Sensient Technologies Corporation

Moderator: Lori Hauser
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Operator: This is conference # 95350828.

Operator: Good morning, everyone, and welcome to the Sensient Technologies Corporation 2017 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.

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 third quarter financial results.

I'm joined this morning by Paul Manning, Sensient's Chairman, President and Chief Executive Officer.

Yesterday, we released our 2017 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 measure 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's reported adjusted earnings per share of $0.89 in the quarter, an increase of 7 percent compared to last year's third quarter result of $0.83.

Flavors & Fragrances rebounded from a challenging second quarter and reported an operating increase of 2 percent. Color had another strong quarter, reporting an operating income increase of 8 percent. Overall, the company's adjusted operating income increased 7 percent and the adjusted operating margin increased 90 basis points to 16.4 percent.

Flavors & Fragrances delivered a solid performance in the quarter, with many of the group's businesses reporting double-digit operating profit growth. Operating income increased 2 percent and the group's operating margin improved 70 basis points to 16.8 percent. The Bionutrients, Latin American Flavors, North America Beverage, North America Savory, Europe Savory and Natural Ingredients businesses each had solid improvements over last year's results and contributed to the improved performance in the third quarter.

Flavors & Fragrances has continued to execute on its strategy of developing flavors for small and mid-sized customers, and there have been a number of positive developments this year. The majority of our business units are now successfully executing against this strategy.

As an example of this, Flavor sales were up significantly in our North American and European Savory businesses, driving double-digit profit growth in these business units in the third quarter. Another example is our Bionutrients business, which delivered an outstanding performance this year, driven by innovative solutions for the growing probiotics market. These items contributed to the group's solid performance in the quarter in our areas that we will continue to develop going forward.

Last quarter, I discussed a number of issues that affected the second quarter results. Most notably, these included production inefficiencies, higher costs and shipping backlogs stemming from the closure of the last plant under the restructuring plan. Coming into the third quarter, our 2 priorities were to improve our customer service levels and to reduce manufacturing costs.

We cleared the backlog during the quarter and our operations and service levels have improved dramatically. Now that we have addressed the operational issues, our next priority will be to eliminate manufacturing costs. We have made progress in this area but we have to continue with this effort. We are on track to fully realize the remaining restructuring savings in 2018.

Flavors & Fragrances has made a lot of progress over the last 4 years. We completed a very challenging restructuring plan, which has significantly lowered our operating cost structure and reduced our annual capital expenditure requirements. In addition, earlier this year, we sold 2 businesses that did not align with the group's strategy, were dilutive of the group's operating margin and had significant working capital requirements.

The group's operating margin at the end of 2013 was 13.8 percent. And this year, we expect Flavors & Fragrances operating margin to exceed 16 percent. We achieved this margin improvement by upgrading the group's product mix, strengthening our new product development program and lowering costs.

With the difficulties of our final restructuring actions now behind us, the group was again able to show incremental improvement in the third quarter. For the fourth quarter, I expect additional improvements in Flavors & Fragrances results with operating profit up low to mid-single digits.

While the group has fallen short of my original expectations for the year because of the challenges discussed last quarter, our long-term view remains unchanged. The improvements we have already made and the initiatives that are in process will lead to higher operating margins in 2018 and beyond. I'm still very committed to the group achieving a 20 percent operating profit margin.

Color had another very good quarter, driven by outstanding growth in Cosmetics and higher Food Color sales in Europe, North America and Asia. For the group, revenue was up 6 percent and operating income increased by approximately 8 percent. The group's operating profit margin continues to be strong at 21.5 percent for the quarter.

Our Cosmetics business continues to see strong demand for makeup, lipstick and other personal care products. The end markets for Cosmetics have been very strong, and we have a robust innovation program which allows us to develop solutions for a wide range of applications, including makeup, skin and hair care. Our success in Cosmetics remains broad-based, with double-digit sales and double-digit profit growth in each region.

