SENSIENT TECHNOLOGIES CORPORATION

Moderator: Stephen Rolfs
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OPERATOR: This is conference # 8442319

Operator: Good morning, everyone, and welcome to the Sensient Technologies Corporation 2018 Fourth Quarter and Year-End 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.

Stephen Rolfs: Thank you. 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 2018 fourth quarter financial results. I'm joined this morning by Paul Manning, Sensient's Chairman, President and Chief Executive Officer.

This morning, we released our 2018 fourth 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, the impact of the 2017 U.S. tax legislation, depreciation and amortization, noncash 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.

Now we'll hear from Paul Manning.

Paul Manning: Thanks, Steve. Good morning. Sensient reported adjusted earnings per share of $0.79 in the quarter compared to adjusted earnings per share of $0.84 in last year's fourth quarter. Revenue in the quarter was up approximately 1 percent in local currency. Our consolidated earnings in the fourth quarter were down slightly, which is in line with the guidance we communicated during our third quarter call. During that call, we indicated that the significant headwinds we faced in Flavors & Fragrances of onion pricing and cost and the restructuring fallout would be behind us in the fourth quarter. We can now confirm that these issues are behind us.

Our overall flavor and Color results were not as strong I would have liked, but our performance-based compensation adjusted accordingly to allow us to meet our overall earnings expectations for the quarter.

Color delivered another nice quarter of local currency revenue growth, primarily driven by solid growth in food colors. For the year, Color delivered approximately 5 percent local currency revenue growth, and operating profit was in line with last year's results.

Revenue for the Food Colors business has been very strong this year, particularly in North America as natural color conversions and sales continued to grow at a strong pace.

Our sales mix and higher input costs held back our profit growth in the second half 2018. We expect to address both of these issues in 2019 and return the profit growth as the year progresses.

As we forecasted and discussed during our last quarter's call, the cosmetic business continued to experience softness due to inventory stocking. Over the last several years, there has been a significant uptick in new product launches and strong demand, particularly in the makeup market. This began – this demand began to moderate, starting in the third quarter, creating a softness in destocking that we are currently experiencing.

We continue to see strong demand in the premium segment and in Asia Pacific and less demand from the mass market and smaller customers as many have exited the industry.

Sensient's cosmetic business is strong and technically differentiated from our competitors, and we expect it to return to growth over the course of 2019.

The outlook for the Color Group remained strong. In 2019, we anticipate new wins in each of our businesses, continued conversions of existing food and beverage products to natural color solutions and improved mix and pricing to offset recent increases to input costs.

Flavors & Fragrances revenue was in line with last year's fourth quarter and full year results. We had now moved past the very significant issues that affected us throughout 2018.

As mentioned throughout the year, the group was impacted by lower volumes due to the restructuring hangover, along with higher onion cost and onion pricing pressure. Within our North American Sweet & Beverage business, service levels remain excellent, and our sales have stabilized. We're also experiencing more stable pricing and improved margins with our onion product line and anticipate this to continue to improve throughout 2019.

During the fourth quarter, the Flavors Group experienced strong results in the BioNutrients, European Sweet & Beverage Flavors and Fragrance businesses. These strong results were offset by lower market demand in North America and Europe, particularly in certain product categories, including soup and yogurt.

Overall, the Company's fourth quarter results were also impacted by soft demand in a number of our markets, as larger companies continued to focus on core brands and moderate launches of limited-time offerings. This dynamic has impacted both the Color and Flavors & Fragrances groups.

As we look ahead to 2019, we expect low- to mid-single digit revenue growth and mid-single digit profit growth from our Flavors & Fragrances Group. The group has new leadership, and with our restructuring and onion complications behind us, we have a solid foundation for growth.

For the Color Group, we expect mid-single digit revenue and profit growth. We continue to see strong demand for natural colors, and we are well positioned to meet our customers' demand for technically differentiated solutions.

And for Asia Pacific, we also expect mid-single digit revenue and profit growth based on investments we have made across the region.

