Again, predicting M&A, it can be tricky, right? Just because you walk and you talk to a company doesn't mean he wants to sell you his company or she wants to sell you her company.

There's a little bit of a dynamic there that you have to -- people have to actually want to work with you and they have to trust and they have to like you and all those important things if they're going to sell their business to you. But I think, philosophically, when we look at acquisitions, we look at where is there a important technical component of that business. So what is going to -- when you think about our strategy, our strategy is about how do we create a value proposition that places us in a position to have a truly dispensable product that's very hard to swap out, that is very value added for the customer and really supports their development ambitions and time line and everything like that.

When we think about acquisitions, we're really very much tied to those companies that have a strong technical ability. And I think this is in contrast to a market share purchase, which, for some cases, they're not always as technically linked to our business as some -- as the ones that I'm describing here right now. So I think, in short, it could be small. It could be big. It could really be across any of the areas of our business right now. But I think you should expect to see some of those during 2018.

Operator: Your next question comes from the line of Francesco Pellegrino from Sidoti.

Francesco Pellegrino: I'm not sure if I missed it. Did you give any details in regards to the acquisition, just the revenue over the trailing 12 months, the acquisition price? Did I miss that?

Paul Manning: No, you didn't miss it. We'll close later this quarter. And so, certainly, the details of the transaction, we can get into then. This would certainly be on the smaller range of things, but I think that when we get to the close, we'll give more details on that.

Francesco Pellegrino: So I assume your 2018 guidance of mid-single-digit growth for the Color Group doesn't incorporate the acquisition.

Paul Manning: Well, yes. From the acquisition standpoint, nothing specifically would go into that guidance. There may be a general notion that we could have an acquisition that could benefit us by a few cents. So with respect to the Globe, you're looking at about a $10 million business roughly in revenue that we would be closing on.

Francesco Pellegrino: Got it. OK. I know when you guys do acquisitions, you tend to focus in on differentiated technologies, whether it's IT, patents, unique capabilities. I think the last time we really saw something like that was when you got the inkjet acquisition. Anything proprietary with this acquisition? When you look at acquisitions, is that what you're still focusing in on? I know you said you're not looking to acquire companies based upon being able to capture greater market share. I just want to make sure that the focus is still the same on the unique aspects of what an acquisition will bring to the company.

Paul Manning: Yes. I think, first and foremost, it's technology-based, but we can cast a pretty wide umbrella here. This one had a lot to do with the supply chain security.

When you're talking about natural ingredients and extracts and things like that, there can be a lot of volatility in supply chains. And so we think we can bring of a more formal supply chain to a very, very important raw material in natural colors. But I think we can also do a lot to improve the product safety and quality that you see in some of these markets as well. So technology, kind of one path. I think vertical integration, another path. But hey, at the end of the day, I'm not saying we'd never do a market share because there are companies that do have very good technologies that would be additive. Perhaps, they may be complementing our portfolio.

We've got a lot of R&D work underway. And so we may be working on x number of things, but if a number of those are already -- another company is in possession of those, we would buy it. So the implication then well, sure, then you do get market share with that as well. So we -- it's a pretty wide net we can cast here and -- but I think, yes, you're largely on the right track.

Francesco Pellegrino: Got it. To just remove the noise of the 100 to 200 basis points in the reduction to the tax rate, on a consolidated basis for 2018, what type of operating income growth are we -- what's the operating income growth range given your segmented guidance, just bringing it all together?

Stephen J. Rolfs: So on the tax rate, Francesco, so our -- we are going to enjoy a favorable tax rate relative to what it would have been under the old law. Under the old law, it would have been about 27 percent. And we're saying about 25 percent under the new law. So keep in mind, in 2017, we did have some planning where we're able to lower our rate. We had a significant benefit, for instance, in the second quarter.

Our rate in '17 was probably 2 to 3 points lower than it would have been on a sustainable basis. So we're not going to see a big uplift year-to-year from this tax change. In fact, if we -- if it comes in at 25 percent, it'll be a little bit of a headwind. So you can take that -- the growth that's implied in our EPS range and essentially use that for the operating income range. In fact, the operating income would be maybe a point or 2 above that.

Francesco Pellegrino: OK. Since you're going to be looking at acquisitions more now that we have restructurings past the company after a long 5 years, where are you guys comfortable taking leverage to?

