SENSIENT TECHNOLOGIES CORPORATION

Moderator: Kim Chase
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Operator: This is conference # 90275041.

Operator: Good morning, everyone. Welcome to the Sensient Technologies Corporation 2016 third-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: Thanks. 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 2016 third-quarter financial results. I am joined this morning by Paul Manning, Sensient's Chairman, President, and Chief Executive Officer. Yesterday we released our 2016 third-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 periods. These non-GAAP financial measures remove the impact of restructuring costs, currency movements, 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 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.

Now we'll hear from Paul Manning.

Paul Manning: Thanks, Steve. Good morning. Sensient reported adjusted earnings per share of $0.83 in the quarter, compared to $0.77 in last year's third quarter, which is a 9 percent increase in local currency. Revenue increased 2.5 percent in local currency driven by solid revenue growth in both Color and Asia Pacific.

Adjusted operating income increased by 1 percent in local currency as solid growth at each of the groups was offset by the normalization of corporate costs. Foreign currency translation reduced both revenue and adjusted operating income by approximately 1 percent in the quarter.

Sensient also continued its strong cash flow performance in the third quarter. Cash flow from operations was approximately $50 million in the third quarter, up significantly over last year's results. Year-to-date operating cash flows are over $150 million, up over 60 percent.

Color had another outstanding quarter led by strong performances from the Food Colors and Cosmetics businesses. In local currency, revenue increased by approximately 7.5 percent and operating income increased by approximately 15 percent.

The Group's operating profit margin improved to 21 percent, up 140 basis points compared to last year's third quarter. The Food Color businesses delivered double-digit profit growth and solid revenue growth, driven by the continuing transition from synthetic to natural colors.

Cosmetics reported local currency profit growth of about 10 percent in the third quarter, primarily due to higher sales of surface-treated pigments and hair dyes. The specialty inks businesses made significant progress this year, and we expect further improvements in the fourth quarter and beyond.

The interest in natural colors for food and beverage applications remains strong in most regions around the world. This year, approximately 75 percent of all new product launches globally featured natural colors.

A lot of the activity in natural color conversions is coming from local and regional manufacturers or private-label brands. We are also starting to see some launches from the larger consumer product companies, and we expect that this trend will continue to gain momentum.

Our natural color sales have been strong all year, with double-digit sales growth throughout North America, South America, and Asia Pacific. In the US, a little more than one-third of all products on the shelf currently use natural colors, and interest in natural colors is growing in most other regions around the world, so there is enormous room for growth.

We are the market leader for food and beverage colors, and our technical capabilities and robust innovation program make us uniquely positioned to lead the conversions to natural colors for the next several years.

Color has delivered a strong performance so far for this year, with year-to-date revenue growth of 9 percent and profit growth of 12 percent, excluding the impact of currency. Last year's fourth quarter included a one-off sale of natural colors, which enhanced an already strong performance by the Food Colors business. When we remove the impact of that transaction, we expect fourth-quarter 2016 revenue to be up by mid-single digits with double-digit profit growth, excluding the impact of currency.

In Flavors & Fragrances, we are progressing with our efforts to shift the group's product mix from simple ingredients to more complex flavors, flavor systems, and fragrances. We are also progressing with our restructuring program and other efforts to lower costs. A combination of upgrading our product mix and reducing our cost structure will enable us to deliver sustainable profit growth and additional operating profit margin improvement for the years to come.

Flavors & Fragrances had a good quarter, delivering approximately 4.5 percent profit growth in local currency. The group also continues to improve its operating profit margin, which increased 100 basis points to 16.1 percent for the quarter. Revenue was off approximately 2 percent in local currencies stemming from a number of factors including culling activities.

The Sensient Natural Ingredients business delivered solid revenue and profit growth, driven by higher sales volumes. The beverage flavors businesses in North America and Europe also delivered strong results, with both businesses reporting double-digit profit growth in the quarter. We also had strong new wins in fragrances and sweet flavors.

Flavors & Fragrances has come a long way in the past few years, but we have a lot more work to do, particularly with optimizing our plants post-restructuring. I'm pleased with the group's margin improvement. If we go back a few years, the group's operating profit margin was 13.8 percent, which means we have made considerable progress to get the margin above 16 percent, and we continue to see encouraging signs below the surface in terms of new product development and projects in our sales pipeline.