Capital allocation is a constant focus. Capital expenditures were $51 million for the year, consistent with our guidance of $50 million to $60 million. I anticipate a similar outcome in 2019. We acquired two businesses in 2018, and our Board of Directors increased our quarterly dividend by 9 percent to $0.36 or $1.44 per share.

We reduced debt in the fourth quarter by over $50 million, and we will continue to prioritize debt reduction in 2019. Cash flow will be a priority in 2019, and we have many levers to improve it.

Through a disciplined approach to capital spending and inventory investments, we expect to grow our free cash flow at a rate in excess of our EBITDA growth. We will also evaluate opportunities to buy back stock.

On the corporate governance front, we have engaged in significant board refreshment in recent years, and we will look to add another new director in 2019. This should be our sixth new director added since the beginning of 2014.

In the area of corporate responsibility, Sensient remains committed to continuing to enhance our environmental, social and governance practices. I encourage you to take a look at our fourth annual corporate responsibility report, which is now available on our website. In this report, you will learn more about Sensient's actions to promote strong ethics, good corporate citizenship, legal compliance, product and employee safety, and environmental stewardship and sustainability.

We experienced a number of unusual circumstances in 2018. However, I remain very optimistic about our strategy, customers and end markets. The investments we have made position us for positive returns in the upcoming years.

Steve will now provide you with additional details on the fourth quarter results and more information on our expectations, specifically for 2019.

Stephen Rolfs: Thank you, Paul. In my comments this morning, I will be explaining the differences between our GAAP results and our adjusted results. During this year's fourth quarter, we updated our final estimate of the impact of the 2017 tax legislation. Separately, our 2017 results included restructuring and other costs as well as the initial impact of the 2017 tax legislation. The adjusted results for 2018 and 2017 remove the impact of the tax legislation accounting, and the adjusted results for 2017 also remove the impact of restructuring and other costs.

Sensient's revenue was $324.6 million in the quarter compared to $328.9 million in last year's fourth quarter. GAAP operating income was $45.3 million compared to $47.4 million in the comparable period last year. The

2017 operating income results include restructuring and other costs of $2.9 million, and excluding these costs, adjusted operating income was $50.3 million in 2017's fourth quarter.

Foreign currency translation reduced both revenue and operating income by approximately 2 percent in the quarter. The impact of the 2018 acquisitions did not have a material impact on revenue and reduced operating income by approximately 2 percent in the quarter.

GAAP diluted earnings per share was $0.78 in the quarter compared to $0.31 in the comparable period in 2017. The diluted earnings per share in the fourth quarter of 2018 include $0.01 of tax expense related to finalizing our estimate of the U.S. tax law change, which went into effect in the fourth quarter of 2017.

For 2017, restructuring and other costs reduced the fourth quarter earnings per share by $0.11, and the U.S. tax law changes reduced fourth quarter earnings per share in 2017 by $0.42.

When you normalize the EPS results for these items, adjusted diluted earnings per share were $0.79 in the quarter compared to $0.84 in 2017's fourth quarter.

Foreign currency translation reduced adjusted EPS by $0.02 in the quarter.

The impact of this year's acquisitions reduced adjusted EPS by approximately $0.02 in the quarter.

Consolidated revenue was $1.4 billion for this year. Operating income was $203.4 million in 2018 and $167.8 million in 2017.

2017 results include $48.1 million of restructuring and other costs, and excluding these costs, adjusted operating income was $215.9 million.

GAAP earnings per share were $3.70 in 2018 compared to $2.03 in 2017.

2018's GAAP earnings per share include $0.16 of a benefit related to the finalization of the U.S. tax law changes. 2017's earnings per share include

$0.96 related to restructuring and other costs and $0.42 related to the initial recording of the U.S. tax law changes. When you normalize EPS for these items, adjusted earnings per share in 2018 was $3.55 compared to $3.42 in 2017.

As reported, cash flow from operations for 2018 was $83.5 million compared to $36.3 million in 2017. Cash receipts on sold receivables, which are now reported as cash flows from investing activities under new accounting rules, were $91.1 million in 2018 and $141.5 million in 2017. This item is present in our results for the first 6 months of 2018 and in each quarter of 2017. The sum of cash flow from operations and cash receipts on sold receivables represents the cash generated to fund capital expenditures, dividends, acquisition and debt repayments, and it was $174.7 million in 2018 compared to $177.8 million in 2017.