Paul Manning: Well, right now, we're at about 2.5, 2.6 debt to EBITDA. It's a tough question to answer. I mean, that -- certainly, that's comfortable from where we've been. Historically, we were in the low 1s. We're still very comfortable here. We could go up to 3 or even above that if there was a particularly good acquisition available or some other factor, right? I mean, CapEx right now is $50 million to $60 million last year.

We think that's a pretty sustainable level. But if there are opportunities to expand that in a very meaningful way, I think $50 million to $60 million is a good number for 2018. But I could see there's a very positive ROI project that could certainly boost up the figure. So historically, we've done buybacks consistent with whatever residual cash remained after our CapEx and dividend and acquisition considerations, but these are all levers. But again, you're looking at when do you believe the intrinsic value of your stock creates a value to buy, that's always a consideration, right? So I think 2.5 to 3 is reasonably comfortable. But again, this business is able to generate a lot of cash and when it's free of distractions like restructuring, although it wasn't 5 years, but it was less than that, we have the ability to generate more cash more consistently and I feel good about that.

That would suggest that, perhaps, we could go above 2.5 to 3 debt to EBITDA. If I saw a bad market and our products were not defensible and we didn't have good positions with our customers, you know what, maybe I wouldn't be comfortable at 2.5. So about 4 or 5 levers in there that we think about, but to really answer your question directly, we're comfortable now, but I could be more comfortable at a higher level.

Francesco Pellegrino: Got it. Are there any buybacks modeled into your guidance range for 2018? Anything out of the normal?

Paul Manning: Sorry, say that again.

Francesco Pellegrino: Anything out of the normal. Like, you guys have averaged about 1 million, 1.2 million shares over the past couple of years. There's nothing like 2 million, 3 million share buyback, like, incorporated into your guidance for 2018, is there?

Paul Manning: No, no.

Francesco Pellegrino: And then just a last question. You had mentioned in your earlier comments all about some recent food color wins. First off, could you quantify them? And then second, are they with new customers or existing customers? And I'll jump back into queue.

Paul Manning: Sure. So the new wins, I think, are going to be very, very positive. And I think you'll see that as we go through the year. I think you'll continue to see very good growth out of the Colors group. I guided to the mid-single-digit revenue and high single OP. You obviously saw us beat those numbers in Q4. So why don't we leave that part of it with the guidance framework.

But I think the thing that's very positive right now is the sophistication of these conversions to natural colors is increasing, right? Fundamentally, the customers want to match the synthetic color appearance, the synthetic color performance. And so any sort of notion that they would take half measures and have a more faded red or a faded yellow, I don't think we're certainly not seeing that and I don't think that's going to be a fixture in the U.S. market as it might have been in some other markets in the past. So that's a very positive development for us because we've spent a lot of time from an innovation and product development standpoint in our natural color part of our business. There's a lot of very, very important trends.

Titanium dioxide replacement is a very hot trend now. Caramel replacement is a very hot trend now. And then I think, in general, we have the ongoing commentary from a large -- a lot of these large multinational companies saying that they're committed to converting. And some of those had committed for 2018. Some of them still '19 and '20. But these are all really, really important aspects for our business. And this is, again, why the Globe acquisition continues to make a lot of sense to shore up the supply chain. We have a lot of very pretty broad array of core production on natural colors.

And so it's our effort here to continue to solidify that, so that when these transitions, as they continue and when they come in the future, we can give our customers a lot of confidence that, you know what, the products will be there, the products will have a high level of product safety and quality associated with them and we'll have less volatility in the pricing, which has been a factor for some of these raw materials in the market. To your point about which types of customers, we embarked years ago on the Color Group in anticipation of a decline on a lot of these big multinationals. We embarked on a program to really expand the sales and technical force to go after a much wider web of potential clients.

And I think that has been very, very successful. A lot of the new launches and, by the way, 80 percent now, it had been 70 percent, 80 percent of the new launches globally contain natural colors. So a lot of these launches are from, what I like to call, B&C customers and they are really moving the market on those. So being aligned with them has been a very, very important part of our success. However, the conversions, I believe, are coming and the conversions of products that you see in the store shelves now are coming. And the sophistication of these conversions and the expectations of the customers is growing and that's a real positive for us.

Operator: Once again, if you would like to ask a question, please signal us by pressing “star,” “one” on your telephone keypad.

Your next question comes from the line of Fintan Ryan from Berenberg.