For example, I've spoken about the mix improvements that we're seeing in fragrances, with higher sales of fragrance compounds replacing some of our less-competitive aroma chemicals. We have seen other examples like this in most of our flavor businesses, and our commercial teams are focused on winning with innovation and new technologies.

We are progressing with restructuring, and it should be effectively completed by the end of the year. Restructuring has been a challenge, and the related distractions have complicated the efforts of implementing new strategic initiatives. We are continuing to work on optimizing our plants to improve efficiencies.

The affected businesses will continue to improve, with lower costs and better executions against their respective strategies once we move past restructuring. There are a lot of positive signs in Flavors & Fragrances, most prominently the margin improvement. The group delivered 100 basis points of margin improvement in each of the last two quarters, and we expect Flavors & Fragrances to deliver at least 100 basis points of margin improvement again in the fourth quarter.

In terms of profit growth, we expect double-digit profit growth excluding currency in the fourth quarter. For the year, we are expecting operating profit growth to be the mid to high single-digit range in local currency.

Asia Pacific also delivered strong results in the quarter, reporting double-digit growth for both revenue and profit in local currency. We saw strong performances in several markets including Southeast Asia and Japan.

We believe we can continue to generate strong growth in Asia Pacific, and we are making significant investments to expand our capabilities in these markets. We opened a new R&D center in Singapore earlier this year. This facility gives us state-of-the-art capabilities that will allow us to work more closely with customers and to sell more sophisticated products in the region.

We have been adding technical staff throughout the year, and the new resources have already had a positive impact on the group's performance. We're also continuing to invest in local production capabilities throughout Asia Pacific. Expanding our local manufacturing capabilities will reduce both the production and logistical costs, and it will shorten lead times for key products sold throughout the region.

We are excited to add new capabilities to the region, and we see a very bright future in these markets. Asia Pacific has delivered strong results in both the quarter and year-to-date periods, and I reiterate my expectations for the group to achieve high single-digit profit growth and potentially double-digit growth in local currency for 2016.

Corporate costs were up from last year's third quarter primarily because performance-based compensation costs have returned to a more normal level. This is in line with our philosophy to strengthen the connection between pay and performance.

We made several changes to increase this connection over the past few years, including changing the mix of our long-term equity incentive awards so that 100 percent of those awards consist of performance stock units. Collectively, we believe these changes, combined with our robust stock ownership and hold-to-retirement requirements, closely align executive compensation with shareholder returns and expectations.

Our adjusted EPS results for the third quarter were in line with our expectations, and we have tightened our guidance for adjusted earnings per share to be in the range of $3.20 to $3.23 for the year. Note that our initial guidance for the year was $3.15 to $3.25, and the current guidance is at the high end of that estimate.

Overall, I'm very pleased with the Company's performance so far this year. In local currency, adjusted EPS was up 8 percent in the third quarter and 6 percent year-to-date. Cash flows have been very strong, and we are on pace to hit all-time highs for both cash flow from operations and free cash flow.

We are sharing this success with our shareholders. Yesterday, the Board approved an 11 percent increase to our dividend, raising our quarterly dividend to $0.30 per share or $1.20 per share on an annual basis. This will increase our dividend payout ratio above 37 percent, based on our adjusted EPS expectations for this year.

The dividend increase demonstrates our confidence in future earnings and cash flows. We will continue to take a long-term approach to capital allocation, focusing on strong capital projects and opportunistic share repurchases.

I'm seeing a lot of positive signs in both our operations and our financial results, and I'm very optimistic about the Company's future. Steve will now provide you with additional details on the quarter.

Steve Rolfs: Thank you, Paul. Sensient reported operating income of $51.2 million in the quarter, compared to $43.2 million in the comparable period last year. The operating income results include restructuring and other costs of $3 million in this year's third quarter and $11 million in last year's third quarter.

Excluding the restructuring and other costs, adjusted operating income was $54.1 million in the quarter and $54.2 million in last year's third quarter. Foreign currency translation reduced both revenue and adjusted operating income by approximately 1 percent in the quarter.

Third-quarter diluted earnings per share from continuing operations were $0.79 compared to $0.61 in last year's third quarter. Restructuring and other costs reduced earnings per share by $0.04 in the quarter and by $0.17 in the comparable period last year.