2017's cash flow includes a $20 million benefit related to our accounts receivable securitization program. 2018's cash flow does not include that benefit.

In summary, when you remove the impact of the 2017's benefit, cash flow from operations, including cash receipts on sold receivables, was up approximately 11 percent for 2018. Our cash flow was very strong in the fourth quarter, which allowed us to reduce debt by more than $50 million during the quarter.

Debt-to-adjusted-EBITDA is 2.8. Barring any additional opportunistic acquisition or share repurchase opportunities, I would expect that our leverage will continue to trend down as we use cash flow to reduce debt.

Capital expenditures were approximately $17 million for the quarter and $51 million for the full year. This was in line with our previous guidance. We expect capital expenditures to be around the same level in 2019 between $50 million and $60 million.

The positive progress we made to our cash flow in the fourth quarter will be a continued focus for us in 2019 as we look to continue to improve our working capital levels.

As Paul mentioned, we expect positive revenue and operating income growth in Color, flavor and Asia Pacific in 2019.

Despite this positive growth, we expect consolidated local currency operating income and earnings per share to be tempered by 3 headwinds relative to the 2018 results. Headwind #1 relates to higher corporate expense in 2019. The higher corporate expense is related to a lower-than-normal level of stock-based compensation expense in 2018. Equity awards to our executive team are 100 percent performance-driven, and this expense is forecasted to return to normal levels in 2019. This noncash performance-based compensation headwind constitutes approximately $0.14 impact.

Headwind #2 is a higher tax rate. We had a number of proactive tax planning opportunities in 2018, which may not recur in 2019. This second headwind is an impact of approximately $0.24. The total of these 2 headwinds is approximately $0.38. As a result, the Company's expense – expects local currency 2019 earnings per share to be off approximately 47 percent from 2018's adjusted EPS of $3.55.

The third and final headwind we see is currency. Based on current exchange rates, we expect currency to reduce EPS we report by approximately $0.05 or 1 percent to 2 percent.

In total, the impact of these 3 headwinds is approximately $0.43, and these are outlined in our press release for your reference.

In light of these many moving parts, we believe adjusted EBITDA growth can help provide a better measure of the underlying business growth in 2019. This metric will represent EBITDA before noncash stock-based compensation. We expect adjusted EBITDA on a local currency basis to grow at a mid-single digit rate in 2019, outpacing the growth in both consolidated operating income and earnings per share in 2019.

These expectations apply to full year results in 2019. Growth in operating income, EPS and adjusted EBITDA should all improve as the year progresses. Input cost and mix will make the first quarter challenging, particularly in

Color, but we expect to address input cost and improve mix as the year progresses.

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 (inaudible). If you would like to ask a question, please signal us by pressing star and 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. Thank you. Please give us a moment. First question comes from the line of Heidi Vesterinen from Exane.

Heidi Vesterinen: So a couple of questions, please. So it was great to see that in the F&F business, we saw the two negative effects subside. Can you clarify if that happened at the start of Q4 or during Q4. I'm just wondering if you had any operating income benefit from that already or not. And then the second question, when you say the post-restructuring sales have stabilized, does that just mean the erosion has stopped, but you haven't seen the volume recovery yet or are you seeing the volumes come back already? And then maybe the next one on input costs, if you could specify where you're seeing inflation. I was kind of surprised you said that there would be pressure in Colors. There are some competitors saying there will be deflation. So if we could have a bit more information on that as well, please. So I'll start with those 3.

Paul Manning: OK. Sure. So Flavors & Fragrances, that's right, the 2 headwinds are behind us. We would expect to see growth in each one of those businesses throughout 2019. So I think the first one, the onion, every indication will be given that crop is harvested from many different areas, and all of our indications continue to be very, very positive. So I feel quite confident that, that is behind us, and SNI will be a contributor. Similarly, for the Sweet & Beverage business, we moved past our restructuring hurdles. We've got our plant operating well. We've got very good coverage of our customers.

