Sensient Technologies Corporation

Moderator: Steve Rolfs
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Operator: This is conference # 64342184

Operator: Good morning, everyone. Welcome to the Sensient Technologies Corporation 2016 fourth-quarter and year-end conference call. Today's call is being recorded.

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

Steve Rolfs: Good morning. I'm Steve Rolfs, Senior Vice President and Chief Financial Officer of Sensient Technologies Corporation. I would like to welcome all of you to Sensient's conference call to discuss 2016 fourth-quarter and full-year financial results.

I am joined this morning by Paul Manning, Sensient's Chairman, President and Chief Executive Officer. Yesterday we released our 2016 fourth-quarter financial results. A copy of the release is now available on our website at www.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 an 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 www.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 will hear from Paul Manning.

Paul Manning: Thanks Steve. Good morning. Sensient reported adjusted earnings per share of $0.80 in the quarter, compared to $0.71 last year. The impact of exchange rates, reduce the adjusted EPS results by $0.02. In local currency, adjusted EPS grew by 15.5 percent.

Revenue was off slightly in the quarter due to lower revenue in Flavors & Fragrances. Adjusted operating income increased by 9 percent in local currency, as each of the groups reported strong results.

Colors operating income was up almost 9 percent despite a challenging comparison from last year's fourth quarter. Flavors & Fragrances operating income was up 5 percent and Asia Pacific was up 3 percent.

The full-year results were also very strong. Adjusted earnings per share were

$3.21 in 2016, up an 8 percent in local currency from the 2015 results of $3.05.

In local currency, revenue increased by 2.5 percent with both Color and Asia Pacific reporting strong growth. Adjusted operating income increased 3 percent excluding the impact of currency.

As I've noted throughout the year, corporate costs were unusually low in 2015 due to lower performance-based compensation, which normalized in 2016. Adjusted operating income, excluding these corporate costs, increased by 7 percent in local currency for the year.

Cash flow from operations was $222 million in 2016 compared to $128 million in 2015. Excluding the impact of a one-time securitization transaction, operating cash flows were up more than 40 percent for the year and free cash flow was up more than 70 percent.

Color had another great performance in the fourth quarter and the group had an outstanding year. In local currency, revenue increased 4 percent and operating income increased by 8.5 percent in the fourth quarter.

The Cosmetics and Food Color businesses continue their strong performances in the quarter and the Inks business improved solidly over last year's results. Cosmetics reported double-digit growth for both revenue and operating income.

The Food Color business reported flat revenue and operating income against last year's fourth-quarter result and as we noted last year, the 2015 result included a one-off sale of natural colors. Removing the impact of that one-off sale, the Food Colors business had mid-single-digit revenue growth and low-teen profit growth.

Our Cosmetics business had a very successfully year on strong demand for makeup, lipstick and other personal care products. Our revenue growth has been driven by new product launches across a wide range of products, due to changing consumer preferences.

Our Cosmetic group has a strong innovation program which allows us to develop solutions for a wide range of ingredients including makeup, skin, nail and hair care and hair colors. We also have very good sales coverage throughout the world and each of our geographical regions exceeded performance expectations in 2016. It was a very good year and we expect demand for cosmetic products to remain strong in 2017.

We're continuing to see strong interest in natural colors for food and beverage applications. Last year about 75 percent of all new product launches in the US, featured natural colors and the numbers are similar 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.

Some of these products have already hit the shelves and others will take several years to make the conversion to natural colors. We expect these conversions to take place gradually and consistently over the next few years, with more than near-term conversion activity coming from local and regional manufacturers or private-label brands.

In the US, about one-third of all products on store shelves use natural colors. An interest in natural colors is growing in most of the regions around the world. Our natural color sales have been strong all year with double-digit sales growth in North America and Latin America and solid growth in the mature European market. We are the market leader for food and beverage colors and similar to our cosmetic business, our technical capabilities and robust innovation program have positioned us for long-term growth.