Adjusted earnings per share from continuing operations were $0.83 in the quarter and $0.77 in the third quarter of 2015. Foreign currency translation reduced adjusted EPS by 1.3 percent in the quarter; and in local currency adjusted earnings per share grew 9.1 percent.

For the first nine months of this year, operating income was $142.3 million compared to $134.7 million in the first nine months of 2015. The operating income results include restructuring and other costs of $19.9 million and $28.6 million for the first nine months of this year and last year, respectively.

Excluding the restructuring and other costs, adjusted operating income was $162.2 million in the first nine months of this year and $163.3 million in the comparable period last year. Foreign currency translation reduced both revenue and adjusted operating income by approximately 2 percent year to date.

Diluted earnings per share from continuing operations were $2.04 for the first nine months of this year compared to $1.89 for the same period last year.

Restructuring and other costs reduced diluted earnings per share by $0.38 and $0.45 in the year-to-date periods for 2016 and 2015, respectively.

Year-to-date adjusted earnings per share from continuing operations were $2.42 compared to $2.34 for the same period last year. Foreign currency translation reduced adjusted earnings per share by 2.6 percent; and in local currency, adjusted earnings per share increased by 6 percent year to date.

As Paul mentioned earlier, we continued to generate very strong cash flows in the third quarter. Cash flow from operations was $49.7 million in the quarter, up more than $30 million over last year's result. Year-to-date, cash flow from operations was over $150 million, compared to $93.5 million in the first nine months of last year, and $128 million for all of 2015.

We are focused on reducing our working capital balances; and despite seasonal inventory increases, these efforts were a significant reason for the increase in cash flow during the quarter.

Capital expenditures were $23.7 million in the quarter, and our forecast for 2016 remains between $75 million and $85 million. Our balance sheet is strong, debt to adjusted EBITDA was 2.4 at the end of September, and we plan to keep debt levels in line with an investment-grade profile to maintain the flexibility for capital expenditures, dividend payments, share buybacks, and acquisitions.

We will continue to take a balanced, prudent, and long-term approach to our capital allocation strategy, which includes evaluating 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: Thank you. 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. And your first question comes from the line of Mike Sison with KeyBanc.

Mike Sison: Hey, guys; nice quarter. Paul, in terms of -- you commented that in natural colors, that some of the bigger consumer products companies may accelerate some launches. Can you maybe just talk about what areas? Will they start in the beverages or certain areas of foods?

Paul Manning: It's very broad-based. In fact, we see activity across really every one of the segments from beverage to processed foods, things like cereal to dairy.

Now, some of the products I think have historically had a higher use of natural colors. In other words, when you think about beverages, when you think about some dairy products, many of these products have already an undertone of a health marketing message. So I suppose if you were to take a cross-section of beverages and a cross-section of processed food today on the market you'd see just a lot more beverages containing natural colors than the processed foods.

But what's changed now is, as this market continues to develop and as companies continue to make pledges to convert their products from synthetic to natural, we see in our pipelines --not only in the US but throughout the Americas and throughout Asia -- a very broad-based effort. And many of our new wins are in a lot of these new areas that we would not traditionally see that type of activity.

If I could make another point on that one, too, one of the things I emphasized in my comments is that this is very much a global conversion. I think most folks think about this and they're thinking US, and certainly that is true. But probably our fastest-growing region right now is in Latin America. Literally everything from the Rio Grande down to the Straits of Magellan, we're seeing very good growth in natural colors.

Similarly, there's a lot of activity in Asia Pacific and the Middle East. So very broad-based approach.

Now, my comments for what foods are you going to see it in, that may vary a little bit. My answer was mostly oriented towards a North American market. In Asia, that distribution in the pipeline may be a little bit different, not significantly different. And similarly, that distribution in places like the Middle East or Africa may be a little bit different.

But I think in general what I said, you can apply that pretty fairly.

Mike Sison: Great. Then given this trend could last for some time, can you talk about your capacity? Do you have enough capacity to support the growth? And for how long? Will you need to consider adding some new capacity?

Paul Manning: Well, we feel right now pretty good about capacity. We have a five-year capital plan in every one of our businesses that accounts for everything from outsized market growth to you-name-it.