Our service levels are absolutely outstanding now. And so we expect volume growth and growth in those businesses. We're working on a lot of very large products right now, and I think that we're going to be in a very good shape in each of those businesses, and they will be strong contributors throughout the year. With respect to – and that kind of gets into your second one, the post-restructuring stabilizing, yes, there will be volume growth in each one of those areas. I think across SNI, a lot of different product lines, and they are showing good signs. Similarly, for sweet, we're seeing, actually, a continued nice turnaround in the ice cream market.

Yogurt for the year, market-wise in the Americas, which is really where our principal business is for yogurt, the U.S. market was down only 6 percent in 2018, which strangely enough is a little bit of an improvement from the last 2 years. Various brands do have growth positions, but other brands are even worse than that at 6 percent decline. But we're seeing a lot of nice progress with many of the customers we've honed in on that market. So we think that the yogurt situation is improving. In terms of your third question, input costs, yes, on the Color side, there is 2 principal businesses, so the synthetic food colors business, where we draw many of our raw materials from Asia, not affected by the tariffs so much as they're affected by regulatory changes.

In a number of those areas, the governments have been moving very aggressively to change their regulatory situation, and so that has impacted a couple of our – one, in particular, of our synthetic food color raw materials. The other one, the other big impact there will be our inks business, experiencing pigments, which we source many from that region, experiencing a lot of inflation. So in addition to many of these plants being shut down or moved or temporarily closed, creating the price inflation, there's also been, in some cases, a reduction in available product, as you'd expect.

So our position is very good in terms of having the raw materials, but what we have to contend with is the price, and we talk a lot to investors about our ability to recover price. That's not always an instant ability, particularly when you don't necessarily see the endpoint for a lot of these suppliers. We saw a lot of that in the fragrance industry last year, and there's still some of that ongoing in fragrances. So we will get the pricing, but that will take a little bit longer, which is why I described in the opening comments, the profit headwind in Color, we'll see that in Q1 for sure.

We'll see that moderating somewhat in Q2, but the impact on profit in Color from these raw materials will be pretty profound. So – but we do expect to gain that pricing, and we expect to have a much improved situation for the second half of the year on profit in Color. I think revenue is going to be very solid throughout the year for Color, but those are the principal input costs we're describing. Those are the input costs for flavors. I think we're in very good position at the start of this year. Again, most notably, a lot of that took place in the fragrance sector of things. But on the onion side of things, I think we've been able to address that as well.

Heidi Vesterinen: And then just a follow-up, actually, on the first question. I think previously, you had quantified the pain from the onion issue on profit. Can we expect that to reverse completely in 2019? Or should we be a little bit more cautious on that?

Paul Manning: I would be a little bit more cautious on that. I mean, obviously, we need to price to win at times. I think input costs, there is inflationary pressure in certain regions of California. So I wouldn't tell you it's necessarily a one-for-one recovery. So yes, I would say, be a bit more cautious than that, but we certainly expect to have a nice recovery in that business.

Operator: Next question comes from the line of Curt Siegmeyer from KeyBanc Capital.

Curtis Siegmeyer: Paul, what gives you confidence that the flavors business softness that you noted was more market related and not necessarily lost business from the restructuring? And just kind of where are you now from a volume or throughput perspective in that one plant that the restructuring took place in just relative to pre-restructuring?

Paul Manning: Yes. So I think that – so first of all, look at the timing of the restructuring, and we talked quite in detailed fashion with our customers. So that would be – I think we have a good sense of where we are on our relationships there. So I think as we look at 2019, we know precisely where the impact was felt on restructuring front. And I don't see those headwinds. And certainly, we see that in the progress of our pipeline, and we see that with the engagement we have with our customers.

How do I distinguish that from just general market declines? I link it up to the categories where our business is soft and where I see that softness in the market. I mentioned yogurt continues to have that decline, but we certainly saw that softness in the soup market, which then translated into our business as well. So I think the quality of the pipeline has improved in those businesses, in particular, in flavors, and that's really what gives me the confidence. There's always churn in these markets, right, I mean, a lot of products get launched for 6 months or a year and then that customer replaces them with something else.