In the food and beverage markets, we expect to see the strong interest in natural colors to continue for some time. This year, about 80 percent of all new product launches in the U.S. featured natural colors, and the trend is comparable on a global basis. Many of the world's largest food companies, including some of the largest food retailers, have announced their intentions to use natural colors in their products.

At this point, we have seen more activity from smaller regional and private label companies. As most of you realize, larger consumer product companies are currently facing a number of challenges to their growth. This may be causing them to move more cautiously and to focus more near-term efforts on cost reduction rather than innovation or improvements to existing products.

The Color Group's results this quarter are indicative of what our portfolio of businesses can produce within the current environment. As innovation and conversion activity picks up, there is a great deal of upside to the results that we can deliver.

Sensient is the market leader for food and beverage colors, and we have developed proprietary technologies that allow our customers to offer natural products without compromising on the appearance or affecting the taste. We are uniquely positioned to lead the conversion to natural colors because of our investments in new technologies and our applications expertise.

Sensient is committed to sharing our success with shareholders. Yesterday, the Board of Directors approved a 10 percent increase to the company's quarterly dividend. In addition, the board also increased the company's share repurchase authorization by 3 million shares. Since 2014, Sensient has increased its quarterly dividend by 43 percent and has repurchased 6.8 million shares of its common stock. Both of these actions demonstrate our commitment to delivering shareholder value. They also underscore our confidence in the company's financial strength as well as our future outlook for the business.

I'm pleased with the company's results in the third quarter. Color continues to perform very well and has consistently delivered both revenue and operating income growth. We continue to see strong demand for cosmetic products and natural food products. Going forward, I expect Color to deliver mid-single-digit revenue growth and high single-digit profit growth.

Flavors & Fragrances has been improving its product mix, and we will continue to make operating improvements now that we have completed the restructuring program. For the fourth quarter, I expect revenue to be flat, with low to mid-single-digit profit growth. Looking ahead to next year, I expect Flavors & Fragrances to deliver low- to mid-single-digit revenue growth, mid-single-digit profit growth and at least 100 basis points of operating margin improvement for the year.

We are maintaining our adjusted EPS guidance to be between $3.40 and $3.45 for the year, which represents mid- to high single-digit growth. I remain very optimistic about the company's future.

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

Stephen J. Rolfs: Thank you, Paul. Sensient's operating income was $52 million in the quarter compared to $51.2 million in last year's third quarter. The operating income results include restructuring and other costs of $6 million in the quarter and $3 million in the comparable period last year. The restructuring cost in this year's third quarter are primarily due to noncash charges for asset impairment related to the closure of the Indianapolis site.Excluding the restructuring and other costs, adjusted operating income was $58 million and $54.1 million in the third quarters of 2017 and 2016, respectively.

Foreign currency translation increased revenue by approximately 2 percent, and operating income by approximately 1 percent in the quarter.

Diluted earnings per share from continuing operations were $0.73 in the quarter compared to $0.79 in the comparable period last year. Restructuring and other costs reduced earnings per share by $0.15 in this year's third quarter and by $0.04 in last year's third quarter.

Adjusted earnings per share were $0.89 in the quarter and $0.83 in the comparable period last year. The increase in adjusted EPS in the third quarter was driven by higher operating income in both Color and Flavors & Fragrances and lower corporate expenses. Foreign currency translation increased adjusted EPS by $0.01 per share in the quarter.

Operating income was $120.4 million in the first 9 months of this year and $142.3 million in the first 9 months of 2016. The operating income results include $45.2 million and $19.9 million of restructuring and other costs in the first 9 months of 2017 and 2016, respectively. Removing the impact of restructuring and other costs, adjusted operating income was $165.6 million in the first 9 months of this year and $162.2 million in the comparable period last year.

Adjusted diluted earnings per share from continuing operations were $2.58 in the first 9 months of 2017 compared to $2.42 in the same period last year. Foreign currency translation did not have a significant impact on the adjusted operating income or adjusted diluted earnings per share for the year-to-date period.