I think a lot of the investments we've made over the last six or seven years, and even before that, as we acquired these businesses back in the late 1990s, we had an eye towards how do we expand this capability in the future? So many of our investments in 2010, 2011, and 2012, etc., very heavily driven towards technology. Many of these technologies today are enabling us to win with customers in ways that our competitors cannot, because they simply don't have the capability.

But in the sense of capacity, the capacity investments, we've made significant ones, we've made broad-based capacity. In other words, it's not just in the US. We have operations to support natural colors all over.

But I think probably most importantly, the designs of our plants, the acquisition of land surrounding our plants, we had an eye towards this market becoming very, very large one day. So to that end I feel very good about our current capacity. And quite frankly, I can't wait to add more because I think this is a -- we're really just at the start of this transition in so many of these markets.

Mike Sison: Right, right. OK. Then one quick follow-up on the Flavors segment. Revenue was down a little bit. You suggested some culling activity. Is that primarily the issue there?

And then when you think about -- as we try to assess how Flavors is doing down the road, is it more important just to focus on earnings growth? Largely as you bring in -- as you move up the curve to more fragrance compounds, maybe volume doesn't go up, but the mix improves operating income.

Is that the way to think about it? Or do you actually do need volume growth to grow earnings there?

Paul Manning: No, I think there is a, the answer is that fundamentally operating profit margin will be a very good metric to think about. We have -- so part one of that answer would also include the notion that we've probably culled about half of what we would intend to cull from that portfolio.

Mike Sison: OK.

Paul Manning: Now the future of that culling could be very much related to a number of factors: pricing actions; it could be related potentially to the sale of a product line or an asset; it could be any number of factors.

So the timing of those things is not necessarily always highly predictable. But certainly the intent and the strategy to essentially divest ourselves of some of these nonstrategic and lower profit margin products is very prevalent throughout these businesses.

So, I think as you look at this year, my guidance is essentially flat revenue for Flavors for the year, and that's about where we are. So there's been, clearly, some culling activity there.

As you look at 2017, there's going to be more culling, and that is expected. I don't want to try to give you a sense of is it a Q1 or Q3 or Q4? That's harder to say.

What's easier to say is that, yes, I think there will be a fair amount of activity in 2017 as I look here in my crystal ball.

So, yes, I think operating profit margin will be very, very important. It's somewhat analogous to the Color Group over that six- or seven-year period were there were times where you saw a lot of flat revenue but you continued see operating profit growth. That was very much intended, because there was a lot of culling that was associated with that effort.

So I think you're going to continue to see a similar analogy here for Flavor at that sort of the highest level. We don't necessarily need in every quarter to see revenue growth to see profit growth. And it's going to be driven by again that mix, that restructuring, pricing where we can get it, and then of course culling.

Mike Sison: Great. Appreciate it. Have a good day.

Operator: Once again if you would like to register a question please signal us by pressing star one on your telephone keypad. Your next question comes from the line of Francesco Pellegrino with Sidoti & Company.

Francesco Pellegrino: Morning, guys. So, just a quick update on the timeline for the restructuring for Flavors & Fragrances. Still first-half 2017? And do we have an update for additional costs to be incurred?

Paul Manning: No, I think that what we've been highlighting in the Q each quarter here is fairly consistent. I think most of the big charges that we've taken I think we've taken.

You've probably noted by now that the majority of these costs, approximately two-thirds of them, are noncash in nature, obviously related to closures and writing off some assets or writing down other assets and property and the like.

But the cash components -- the severance, most notably -- I think that's probably about -- mostly the hay is in the barn on that one. I think we're more or less there.

There could be some other smaller activity, but the bulk of that activity is complete. In terms of the operational side of restructuring, we fully anticipate to close our last site the end of this year, transfer those products.

There will be a little bit of a carryover of restructuring into other related costs that you'll see in 2017. To some degree that will be related to things well beyond our control like pension accounting, which is a bit of a nebulous topic for mere mortals; but for others, it's pretty garden-variety stuff.

So you'll see some of that bleeding over into 2017, but I think the vast bulk of the cash has been done and even the vast bulk of the noncash has been completed as well.