So that's always the nature of these businesses. Now they may not replace it one for one, and they may not replace it on the same day they took out the other one. So there may be some lags here or there. But in general, I think we have a high level of engagement with our customers, and we can very well now distinguish between market declines and a piece of lost business from the restructuring fallout.

Curtis Siegmeyer: And then just on volume, just kind of where you're at now relative to pre-restructuring?

Paul Manning: I don't have that in front of me. I think that the key factor there is we have a plant that's been very much optimized to produce a whole range of products. The cost position is going to be much better, and it is much better than the pre-restructuring arrangement. And that was always the long-term gain with restructuring, as we felt we needed to have a better, more efficient footprint. You're seeing that obviously play out in CapEx. We're not spending as much money on CapEx because, in part, we have fewer facilities. So we're always looking to utilize these plants well. And if the plants aren't being utilized well, we're always looking very diligently at the cost of those plants because you can't keep operating if you don't have the volume. But I've got a lot of confidence that as we go through this year, I'm going to be talking about the successes that we're seeing in that business.

Curtis Siegmeyer: Got it. That's helpful. And if I could, one follow-up. Last quarter, you had mentioned some of the CPG companies cutting down their core brands, and some of that was impacting new product launches. Can you just provide us with an update on what you're seeing from your customers on that topic since the end of 3Q and just what your outlook is for this dynamic in 2019?

Paul Manning: Yes. I mean, the dynamic varies a little bit by – I had some comments about personal care and food. But I think that is a consistent theme now throughout the Americas and Europe that some of the large multinationals that we've all heard of, and you see this in a lot of their press releases, there is a stronger emphasis from them on, again, their core brands. There's fewer launches of line extensions or limited-time offerings. My ability to predict when that comes back, and we – certainly, we're always working on those projects, but when a customer or even a whole market segment goes back to pursue that rigorously, that's harder to tell.

I would anticipate 2019 would be a little bit better than 2018 just because we've seen these in the past, and they tend to move in cycles, and that cycle tends to last about 12 to 18 months. So I would expect some uptick there. But as you look at personal care and cosmetics, in general, certainly, the launches continue on the real premium brands and in certainly brands throughout Asia Pacific. But more the mass market brands, particularly in the U.S., there was a real decline in launches, in general, in 2018. In fact, by some indications, we see that being down as much as 10 percent versus 2017. But again, these things move in cycles. And we'll stick to our netting. We'll focus on the pipeline and support these customers. But yes, there's definitely a much more profound focus, in general, on the large brands towards their core brands.

Operator: Thank you. Again, 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. Next question comes from the line of Garo Norian from Palisade Capital.

Garo Norian: Just wanted to circle back a little bit to some of the comments around onions and the plant. And if I remember earlier in the year, I think you guys had kind of sized onion issue as maybe about $0.15, maybe the plant even more than that. And so I guess, the implication I thought was that just by those issues going away, you had a pretty good setup going into 2019. So just wanted to kind of better understand what the holdback is related to the improvement on those?

Paul Manning: So – yes, I think they were, obviously, both headwinds, and they were about, I want to say, order of magnitude about the same magnitude. What do we say on EPS?

Stephen Rolfs: So we said about – for the onion issue, we had talked about that being from $0.05 to $0.08 per quarter. So...

Paul Manning: In 2018.

Stephen Rolfs: Yes.

Paul Manning: And then I think as we also indicated, the restructuring piece was about that magnitude, perhaps even larger in certain quarters. So onion, it's a situation where it was a price and cost scenario, right? So as we look at 2019, we could expect to get much of that back just by the natural course of things. People are still buying onion – yes, volumes will be up, but we're able to respond to some of the pricing constraints or we're able to – we see a much better and different cost situations than we did last year even on a consistent level of volume. So just by the natural course of things, you'd expect an improvement in 2019.

Now with respect to the post-restructuring, that's a little bit of a different scenario because inasmuch as chunks of that business was a lost business. So now that's a matter of regaining that business and growing that business post restructuring. So because that is not the headwind, that's right, that in and of itself will be incrementally a big improvement versus 2018. But as you think about that compared to 2017, that's a different analysis. So we endeavor to regain the business, we endeavor to grow the business. But yes, as compared to 2018, those headwinds go, that there is a significant and clear ability for Flavors to incrementally grow 2019 versus 2018.