Cash flow from operations was $48.3 million in the quarter compared to $49.7 million in last year's third quarter. Capital expenditures were approximately $13 million in the quarter, and we expect capital expenditures to be between $50 million and $60 million for the year. Our previous estimate for this number was $60 million to $70 million.

During the third quarter, we opportunistically repurchased more than 500,000 shares of common stock. Year-to-date, we have purchased approximately 840,000 shares.

Our balance sheet remains strong. Adjusted debt to adjusted EBITDA was 2.5 at the end of the quarter. We plan to keep debt levels in line with an investment-grade profile to maintain the flexibility for capital expenditures, dividend payments, share repurchase and acquisitions. We will continue to take a balanced, prudent and long-term approach to our capital allocation strategy, which includes evaluating share repurchases and acquisitions on an opportunistic basis.

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

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

And our first question comes from Mike Sison from KeyBanc.

Michael Joseph Sison: Paul, when you think about 2018 in the -- in Flavors & Fragrances, the struggle has been kind of that consistent revenue growth. What gives you confidence as you look out now as you head into '18 that you can generate that low- to mid-single-digit type of growth?

Paul Manning: A couple of factors. So I think number one, I'm seeing it in a lot of our businesses right now, whether they be in the Americas or beyond. So I think there's some good trends there. I think number two, the types of customers that we are actively focused on. We mentioned small, regional and local customers whose underlining growth rate, I think, certainly exceeds the market overall. And that plays out not only in Flavors, but also in Colors.

So I think those factors are good. When you look at this last quarter, we were down about 2.5 percent. When you factor in culling, we're up about 1.5 percent, and then when you factor in that Asia-Pacific situation, we're up more like about 2.5 percent. So I think that, that's another positive from my standpoint. And I think probably the fourth is, again, I can't underestimate or I can't say it enough, that the major distraction of restructuring is behind us.

I think that gives a newfound focus on commercial activities and less affixing sort of homemade issues. So those would be say 3 or 4 issues that I think are particularly important. There's certainly, as well, very good trends developing in many of the markets with respect to swapping out sugar for something a little bit less -- a little bit more desired. Taking out salt, there's been legislative changes in a number of regions for both salt and sugar, and I think we have a very good offering there from a technical standpoint.

And then I think, certainly, there's a growing interest in the use of extracts as a substitute for flavors in a number of these markets. So I think each one of these offer a good opportunity for us because they're very technically driven sales as well, and that's, I think, where we've been able to be successful as a company historically.

Michael Joseph Sison: OK, great. And then when you embarked on improving -- or improving the Flavors & Fragrances business in '13, margins have improved. And you talked about really repositioning the portfolio to be more solutions-driven. And as you noted, you've culled a lot of lower margin stuff, divested it. Are -- as you head into '18, is this the portfolio that you've been looking to improve? And if not, what are the other areas that you'd like to add, maybe via acquisition or just new products and such?

Paul Manning: Well, I think the portfolio was certainly -- it was good to start with in many of the businesses. We've obviously enhanced that, consistent with a lot of these changing consumer trends. The taste palates in a lot of these regions continue to change and continue to evolve. So the libraries for these flavors have to do that as well. And I think that's something that we do a pretty good job with throughout the organization.

So I think that's a big part of it. I can tell you that the effectiveness of these portfolios plays out very well. It prefaces with the growth in EBIT that we expected. As I look at the group today, we're now -- I can now tell you that, essentially, every business in the Americas is at that benchmark EBIT margin that I've declared publicly as our goal for the overall group.

So what you would then conclude from that is, OK, the portfolio is very good and we're executing on the strategy of selling flavors at certainly better price points than the historical flavor ingredients, which we had a strong emphasis on. But then that would also tell you that the gap in the EBIT margin and really where we need to enhance our efforts and -- would be in Europe.