Flavors & Fragrances continues to progress with our efforts to shift the group's product mix from simple ingredients to more complex flavors, flavor systems and fragrances. Restructuring activities are now essentially complete. The combination of upgrading our product mix and reducing our cost structure will enable us to deliver sustainable profit growth and additional margin improvement over the next several years.

Flavors & Fragrances had another good quarter, reporting operating income growth of more than 5 percent in local currency, with an operating margin of 15.2 percent. The operating profit margin improved 150 basis points from last year's fourth quarter and this is the third consecutive quarter in which the group's operating profit margin increased at least 100 basis points over the previous year's result.

Fourth-quarter revenue was off by approximately 4.5 percent in local currency, principally related to culling of low-margin and non-strategic products. A number of businesses contributed to the group's strong performance in the quarter. The Natural Ingredients, North America Savory, North America Beverage and BioNutrients businesses each deliver double-digit profit growth in the quarter.

The profit growth and higher margins over the last few quarters are very encouraging signs. In 2013 before we started the restructuring program, the group's operating margin was 13.8 percent, it has increased steadily over the last three years to get it to 15.5 percent and we're looking for at least another 100 to 200 basis points of improvement in 2017. We will accomplish this by continuing to develop and strengthen our innovation and new product development programs and by improving our product mix.

The restructuring program has been challenging at times and the related distractions have complicated the efforts of implementing new strategic initiatives. We're continuing to work on optimizing our plants, to assimilate new production activities and to improve plant efficiencies. The affected businesses have had more challenges than other businesses in the group but they will continue to improve with lower cost and better execution against their respective strategies.

In the middle of last year, we noted that we were evaluating strategic alternatives for a facility within our Flavors business. The facility primarily produced ingredients that did not align well with our strategy of producing value-added savory flavors.

We completed the sale of the facility during the first week of January. The sale will remove approximately $10 million of revenue from the Flavors & Fragrances group in 2017 but it will significantly improve the group's product mix.

Asia Pacific also had a very good quarter. Delivering solid revenue and operating income growth. The businesses in Thailand, the Philippines, Japan, Australia and New Zealand each delivered solid results. The full-year results were also very good with revenue and operating income increasing by approximately 11 percent and 8 percent respectively in local currency.

We have been investing in the Asia Pacific region and we believe we can continue to generate strong growth in these markets. Last year we opened a new R&D center in Singapore adding personnel and technical capabilities that allow us to work more closely with customers and to sell more products that align with our strategies in colors and flavors. We are also expanding local production capabilities throughout the region, to reduce cost and to shorten lead times. I am pleased with the progress that we have made in Asia Pacific and we see a very bright future in these markets.

We performed very well in 2016 and we are confident that we will deliver another strong performance in 2017. We expect adjusted EPS growth to approach or to exceed 10 percent in local currency.

In terms of the group's performances, excluding the impact of currency, we expect Flavors & Fragrances revenue will be flat with mid-to-high single-digit profit growth in 2017. The revenue growth will be affected by the aforementioned sale of the flavors facility and other culling activities which will be largely completed by the end of the year. We expect Color to deliver mid-to-high single-digit revenue growth and high single-digit profit growth in 2017 and, we see Asia Pacific delivering double-digit revenue growth with high single-digit and perhaps double-digit profit growth for the year.

Once again, the strong dollar is going to have a significant impact on EPS in 2017. Many currencies have weakened against the dollar since the end of October, which will affect our 2017 results. Based on current exchange rates, we believe that the effect will be approximately $0.10 for the year.

On a local currency basis, our adjusted earnings-per-share guidance for 2017 would have been between $3.45 and $3.55, which implies a growth rate of approximately 10 percent. The $0.10 impact of the stronger dollar, reduces our adjusted EPS guidance to a range of $3.35 and $3.45.

I'm very pleased with the Company's performance in 2016. In local currency terms, adjusted EPS increased by 8 percent. Cash flow from operations was very strong at $222 million and free cash flow was just short of $150 million.

All of our operating groups performed very well. Color had an outstanding year reporting operating profit growth over 11 percent.