Garo Norian: Got it. And then just on the comment that you provided on the raw materials side, on the synthetic colors, if the industry is so tight that getting supplies is even a challenge, what is it, specifically, that kind of causes the delay in passing through. I would think that, that's almost the optimal situation to have if you need to pass higher costs through?

Paul Manning: Well, it's probably not unlike how a lot of businesses pass along costs, right. In many cases, you have a contract, and so you're obliged to maintain a cost position until a particular anniversary date. So that is a scenario where you'd be limited. In other cases, you'll get it, but it's not like customers just sort of roll over and take it because you walk in the door and you smile at them. And so sometimes it's great resistance until these pricing increases. And that's just where you have to make decisions with respect to the size of the business and a lot of other factors. So we get it, but again, there can be delays. Plus, in the case of a lot of these raw materials, the price goes up; 2 weeks later, it goes up again; a month later, it goes up again.

And these things can be a source of considerable frustration to us, to customers, to others. And we have to be sensitive to some of that dynamic as well. But I'm confident that the situation resolves itself. Pricing is one of the mechanisms. Having more availability is a mechanism, and then perhaps the regulatory situation on the ground changing could be a third mechanism. But I think we demonstrated over the years, particularly in Color, and this is where the impact is most profoundly being felt. We have the ability to recover. Or – and even in other cases, we'll just reformulate at some level. That so is an option. But that one takes time too.

Garo Norian: And just last, just for modeling purposes, what's the right tax rate assumption to use for 2019?

Stephen Rolfs: So we are budgeting internally between 22 percent and 23 percent. So 22.5 percent is right in the middle.

Operator: Next question comes from the line of Heidi Vesterinen from Exane.

Heidi Vesterinen: I wondered if you could talk more about your business head in F&F. What is his background? And has he made any changes to the business strategy yet?

And then second question, could you maybe, Steve, talk a little bit more about working capital. Because of the accounting change, it's quite difficult to see in the statement what actually happened on an underlying basis year-on-year. And how do you hope to improve that if you go into 2019?

Paul Manning: So the first one, I'll take that and then I'll give a little comment about the working capital, but that's one of Steve's focus areas for 2019, so I can have him give you some more detail. Yes, the new President of flavors, sales and specialty chemical background. So I think he's ideally suited to run this business. Very focused on sales execution, very focused on running the trains on time, very focused at servicing our customers, all very, very fundamental to successfully growing the Flavors & Fragrances business.

I think, again, in the post-restructuring world, these are the things we can focus on, and these are the things that are going to grow the needle. I have a lot of confidence in him, and I have a lot of confidence in the management of the Flavor Group. We, as you know, over the years, have made a lot of changes there. I think we have the right composition of people, who have the right mindset and the right ability to really execute the strategy. So with respect to working capital, yes, I think that one of the things that we talked about in '18 was that if you're not providing good service levels to your customers, it doesn't matter how good your technology is; it doesn't matter how many products and plants and all these other good stuff.

If you can't get things to the customer on time, it just doesn't matter. And so we have a very, very intense focus on getting those to a level that was best in class and keeping them at a level that was best in class. Part of that initiative, in the interest of speed, was to raise inventory levels in certain businesses until such time as they better optimize the supply chain. And we're now in that phase such that, as you look at 2019, we've got a lot of levers available to us to reduce inventory in many of our businesses. But I don't know, Steve, you've got some other things you'd like to talk about there?

Stephen Rolfs: Sure. So first off, in terms of the presentation of cash flows, going forward, that will be much cleaner. So when we brought some financing vehicles back on balance sheet, we no longer have this different presentation. So our presentation, going forward, will be pure, and it's really just the first 6 months of the prior year where there'll have to be an adjustment. So going forward, it will be much cleaner. But the improvement in the year and in the fourth quarter, it really comes from all the different areas of working capital. We're focused on inventory, as Paul said, and so there was no longer any need to build that later in the year. But we're also focused on payables terms.