Francesco Pellegrino: It was just a housekeeping item for me. I just want to move on to, I guess, where the conversation with Mike was. Just keeping with the macroeconomic trends that you were discussing previously and just how food and beverages -- you see a lot of potential at retail supermarkets it sounds like. Are you running into any product reformulation challenges as you were seeing what could be some really nice growth for a lot of new product categories coming around?

Paul Manning: Well, I would say as a product -- and I think what you're getting at here is as companies convert maybe some of their existing brands to a brand that embodies a more natural look and feel and taste, that tends to be fairly complex. And that's been probably one of the biggest factors in why you see some brands moving slower, whether they're converting to a natural sugar to a natural color or some other element of naturalness in their product.

Synthetic products, they work really, really well. They are very robust. They can survive a lot of production complexity. They can be stored on shelves at 150 degrees.

There's a lot of great things that you get obviously with synthetic chemicals. God didn't necessarily intend some of these natural products to exist in the way we want them to in a manufactured product.

This is why innovation in this industry is so incredibly important, and this is why we've been managing innovation so closely and investing so much money in that, because the nature of these products is such that -- hey, for every different application, and even in cases some products, you may have a totally different underlying technology associated with getting to that conversion from a synthetic to a natural color.

So I think this bodes very well for Sensient, who has really invested heavily in this area not only on the capital side but on the innovation, the people that we've brought in to really spearhead this effort. And I think just the broad-based capabilities that we have throughout the world has suited us very well.

Francesco Pellegrino: Just one thing about the Colors, I think it's a little bit more apparent as you transition from synthetic colors to natural colors. But when we look at the Flavors & Fragrances side, you had mentioned that Flavors will be a rather interesting component going forward.

When we look at the product mix within Flavors is it going to be more like sweet products or savory products that you think will help drive top-line growth? Or will it be a rather fair mix between the two?

Paul Manning: Ideally I'd like it to be a fair mix. Now, these businesses are not all the same size, but the one thing that is different about the business is that, as you look back at the history of this Company, some of these segments -- whether beverage or savory or sweet -- were far more involved with selling flavors.

As I've noted a number of times in the past, when you look at our savory business, the history of that business has essentially largely been attached to selling ingredients, things like yeast extract and hydrolyzed vegetable proteins, which in some markets constitute the flavor, but in the markets that we're really focusing on they are really more just like a building block.

So from that standpoint I would expect to see the largest percentage growth of flavors to be in businesses like savory flavors. But I see, based on the customers and the markets that we are pursuing, the technology that we're developing, we intend to have a very broad-based approach.

The chemistries that separate beverage and sweet are not great. The chemistry that maybe separates beverage and sweet from savory are much greater, but not impossible. But I think that's a little bit of the difference as well.

So, yes, this is very much a broad-based approach, because many of the customers we deal with and work with, they have a broader portfolio. They deal in perhaps any one of these flavor categories.

But as you look at each of the markets, we may have a stronger outcome in some, simply because of macroeconomic trends. But in other cases, the stronger outcome just simply may be related to the size of the current Flavor business today.

So, yes, you're not going to -- I don't think you're necessarily going to hear me say: Hey, we're going to really focus in on beverage and maybe less so on sweet and flavors. That's not my thinking on it.

Francesco Pellegrino: OK. Just when I think about your end-market customers -- and I don't know if maybe there's a data point that you have, and if you do, I would think it would be more skewed towards retail as compared to food service. But what percentage of your food and beverage products end up at retail as compared to food service?

Paul Manning: Well, the vast majority, I would say, would be retail. But that's not to say that we don't have a significant presence in food service.

I would say our presence in food service would be stronger in Color than it is in Flavors. But to give you the distribution, I don't have that off the top of my head.

We would have to do a little work on that one to get you an answer there. But I can tell you this, that certainly the majority of it is related to retail.

Francesco Pellegrino: I'm speaking with more and more management teams; and depending upon where they are situated, the concern has been that food service is losing share to these retail supermarkets, which I think positions Sensient well to capture a changing consumer and a changing consumer's habits. When I just look at some of the differences between the Colors Group and the Flavors & Fragrances Group, is it fair to say that we should continue to expect Colors to outperform Flavors & Fragrances at retail?

Paul Manning: I think for the time being, sure. I think the macroeconomic trend towards natural colors at this point is very compelling. In our position across a broad base of A, B, C customers -- food service, you name it -- it's quite considerable in Colors.