Fintan Ryan: Look, just 2 questions for me, please. Firstly, just on the working capital position on inventories that you're carrying into 2018. Should we expect -- firstly, what was the main reason for the inventory build-up? And is that -- is raw materials inflation a factor behind us? Should we expect that inventory or working capital build-up to unwind into 2018? And then secondly, I know, previously, you've commented that the margins in Flavors & Fragrances had been held back by the European operations. Are you seeing an underlying improvement in those European margins, so far? And should we expect improvement in those going into 2018? Or is that more just North American issues that you've talked about resolving?

Stephen J. Rolfs: Fin, let me take the inventory question first. So on our balance sheet, the inventories are up $59 million year-over-year. There's about $15 million of foreign currency translation in that. So x currency, they're up about $45 million. That increase and most of it happened earlier in the year, it's really split about half in our Natural Ingredients business and about half in our Flavor business. So in Natural Ingredients, we have had several years with lower-than-normal garlic volumes. There's been a number of lower harvest of garlic.

And this year represents, to some extent, a return more towards normalcy there. There is some cost inflation in the Natural Ingredients inventories as well. And then the other half would be on the Flavor side. And there, we've just made a conscious decision this year to increase our levels of inventory in a couple parts of our business. Post restructuring, some of our ingredient plants run closer to capacity.

When you have a downturn or you have an issue in production, which inevitably happen during the year, we don't want to get behind the eight ball. And so we're encouraging those businesses to build a little bit more inventory. But that's really what's behind the build. And so I would not expect a $45 million uses of inventory next year. I would think it would be a more normal level tied to growth, maybe around $10 million or $20 million usage.

Fintan Ryan: And on the margins between the regions, please.

Paul Manning: Yes. So I'll take that part, Fin. So yes, you're right. Historically, Europe has not been nearly as profitable as the Americas for us on the flavor side of the business. Post restructuring, I'm pleased to report, we've had a lot of nice progress in Europe, not only in terms of growing flavors, but also improving the margin. The efforts to take out costs to these consolidations proved to be very good. Unlike this last restructuring, it was not the disruption that this one represents. And so -- but we were able to come and, post-restructuring, have a very, very strong focus in these areas. And I think it's -- Europe is a much improved situation today. But we certainly still have a long way to go, but we're -- I'm pleased that the fact that we've made progress and we've grown our margins there.

Operator: Your next question comes from the line of Curtis Siegmeyer from KeyBanc Capital.

Curtis Alan Siegmeyer: I was just wondering if you could maybe talk about some of your other -- the growth rate in some of your other businesses, in particular the cosmetics business, maybe remind us how big you think that business can get for you guys longer term, what sort of growth you saw for the full year in 2017 and what your expectations are for '18.

Paul Manning: So I think the growth, if we kind of break it into the segments, it was pretty broad-based within the Color Group. I mentioned kind of in the opening that we saw nice growth in cosmetics. We certainly had solid growth in a number of our Food Color businesses as well as pharma and technical colors. So I think to get to the mid-single, again, I think -- again, it would be a broad-based growth in, quite frankly, each of those categories with maybe a little bit more out of inks that we saw in '17. So certainly cosmetics continues to stand out.

But really, the businesses that do the best are the ones that have a very strong technical applications, internal manufacturing, robust supply chain model. And so each of those businesses that I just referenced are very much aligned with that concept. On the Flavor side, we saw very good growth on our BioNutrients business. Again, fits that mold of what I just described. And then pockets within savory, pockets within our beverage that we grew, again, very much focused on the flavor side of the house. So it's really -- I think, as you look at 2018, where can we get the growth from? I would tell you that, once again, it should be very, very broad-based. And cosmetics would be right there in the strong performance category that we saw in 2017 and 2016.

Curtis Alan Siegmeyer: Great. And then if you could, would you be able to estimate roughly what percentage, maybe on a normalized basis, of your flavors sales are up income would typically be produced from the plant that would still have the challenges in 4Q?

Paul Manning: Well, I could estimate it, but I'd probably get it wrong. I don't have that one off the top of my head. I can get back to you on that one.

Operator: There are no further questions at this time, sir. You may continue.

Stephen J. Rolfs: OK. Thank you very much, everyone, for your time this morning. If anybody has any follow-up questions, feel free to call the company. With that, I'll conclude our call for today. Thank you.

Operator: This concludes today's conference call. Thank you, everyone, for your time. You may now disconnect.

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