Flavors & Fragrances delivered solid operating profit growth in the year and improved its operating profit margin by at least 100 basis points for each of the last three quarters. Asia Pacific had a strong year, delivering top line growth of 11 percent, with 8 percent operating income growth.

We shared the Company's success with our shareholders. Increasing our quarterly dividend to $0.30 per quarter or $1.20 on an annualized basis. We repurchased more than 300,000 shares of Company stock during the fourth quarter and 700,000 shares during the year. In total, we returned $100 million via dividends and share repurchases during the year.

The Company's Return on Invested Capital has increased steadily over the last five years. Adjusted ROIC was 10.8 percent in 2016, which is up 30 basis points over last year and 120 basis points over the last 5 years.

We will continue to take a long-term approach to capital allocation, focusing on strong capital projects and taking an opportunistic approach to both acquisitions and share repurchases. Sensient performed well over the year and

I am very optimistic about the Company's future.

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

Steve Rolfs: Thank you Paul. Sensient reported revenue of $330.2 million in the quarter, compared to $339.2 million in the fourth-quarter of 2015. Operating income was $43.3 million in the quarter, compared to $31.6 million in last year's fourth quarter.

The operating income results include restructuring and other costs of $6.2 million in the quarter and $15.1 million in the comparable period last year. Excluding the restructuring and other costs, adjusted operating income was $49.5 million and $46.7 million in the fourth quarters of 2016 and 2015 respectively.

Foreign currency translation reduced revenue by approximately 2 percent and adjusted operating income by approximately 3 percent in the quarter. Diluted earnings per share from continuing operations were $0.70 in the quarter, compared to $0.43 in the comparable period last year.

Restructuring and other costs, reduced earnings per share by $0.09 in this year's fourth quarter and by $0.28 in last year's fourth quarter. Adjusted earnings per share were $0.80 in the quarter and $0.71 in the comparable period last year.

Foreign currency translation reduced adjusted EPS by approximately 3 percent or $0.02 per share in the fourth quarter. In local currency, adjusted earnings-per-share grew by 15.5 percent.

For the full year, revenue was approximately $1.4 billion in both 2016 and 2015. Operating income was $185.6 million in 2016 and $166.3 million last year.

Restructuring and other costs reduced operating income by $26.1 million this year and by $43.6 million in 2015. Excluding restructuring and other costs, adjusted operating income was $211.7 million in 2016 and $210 million in 2015.

Foreign currency translation reduced both revenue and adjusted operating income by approximately 2 percent for the year. Diluted earnings per share from continuing operations were $2.74 in 2016 and $2.32 in 2015. Restructuring and other costs reduced earnings per share by $0.47 and $0.73 in 2016 and 2015 respectively.

Adjusted earnings per share from continuing operations was $3.21 in 2016 and $3.05 last year. Foreign currency translation reduced adjusted earnings per share by approximately 3 percent and in local currency adjusted earnings per share increased by 7.9 percent.

Cash flow from operations was $71.9 million in the fourth quarter compared to $34.6 million in last year's fourth quarter. The fourth quarter result included a $40 million benefit, related to an accounts receivable financing transaction, which reduces the Company's effective borrowing costs. Excluding the benefit of this transaction, the fourth-quarter cash flows were slightly below last year's result, due to a one-time pension payment.

For the year, operating cash flows were $222.5 million, compared to $128 million in 2015. The strong working capital performance was driven by higher earnings, better management of working capital and a financing transaction. Capital expenditures were $81 million in 2016 and we expect capital expenditures to be between $60 million and $70 million in 2017.

Our balance sheet remains strong, adjusted debt to adjusted EBITDA was 2.5 at the end of the year. We plan to keep debt levels in line with an investment-grade profile to maintain the flexibility for capital expenditures, dividend payments, share repurchases 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 will now open the call for questions.