A few years ago, in anticipation of this perhaps slowdown in growth in certain segments of the market, we invested very heavily in a sales and technical force. So rather than try to go out and find some little color company and go after little customers, we just invested organically in that effort. So I think that has positioned us very well to be successful, whether our growth is going to come from the A, B, or C, customers.

Now on Flavors, we have a little bit of a different scenario. We weren't as invested in those big A customers because, again, we weren't necessarily traditionally focused exclusively on Flavors. So much of our effort on Flavors is more of these B and C local, regional generics. In some cases, quick-service, in some cases, what you would call a retail-type outfit.

And I think that positioned us very well to take advantage of the fact that, to be perfectly frank about it, they're launching more products more quickly, and they are more perhaps dependent upon a supplier to bring a product to market -- certainly more so than what you would view as or I would call a big multinational or an A customer.

So yes, I think the fact that we invested there in Colors, that's positioning us well for whatever shift you may see in the market. But I think because Flavors were not as invested or we don't have as much business with those bigger brands, I think it positions us to be fairly nimble in terms of where we spend our time today.

Francesco Pellegrino: OK. That color was helpful. The last thing before I jump back into queue, when it comes to your raw material costs, I get that no single raw material accounts for more than 3 percent of cost. But it always seems like something pops up every quarter, whether it was like garlic powder or onion raw material costs.

Anything that we should really be focusing in on that's moving one way or the other, whether it's going to crimp margins or help margins, over the short term?

Paul Manning: No. I think certainly there is a well-documented shortage of garlic in the market, the global markets. That's not just a US phenomenon.

Garlic, as you probably know, is grown in a lot of places -- the US, China, many parts of the world. That would be an area that, just due to shortages from lower crop yields, that has been an area where raw material costs have certainly -- we talked about this year.

But, yes, beyond that, most of the other products there are substitutes. Sure, we could talk about vanilla; we could talk about citrus, things of that nature. But as you read it back to me in the first part, it's only 3 or 4 percentage points of the overall business.

The reality is, some of these things come suddenly without warning. So to that end, whether it was eggs last year or vanilla this year, there's invariably going to be a raw material that you're going to have to try to mitigate the impact of that inflation.

Ideally, pricing is an avenue. But in a lot of cases we work directly with the customer to substitute the product. So if it's a raw material X, and you have a substitution which consists of raw material Y and Z, many, many customers are very interested in taking that approach. OK? We understand. Help us to formulate out of that raw material.

Now some products and based on some labeling requirements, that can be very, very difficult. And quite practically speaking, that's not a solution in a six- or nine-month period. For smaller brands, oh, yes. You could do that much more quickly.

But that is always a lever as well that you could utilize. But I think between those two levers I think we fared pretty well over the years, despite a lot of inflation in some unusual raw materials that we've utilized. But, other than garlic, you may not necessarily hear us talk about those because the impact we've been able to mitigate.

Francesco Pellegrino: I know you guys have been mentioning over the past couple calls about garlic. I just wanted to make sure nothing else popped up, as it seems -- nothing has, but it could always be a surprise.

That's it for me. Thanks again for your time, guys.

Operator: Your next question comes from the line of Curt Siegmeyer with KeyBanc Capital Markets.

Curt Siegmeyer: Hey, guys. Hey, on Flavors & Fragrances, just as far as the top line, you mentioned culling being a big piece of that. Did that accelerate relative to 2Q? Would the top line have been closer to flat or positive potentially, excluding culling?

Paul Manning: Yes, I think that's a fair assessment on both counts. Oftentimes when you cull on Q2, well then you'll feel a similar impact on Q3 or 4. But there is a seasonality effect on some of these products.

So in other words, if you cull say a dairy-related product, yes, the impact would more than likely be greater in certain quarters over another. Same goes for a beverage because again there is some seasonality in those products. So that may be some of the effect that we would feel as you cull.

Curt Siegmeyer: OK. That makes sense. You mentioned in your prepared remarks Natural Ingredients and the beverage business both being pretty strong in the quarter. Were there any categories that potentially look a little softer or are showing signs of weakness at all? Or would you characterize it more as relatively stable in some of the other businesses?

Paul Manning: Yes, I would say that in addition to the beverage and the SNI that you mentioned, certainly we had a lot of very good wins in our sweet flavors business, a lot of very good wins in our fragrance business in the fragrance compound area.