So the real positive there is we have demonstrated a quantifiable evidence throughout the Americas, and actually, in -- certainly in Asia-Pacific, that we can execute on selling these flavors.

We can do so at the enhanced price points, and therefore, enhanced EBIT margins that are indicative of a type of flavor company we want overall. So the efforts will continue to focus as well in Europe. There's, quite frankly, still more upside potentially in these Americas businesses as well. So these gives us -- this gives me a lot of confidence that the results that we're showing there, that we've been able to grow there, are definitely transferable to our operations beyond, and most specifically, to Europe.

Michael Joseph Sison: OK. And one quick follow-up. In terms of cosmetics, I don't sense that the consumer products companies are growing that fast, but double digits is pretty impressive. Maybe I'm wrong. Is the markets growing that fast? Or it's just your ability to help customers adapt and grow that -- which is driving your double-digit growth in that part of the business?

Paul Manning: Yes, the latter. In other words, the market overall is not growing at that rate. Yes, there are pockets in certain parts of the world or perhaps even on certain product lines, but I think what is very fulfilling about our results in Cosmetics is these are really borne of a very long-term approach to innovation. The sales cycles in Cosmetics and personal care, in general, tend to be a bit longer than what you see in the food industry.

In other words, from the moment you show an innovation to when that innovation is on a store shelf can stretch on a bit longer, and in some cases, quite a bit longer. So a lot of these results and success we've been seeing in Cosmetics for certainly this year and last year and even a little bit into the prior year are from those efforts.

And so oftentimes, folks will say, "Hey, are you fellows spending enough money on R&D?" And well, I don't know precisely how much money they're spending on R&D, but I know -- can tell you exactly what our 5- to 7-year NPD plan is and what we want to launch and when. And I think that the results we're seeing throughout the Cosmetics business right now are being driven significantly by the innovation efforts that we've had in place for many, many years.

However, it's a good market, right? There's a lot of interest in personal care items now throughout a lot of the different regions for different reasons as well. Adoption of new users at younger ages certainly is a positive in, say, the U.S. North American market. But even just the globalization of more of these products, the sophistication of the cosmetics products that can be sold in parts of the world where they traditionally were not sold. So these are all fundamentally very positive market dynamics that I think we're able to take advantage of right now.

Operator: And your next question comes from Brett Hundley from The Vertical Group.

Brett Michael Hundley: Paul, I had a two-part question for you on the Flavor & Fragrance margin. So you're seemingly easing off your margin improvement goal for that segment this year with your statement of an expectation of at least 16 percent for the year. And you talked about how that's mainly due to your Q2 performance this year.

However, at the end of Q2 or on the Q2 report, at least at that time, you had remained committed to being hopeful for at least 100 bps improvement for the full year. So I just wanted to get a sense from you on whether you had certain expectations for Q3, and they just didn't develop as you thought? Or if you've kind of just re-based or expectations, period? And then my kind of second point or related question there was, you just touched on Europe here and talking about your Flavors business.

Are you kind of prepared to give the investment community an understanding of what that bridge to 20 percent looks like? I guess, I, myself, have a hard time understanding whether it's the timeline or the event occurrence that kind of builds us to 20 percent. And I guess I'm just curious if you're able to give us a sense of those building blocks and how they come, and then what your own visibility is there.

Paul Manning: OK. So the first part on the margins and the margin expectations for this year. As you look back to, I think it was about 3 out of the 4 quarters of last year, we were up 100 to 150 basis points of EBIT. We certainly did that again in Q1. We're up about 70 here in Q3, and certainly, we all know the story on Q2. We're always pushing the businesses and we create very high expectations.