Operator: Today’s question and answer session will be conducted electronically. If you would like to ask a question, please signal us by pressing star, one. We will take as many questions as time permits. Once again, if you would like to ask a question, please signal us by pressing star, one. Your first question comes from the line of Mike Sison with KeyBanc.

Mike Sison: Paul, when you think about Flavors & Fragrances in 2016, you talked about flattish top line growth, largely because of the restructuring and recent plant reduction. Can you walk through some of the other pieces that should grow and maybe highlight areas where the growth should look better than -- the actual full year?

Paul Manning: 2016 or 2017?

Mike Sison: 2017, heading into 2017.

Paul Manning: I think as I mentioned in my notes -- it's been our approach with Flavors, this is a -- really a combination of several key things going on in the group right now. Number one, it is a fundamental and continued strategic shift.

Strategy is all about how we're creating value in the context of competition to our customer. I think we spent a lot of time with that concept in the Flavor's group.

I think a lot of the execution of that, we're going to continue to see improvements on that in 2017. That is going to be key to really selling the most differentiated, the most sophisticated of products.

Which as you can imagine versus the classical ingredients business, tends to be more sticky, tends to be more defensible, better from a pricing standpoint and certainly at a fundamental level, just makes us more competitive. I think that is going to continue to be the fundamental drive in Flavors & Fragrances.

Not unlike how that was a fundamental drive and continues to be a fundamental drive for the Color group. As you can appreciate, this is an evolving story but I think one that we have made some nice progress in.

I think we pointed out a couple of those businesses throughout the year that continue to execute on this very well. We have a number of benchmarks and data points that suggest that we are doing this; that we have made a lot of progress here and that -- I think that piece will continue.

With respect to the restructuring, as I noted in the prepared comments, restructuring is a tremendous impact on an organization. It is a tremendous burden. We think that, that's key to our future.

Not only the smaller footprint from a cost standpoint but a smaller footprint ordinarily leads to more simplified business, simplified infrastructure and one that is not as capitally draining, say as a different type of Flavor's group would. In short, fewer plants, simpler to execute on.

Less capital spending is required to maintain those, less complexities associated with hiring all of the people necessary to run those plants very well. None the less, as you simplify this production structure, optimizing the plants becomes the natural follow-up to a restructuring.

The restructuring is great and you take out those costs but really the cost should continue to come out of these businesses as we optimize, as we get better at producing these products. When you are moving specialty and fine chemicals from one plant to the next; it is not like the books in accounting class said you have three widget plants, now you have one widget plant and what does that look like?

These are fairly sophisticated operations and how you make these products; how you source them and all of those other factors are very precise. So there's an optimization phase.

You're going to continue to see a lot of improvement, operationally in the Flavor's group in 2017 and even into 2018. I think there's a lot of opportunity to continue to improve and to strengthen these businesses to better serve the customers and obviously to take out more cost and improve that side of the business.

Those are key factors. As it pertains to your comments around essentially culling, in terms of revenue projections for next year.

As we set out on these shifts in flavors, strategic and restructuring and otherwise; we looked at the portfolio, we looked at what we had and we looked at what we wanted to be. We estimated at that time, that probably about 10 percent of the portfolio would be something that we would view was either nonstrategic, low-margin, no-margin or really something that is of limited value to the customer, not very defensible.

Perhaps you might even use the word commodity to describe it. We are well on our way there.

We mentioned the sale of one of our facilities, which is about a $10 million piece of that. I have been guiding for the last couple of years; the culling will be largely, if not totally done, by the end of 2017.

Then, as we get into 2018 is where we would expect to see a more normalized top line growth, which we would point to Colors as an example. We believe the achievable level there would be a mid single-digit top line growth.

Mike Sison: I was intrigued with your comment that in natural colors, outside the US; where you have seen some traction in Europe, that maybe it is starting to become a little bit more of a trend over in other areas. Can you maybe flush that out and talk about what the opportunity -- there is?

Paul Manning: It is a good question because we talk a lot about natural color conversions in the US and certainly that is an essential market. It is our biggest market for

Color's today.