I would say probably, when you're thinking about the other parts of the business, savory would have trailed those segments in terms of its wins. There was probably a little bit of a trailing factor in Europe as well versus North

America and certainly versus Latin America, where growth was quite strong. And the same goes, ditto for Asia Pacific where growth was quite strong. So, does that clarify that a bit?

Curt Siegmeyer: Yes, yes. Then if I could, just a quick one on Colors. Obviously you guys have shown really nice growth there. It last quarter was up double digits, moderated to the mid single-digit range, and I know there's these transitions going on.

So I guess the question is, how should we think about just variability -- and I'm talking about the top line -- variability in the top line quarter to quarter as these new wins that you've talked about occur and these conversions occur? Should we think of or expect more variability than maybe in the past, or what are your expectations around that?

Paul Manning: Well, if I off the top of my head remember, I think Q2 top-line growth in Colors is about 8.6 percent; and in this quarter it was about 7.4 percent. So in local currency, they were both above 10 percent, so I'm pretty happy with that. If it's plus or minus a percentage or two at that level, I can probably live with it and let the guys in Color go on without being punished.

Curt Siegmeyer: Great. Thanks.

Operator: Thank you. We have approximately five minutes left and we'll try to handle one or two more questions. If anyone has a follow-up question that we were unable to get to, you may contact Kim Chase at Sensient Technologies at 414-347-3972. And you next question comes from the line of Christopher Hillary, Roubaix Capital.

Christopher Hillary: Hi, good morning. Could you just speak to when you think you'll be complete with the culling in Flavors & Fragrances, and what you think the growth rate might look like after that?

Then secondly, do you care to comment at all on the Ink business and some of the growth initiatives that have been in place there?

Paul Manning: Sure. So culling, I would expect the bulk of that activity to be completed by the end of 2017, although given my earlier comments that that's -- there could be a little bit of plus or minus on that one. But I think we will be substantially to where we want to be by the end of 2017.

In terms of the Inks business, as I referenced in the prepared comments, we showed a tremendous improvement versus prior year in that business. I think this is a market that is very, very interesting, from my standpoint.

You've got a massive conversion opportunity here -- not unlike, although very different, but not unlike what you're seeing in the food market, this conversion from a synthetic to a natural. But in the industrial inks world you're seeing a conversion from an analog solvent-based product, with all the related environmental problems and the like, converting to a digital, which is to say variable data type transfer of information to a printer based on water-based inks. So to me this is an inevitability of the market.

When you consider the fact that there is a tremendous amount of pollution in the world generated from analog solvent-based inks, and the opportunity to convert those to a water-based product, that to me is a very obvious and compelling market to be going after. Now when you also consider the fact that it's a very technically driven market in many of these segments, that, too, is a very appealing market to us, because we see technology in that type of industry as a real broad-based differentiator for us.

Now we've historically operated in a lot of the textile world. Polyester was our ECS acquisition that dates back to I think the late 1990s; and then as well our acquisition of Xennia, which got us into products that were suitable for natural fibers -- cotton, in other words. So, the sky is the limit there in terms of where you could take that market and where that conversion will take place next.

Because if you look around you, just about anything you see with a color on it -- furniture, rugs, apparel, many different products -- they are printed in such a way that they could be suitable or they could be eligible for a conversion to digital aqueous inks. We think this is an enormous opportunity. This is a big part of why we made the big investment in Switzerland a couple years ago.

Yes, last year was a bad year. But you know what? I'm undeterred.

This is a terrific market. The investments we made are right. If I'm wrong -- I don't think I am, because all the indicators in the market and all the activity we see from the OEMs, printer and otherwise, are that this is the future.

This is where the printers are being developed for. This is what the customers want. And it's our goal to be on the tip of the spear of that market.

Christopher Hillary: Great, thank you.

Operator: Thank you. At this time, I would like to return the floor to management for closing remarks.

Steve Rolfs: OK. Thank you again for your time this morning. That will conclude our call. If there are any follow-ups, as the moderator said please feel free to follow up by calling the Company later. Thank you.

Paul Manning: Thank you.

Operator: Thank you for your participation in today's Sensient Technologies Corporation 2016 third-quarter conference call. You may now disconnect.

END