Some of this is a matter of we've got a lot of good products -- projects in the pipeline. And when projects close, they generally are projects that are very consistent with the strategy and therefore carry higher margin benefit to the overall business. So sometimes, these estimates can be affected by the timing of these launches, and it shouldn't come as any surprise to anybody that a lot of launches, unfortunately, for the last year in particular and -- but beyond that, even the last 2 or 3 years, have been delayed, have been pushed back a quarter, pushed back even 2 quarters. And so you want to remain realistic about what the pipeline can do.

You -- we've certainly seen a lot of improvement in the business. We've certainly seen it in individual business units. And I guess all I can tell you about that is -- this is why I can tell you over the long term, I see that improvement as being very realistic. But in any one quarter, there may be some choppiness to that figure.

And certainly, I don't want there to be and I'd like to be able to predict with great accuracy where I think we'll come out. But I think, again, I'll point to where we have now achieved in each of our -- the businesses for the Americas, they are at that level. In fact, even a little bit above if you look at them collectively.

So I think that's a great story as to what we're capable of doing. So then as you go over to Europe and to your question about, OK, how do you fellows actually get to this 20 percent? What's the piece? When we really kind of embarked on this program, it was we'll take out cost, we will cull, and we will improve the product mix through the sale of flavors over ingredients. And certainly, those 3 pieces of the formula are still the 3 tenets upon which we would move from 13 percent and change to 20 percent.

Now with restructuring, we still owe another $4 million to $5 million, as what I think we've declared for our savings for next year. So you look at that, now you're looking at close to 100 basis points of EBIT from that alone. And then the balance would obviously have to come from improvements and product mix. And so that would be the bridge conceptually because, obviously, there's no more restructuring, and -- which is the front part of the program. And now, it's, really, the principal focus is on product mix.

And here, again, I can tell you that I think it's achievable because it's been achieved in many of these business units. In fact, it's been even exceeded in many of these business units. We've got a good base of operations, so it's not as if we need to make significant capital investments in the plants to achieve those types of sales and that type of product profile.

Similarly, for our SG&A side of the business, we have a good basis in the businesses of technical folks and salespeople. These are investments that have been made over the last several years to really position us to be able to execute on that. So I think what you see here is a formula where you grow revenue, we hold our manufacturing costs fairly steady, and in cases of a number of these businesses still continue to bring them down. But SG&A is still fairly steady as well, and that's a formula for, I think, accelerating the growth of the EBIT margin.

Brett Michael Hundley: That's really helpful. I appreciate that color. Just to switch over to Colors and look inside food and beverage. We have seen an announcement somewhat recently from General Mills where they're actually looking to switch back one of their cereal brands to a synthetic color away from natural. And it just got me thinking.

I know you said that conversion remains solid globally. But just in the event where maybe some of these guys do start to turn back towards synthetic. A question I get a lot is, from an earnings cash flow standpoint for you guys, just removing the whole revenue discussion, from an earnings cash flow standpoint, is Sensient somewhat agnostic between synthetic, natural? I'd just be curious to get your thoughts on that.

Paul Manning: Well, I would say this. Let me answer this somewhat deductively. I'm going to take you on a little bit of a journey, Brett, on this one. So I think number one, the notion of moving from synthetic back to -- or from natural back to synthetic, that is not necessarily a new thing that we have seen in markets. We've seen that type of activity even in Europe where there is a de facto ban on the use of synthetic colors in many -- in products.

So that's not terribly new to us. In fact, we've certainly even seen that type of activity in the Americas. I think what was unique about this case is it was a fairly high profile movement from natural back to synthetic. And so I think those will continue. So we weren't terribly surprised by that because in short, we've seen that type of activity.

Now as you look at the evolution of natural colors, a lot of -- and I'm not going to speak specifically about that customer or any of those products or any other brands in the market so much as to say that there's 2 views of natural colors. There's one view in which -- and I've talked about this before on these conference calls. You look at a food product in Europe, the same type of vividness and intensity of flavors is oftentimes not there on a lot of products.