There is a lot of interest, although I do not believe it will be driven by regulatory factors or the government imposing such restrictions on synthetic colors. I believe it will be a market driven, consumer driven trend, which will go for many years.

Given the influence that the US market has on many other parts of the world, we have seen how this has impacted other regions; for instance Latin America and Brazil. We had outstanding growth rates in natural colors in those regions for the year.

We see it in the Middle East, we see it in South Africa where, here again, we had very good growth. Then we're also seeing it in parts of Asia Pacific.

We had fairly good growth in a number of the regions of Asia Pacific, as it pertains to natural colors. There's certainly a lot more we think we can do.

But, on the other end of the spectrum to some degree is Europe. Europe is, from a continental standpoint, they essentially legislated the conversion to natural colors.

It became a de facto ban on synthetic colors when they instituted labeling requirements suggesting that the presence of these synthetic colors was not in the consumer's best interest. That is -- was the outcome there, so a lot of that conversion has already taken place, such that probably about 80 percent of that market has converted.

We still had nearly high single-digit growth in Europe in the quarter because I think there continues to be benefits in innovation in terms of how these products are performing. The vividness of these colors, how well they perform in various storage and production type operations.

There is still growth even to be had in Europe, which on the natural color spectrum would be viewed as a more mature market. We still see opportunities in Europe on the standpoint of natural colors -- I don't want to get into a regulatory discussion but what they call coloring foodstuffs, still a fairly good market for us.

Operator: Your next call comes from the line of Brett Hundley with Vertical Group.

Brandon Gregor: This is Brandon Gregor on the line here for Brett Hundley. As we think about cash flows relative to the income statement going forward, does the Company expect to continue to deliver these elevated cash flow margins? With that in mind, do you think in coming years, it is going to be time to up the dividend or would you prefer to allocate capital towards growth, potentially including acquisitions?

Paul Manning: Let me start with the cash flow question. The answer to that question is yes. There is more that can be done to continue to improve our cash flow.

We certainly have a lot more that we can do on working capital. I have certainly mentioned this, over the years to a number of folks, about the opportunities we have there to improve our inventory management and even how we manage receivables and payables. Very fundamental aspects of a business.

A lot of opportunities still exist in terms of bringing that working capital level down to a more efficient level. With respect to free cash flow, certainly -- cash flow as well, operating profit growth is always the first input there, so to that end, we have strong expectations for 2017.

I think that's going to figure into the cash flow discussion as well. We talk in terms of, and this is down getting into the capital allocation piece of your question. Our CapEx will not be as high this year, as it was last year.

Last year and the year before that, certainly for the Flavor group, it was a bit artificially high because we had a lot of restructuring activities. Which we see as hopefully a once-in-a-lifetime event for any particular business, but we had to put a lot of capital into the Flavor group to accommodate those moves and those consolidations.

That is moving down to a more normalized level and to Steve's commentary, you noted that, we would be spending about $60 million to $70 million. Which is still well above our depreciation and amortization level, which is between about $50 million, $55 million.

I think that is a pretty good level. As a consequence of that, you would anticipate that there would be, somewhat of a growth in free cash flow as well. Again, in conclusion on this one, there is more that can be done there.

I think we have raised the level on both free cash flow and cash flow from operations. We want to continue to demonstrate that the Company can operate at these types of levels but; nonetheless, there's still a lot more work that can be done.

The securitization was a one-time event. It was a rather important and profound event but certainly that is an example, of I think better working capital management for a business like ours, which tends to have very little risk in the receivables debt.

As it pertains to your capital allocation question. I continue to emphasize, CapEx is our number one priority. There is no better, more efficient way to return to shareholders, then good ROI executed, internally developed, capital expenditure projects.

A lot of these projects are related to new technologies and those are my favorite. We have very high expectations for the returns that we can get on those.

We still have more CapEx that can be done in terms of expanding. I have noted some of our expansion opportunities and efforts in Asia. These are all important uses of capital and those will continue.