We've been working to extend those, and we've been focusing on receivables as well. And so the improvement we saw in the fourth quarter was really a lot attributable to each of those elements, but primarily receivables and payables. And then going forward, we won't have the need to continue to build inventory and, in fact, we think there's a number of good opportunities to decrease it in certain areas. And some of those will be easily achievable, some of them will require a little bit more work. But we've put some different incentives in place, and our goal is to try to get back a big part of the number of days that we saw slip in '18.

Heidi Vesterinen: And then lastly, if you could comment on cosmetics. So is the destocking over? Or is that still continuing in Q1?

Paul Manning: It will continue – actually, there's kind of a range of answers to that. I don't mean to be cagey here, but it kind of flows from region to region. So to begin, I'll take the 4 regions that we conduct business. Asia Pacific, very good growth. We don't see this destocking phenomenon. We don't see the slowdown in demand. So the dynamics are quite good there. North America will be the first of the other regions to really come out of this. We see that destocking lightening up considerably.

We see demand returning. So we expect North America to really be out of that at the end of Q1. Europe will follow. We see indications that Europe is probably about 1/4 out of phase with the U.S. market. And then Latin America is kind of a – there's elements of that, but there's also some other economic factors that play there. Most of our business in Latin America is really associated with Brazil. And we – as with most folks in Brazil right now, there are a lot of challenges, economically and otherwise, to contend with. And so I would expect then Latin America would be the last to come out of this sort of slowdown in demand. But it's important to distinguish too in the cosmetic market.

We deal very strongly in terms of makeup. So you may not see all these phenomena in, say, another segment like skin care, but you will also see it in hair coloring, but you may not see it in hair care. So just to clarify when we talk about the cosmetics, what aspects of the market that we see in that we're talking about.

Operator: Thank you. 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 call back to the Company for closing remarks.

Paul Manning: OK. Let me just say one other – I just want to clarify 1 or 2 points for the folks on the line today. So we are talking about guidance a little bit differently than how we have in the past. We're, obviously, still providing EPS guidance, but fundamentally, as you've gathered from the discussion about headwinds and the like, EPS alone is going to be insufficient to really measure the health and the performance of the business, right? So you look at Color. We're going to have revenue grow, we're going to have profit grow.

It's going to be a tougher first half on profit for Color, but I expect them to deliver in that mid to – mid-single digit revenue for the year again, which they've done a number of years now, and mid-single digit profit growth. We're the #1 player in most of the segments we operate in, and I think we're going to do quite well. We have good strategy, good management. Color will have a good year. Flavors, coming out of a lot of headwinds, we expect a much improved situation there regarding mid- to high – sorry, low to mid-revenue and mid-single on profit. So we expect EBIT margin to be up. This is the inflection point we're waiting for. This was the – really what we wanted to have in 2018.

I think it's kind of been delayed about a year on account of these headwinds we've talked about. Asia Pac, expect mid-single-digit revenue growth, mid-single-digit profit growth. So the profit and the revenue from these business groups, I expect those to be good. I expect those to have a strong year there.

But then we're balancing that with those 3 headwinds. So the headwinds, just to recap again, the first being the performance comp were a 100 percent performance-based stock grants. And so there are no participation certificates here. So if we don't do well, we don't pay that out. When we do well, which we expect to do in 2019, we would pay that out.

Now, obviously, it's a noncash expense that is captured at the consolidated corporate line. So this is why there is a distinction between what we will do from the groups and what you will see at corporate. So this is why we'll talk EBITDA less this noncash PSU compensation piece. So just to clarify that. And then of course, the tax, I think, is – should be pretty clear. And then the FX, we're estimating $0.05. We'll give you updates on how that evolves as the year goes on, but I'm not going to necessarily get in the business of predicting currency swings.

But for right now, where we see the rates, we expect that to be about $0.05. So if you have any questions, happy to talk to anybody who would like to get some additional detail there. But otherwise, Steve, anything else you want to add here?

Stephen Rolfs: Nothing else to add. Thank you, everyone, for your time this morning. This will conclude our call. Thank you.

Operator: This concludes today's conference call. You may now disconnect.

END