You typically don't see as bright of food color use in the European market. Very different from the American and the Americas market and even most of Asia where very, very bright, intense colors are pretty normal. And so I think that at times, there's been question about well, will the U.S. follow the European model, or will it continue on these very bright, very vivid color models? And I think my answer continues to be, it's going to match synthetic colors.

So in other words, if you're going to convert from synthetic to natural, the natural must match the synthetic. And so I think that -- I think you're going to see that as this market continues to evolve. Some of the conversions you're seeing right now are very simple building blocks. You can swap in the natural color for the synthetic color. It doesn't involve much in the way of technology.

It does not involve much in the way of significant applications work. It doesn't really involve much novelty in terms of expanding the palette. But as more core brands change, they're going to need to utilize each of these types of technologies and applications, which has been very much our specialty. We have not typically focused considerable attention on the building block part of this market. We can always address that as we move forward.

But the future of this market is very much a natural color matching a synthetic color, and that's going to take a rather extensive portfolio and extensive grouping of technologies, something that Sensient has been working on very -- to a very great degree over the last 7 or 8 years. So I think we are very well positioned there.

Now sorry about the journey, but I figured you'd enjoy the commentary. To your point about earnings and cash flow. Let's face it, there's potentially different profit profiles whether you're talking about synthetic and natural. And every customer's going to make decisions about that. I think it's in the best interest of Sensient to be very aligned with the market, and the market is, natural colors are inevitable.

And so I think it's very important for us to be aligned to that. I don't believe there's any turning back. So I guess my take on it is, is the question doesn't necessarily apply because I just simply don't see the market -- this being a broad-based conversion back to synthetics. I don't think the synthetic market is going to be a fixture in 20 to 25 years and even before that. And so to that end, it's in our best interest to continue to emphasize and to pursue as many natural color opportunities as we can.

Brett Michael Hundley: I appreciate the journey. Just real quick, Steve, on the CapEx change. Is that more of a delay? Should we read that as more of a delay into '18? Or should we read that as more of maybe updated views by management?

Stephen J. Rolfs: So it's a little bit of both. Certainly with the focus we've put on the restructuring in Q2 and even in Q3, it may have diverted some of our -- changed some of our priorities, so there could be a little bit of a delay.

I think we're relatively conservative in our number going into the year. We do have a lot fewer facilities because of the restructuring, and so our maintenance CapEx needs have come down. And so I think the revised number is a little bit of an update and a revision based on that realization also.

Paul Manning: Yes. And I'd add this as well, Brett. We've articulated our long-term goals for return on invested capital. I would tell you that we'll probably be close to about 11 percent by the end of this year, up from about 9 percent a few years back. But there's more work to be done there.

Part of achieving that is being more judicious about some of the investments we make so some of this decline is me simply saying no to certain products, projects that don't yield a significant ROI opportunity or any ROI opportunity for the company. And so I think that, that's part of this calculation as well. As things have evolved or changed, some certain projects perhaps didn't look as appealing as they had formerly, and I think that's a real positive sign.

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

Francesco Pellegrino: Just to carry over a little bit since we -- you were just discussing the CapEx delay. And you had just mentioned that some of the projects may not be as appealing.

I'm sort of left here wondering whether or not like the tempered fourth quarter expectations cause you to maybe reassess certain investments in certain product lines, given where maybe next year's revenue streams could be between, I'm not sure if it's Flavors & Fragrances or for Colors, if there's any end market concerns specifically where that $10 million reduction might be attributable to?

Paul Manning: No. No. In fact, not at all. When you think about CapEx, if it's a significant project, first of all, it's going to take anywhere from a year to 2 to complete it. So much of CapEx is done in anticipation. It's done in anticipation of a new technology being adopted. It's done in anticipation of a change in the market, like everybody's going to start buying natural colors so make sure we're invested wisely there. So yes, these are typically very long term in nature.

Now of course, you get the OK, every year, I got to upgrade these parts of the plant or I got to change floors out here. That's kind of the standard stuff and that remains. But no, I think there's a lot that goes into CapEx planning, but this is not some indication of me saying, "Uh oh, we're in trouble; we better hold off on CapEx." In fact, if I thought we were in trouble, you might see the CapEx number shoot up, because we then need to find more opportunities to invest in the business to generate more revenue.

Francesco Pellegrino: OK. But then again, it is a fair question if there is a reduction in your CapEx guidance given all the planning that you had indicated and how long term in nature it needs to be, that any change in your forward thinking could be actually indicative of a slowing down of a potential end market then?

Paul Manning: No. It's indicative of I changed my mind, I don't think that would be a good investment.

Francesco Pellegrino: OK. OK. In regards to your flavors and in regards to the guidance that you had given for the fourth quarter for Flavors & Fragrances, I think you actually provided full year revenue guidance to be flat. Is that right?

Stephen J. Rolfs: That was Q4.

Francesco Pellegrino: OK...

Stephen J. Rolfs: The flat revenue guidance applied to Q4.

Francesco Pellegrino: OK, OK, Q4. OK. Then one other thing that I wanted to touch about was on the second quarter call, you guys had -- Paul had said something about companies undergoing like conversions from synthetic to natural colors and how there was basically 2 approaches: There's the right approach and there's the wrong approach.

And the wrong approach is the company that's sort of looking -- that's a little bit more cost-conscious, that's going to be go the cheaper route, but at the end of the day, the cheaper route is actually going to create a lot more problems just due to product reformulations not necessarily getting the right hue that you would want.

You had discussed at the time that you had noticed that a lot of these companies eventually were going to come around to making the right decision, ultimately the more costly decision for them. And I'm wondering if you've been able to see any of those decisions being made during the third quarter?

Paul Manning: Well, yes. I think that there are -- the view I hold of the market is a view that's also shared by many customers and prospects as well, that if you're going to do this, you have to do it correctly. The worst thing you can do is to spend the incremental dollars to make a natural color conversion and then not do it correctly.

So now, you have incremental costs, and in some cases, you may actually be hurting your revenue and the revenue of the category overall. And so I would say of the pipelines that we manage around the world on this topic, that the vast majority of the expectations of customers are to match the synthetic offering in each case. Now that's when you're converting from an existing brand.

On a go-forward, right? There's plenty of new launches as well, and I think you can -- this is more of an empirical comment than anything. You can go to the food store and you don't necessarily see a diminishment in the use of colors as a wide scale trend in any of the markets that we're talking about here. So I think the signs are still quite good in terms of -- I think the majority of the market and the customer base here would agree with what I've said. Because fundamentally, the problem you run into is that the color does not match the previous offering, so visually, it's a problem.

But what we have found through our own study, primary research and secondary research on the topic, is that people's concepts and their impression of the flavor is generated significantly by the color. So if something was red and now it's not as red, in the minds of many consumers, it now tastes differently. And what we have researched and seen here is a lot of products that have converted but did not convert optimally, customers, they actually were complaining more about the flavor than the color, and the irony of that is that the flavor had not changed.

So what that tells you is the impact of color is significant, not only from a marketing standpoint and the appeal that it generates for a product, but it also -- it's inextricably tied to the flavor and the experience of that product as well. So I think that's an important consideration and we watch that very closely.

Francesco Pellegrino: OK. That was helpful. One housekeeping item in regards to the adjusted EPS guidance range. Given the addition to the share repurchase authorization, does your implied fourth quarter -- adjusted EPS guidance range imply any number of share repurchases during the fourth quarter?

Stephen J. Rolfs: No, not really. Not a significant amount. It's really given based on our share count right now, and our share repurchase program is on an opportunistic basis. You can see on the third quarter, when the stock reacted a bit to the results from the second quarter, we chose that as a good opportunity to go in and buy stock. And that's the way we'll continue to look at it.

So we'll continue to look at that steady as she goes, but also, we'll pick up activity when there's an opportunity. But anything done in the fourth quarter wouldn't really have a dramatic impact on the fourth quarter EPS anyway. So no, that's not in the guidance.

Francesco Pellegrino: OK. And I'm not sure if you mentioned this, the implied tax rate for the fourth quarter?

Stephen J. Rolfs: Not much of a change from what I said last quarter. The second half of the year, I think I said somewhere between 25 percent and 26 percent, and that's kind of still where we are. So I think we will finish up the year probably within 100 basis points on an annual basis of the prior year's tax rate.

Operator: And our next question comes from Christopher Perrella from Bloomberg Intelligence.

Christopher Perrella: A question on Asia. Has that business stabilized in regards to the customer disruption that happened in the first half of the year?

Paul Manning: Well, nothing has really changed on that customer disruption side, but I think what has changed for the rest of the business is, obviously, they've been able to make up for a lot of that. You saw that the top line was up, certainly nowhere near where I want it to be and where it can be.

So yes, I think they've done a reasonably good job of compensating for that. We've seen a lot of good growth in many of these territories, some of which we've made some investments recently in. So I think the future continues to be very, very good in Asia.

Christopher Perrella: All right. And in the flavors business. Among the smaller regional customers, have you seen increased competition from other players in the market trying to reach down since growth has slowed at the larger companies? Have you seen increased activity or bids out on among the regional and smaller private-label companies?

Paul Manning: Well, some of this depends on what your definition of small is. And I don't mean to be evasive here. But I think what we see is flavors has always been a competitive market. I think -- are we seeing an onslaught of brand new folks that we would not have normally seen? I wouldn't necessarily say so.

There are certainly certain-sized customers that move the needle for us, and that may be very different for what would move the needle for a much bigger flavor company. So we try to compete where we're going to be successful. And so I think that guides a little bit of how we target these customers as well.

But no, I wouldn't tell you that there's been a seismic shift there. But yes, I mean, flavors is a competitive market. Colors is a competitive market. Every one of these businesses is competitive because people are -- a number of people are chasing some of the trends that we are as well.

Christopher Perrella: OK. That's fair enough. And one housekeeping question. The restructuring savings still to be realized for 2018? What are your expectations for that number?

Paul Manning: We're talking in the range of $4 million to $5 million.

Operator: And our next question comes from the line of Garo Norian from Palisade Capital.

Garo Norian: Small things here. What would you ballpark your maintenance CapEx at these days?

Stephen J. Rolfs: I want to say...

Paul Manning: I'm thinking like $25 million to $30 million, yes.

Stephen J. Rolfs: Yes. I would say about $30 million.

Garo Norian: OK. And then just on the kind of incremental restructuring for this year. I guess, can you give a little color on what that is? Is that kind of you're doing things sooner than you might have thought that would have rolled into next year? Or just you're doing things that you haven't been expecting? Or what is that exactly?

Stephen J. Rolfs: You're talking on -- I want to make sure I understand your question. On which on the restructuring (inaudible)?

Garo Norian: Well, yes. The restructuring, considering the GAAP versus the non-GAAP for the year, have the gap kind of got reduced because of some incremental restructuring, I guess?

Stephen J. Rolfs: Yes. So what was it? So that was primarily related to the closure and exit out of the Indianapolis facility. So we had some write-down on the fixed assets, some of the other assets as we closed it, moved out and prepared it for sale. That's the majority of it. And then there was some also things like decommissioning or demolition of certain areas that we had to remove some equipment.

Operator: We have reached the end of our question-and-answer session. Please contact the company with any additional questions. At this time, I will turn the conference back to the company for closing remarks.

Stephen J. Rolfs: OK, thank you, everybody, for your time this morning. As the moderator said, if you have any follow-up questions, by all means, you can give us a call. And that will conclude our call for today. Thank you.

Operator: And that does conclude today's conference. We thank you for your participation and ask that you please disconnect your lines.

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