I do not want to get anywhere near our D&A level because that would suggest that we have run out of investment opportunities and that is certainly, by no means, the case. CapEx is always number one, dividends is number two.

We have tended to payout between 35 percent and 40 percent. I think that is my expectation that we will continue to do that.

Now the last piece, getting at acquisitions and buybacks and other things like that. We do both on and opportunistic basis. In my opinion it is very easy to overpay for a company today.

To the extent we could say, we will buy this because it is accretive. That is not exactly a good litmus test in my opinion, because I do not think it is very hard to make an accretive acquisition nowadays, so that is not our threshold.

Our threshold is, can we return at a level that is as good as our CapEx or our dividends or any other of the internal moves that we can make as an organization. Those will be opportunistic.

Acquisitions have got to be a win/win. In my definition, a win/win does not mean we overpay for a company.

If there are opportunities to buy something that is technically unique, could extend one of our chemical areas as a business, provide some new form of innovation to us, we would be very interested. I do not think at this point, as I sit here, you would anticipate us buying something on the basis of market share.

I believe that can be a very inefficient way to return to shareholders.

Brandon Gregor: Looking at the Color segment again, growth was solid during this quarter. If we strip out the currency effects, we're looking at about 7 percent.

We're hoping for a little bit more in growth; given the conversion to natural ingredients that is happening in food and beverage, solid cosmetics, color industry trends and what sounds like an attractive category dynamics in specialty inks. What do you think is the right growth rate to think about, given these factors in place?

Paul Manning: I think the right growth rate is, I will say for 2017 and beyond is mid-single -- possibly even high single-digit revenue growth but I think mid-single is a good level to begin at. I think in terms of operating profit, high-single is where you ought to be thinking.

For the year, we did 7.5 percent top line growth in the Color group. We did 11 percent operating profit growth in the Color group.

This is in the context of, what some would describe as a lot of challenges in the market. It's the culmination of picking good acquisitions 20 years ago, spending a lot of time on new product development and developing those businesses, investing in the sales and technical forces and I think that is culminating enough to having a very strong position in the natural color conversion that you see today.

As you look at the fourth quarter, we were up probably more like mid-single digit top line and 8.5 percent bottom line. I wouldn't -- it is hard to predict what it is going to turn out to be in any 90 day increment of time, so when I give you those estimates, they are for the year.

It may not be a straight line on any given quarter. Could be above or could be below. I think as you take an average run rate -- where I forecasted in the prepared comments and share with you here, is pretty much where we think we can be for Colors longer-term.

Brandon Gregor: If we look at the Color segment margins in Q4, we know that the segments usually see a sequential decline for the quarter and we're down at 19 percent. We kind of expected it a little bit higher but across the year to remove quarterly volatility, can the Company's Color business stay above that 20 percent margin level?

Paul Manning: Yes. For the year, we were 20 point, now will call it 21, if you are OK with me rounding up 10 basis points. We think that is a pretty good indication of where the business is right now.

Could there be some opportunity to grow that? Sure. I think that is running at a pretty good level, all things considered.

To the point you raise, there is certainly some seasonality in this business. Not every quarter is equal. We tend to have stronger Q2's and Q3's than we do Q1's and Q4's in many of these businesses.

Some of that is just simply the fact that you do not see as many launches in Q4 as you would in a different quarter. I think it is just something to keep in mind going back to your previous question.

Each quarter may be a little bit unique and in a 90 day period, if Colors is up by 4 percent instead of 7 percent, I wouldn't necessarily get too concerned about it. I think what we look at here is longer-term trends.

If a customer says -- hey, I'm going to order next week instead of this week, that could be worth a percentage point in growth rate right there. If it is a big enough opportunity that we are talking about.

There's ins and outs that can happen at a quarter end -- can really have an impact. This is why I always encourage everyone to look at the year in totality and take a year-to-date view of things. It makes it very helpful, in terms of how you look at these businesses.

Brandon Gregor: One more quick question for me. A large beauty products company reported results yesterday and it was talking about its own portfolio seeing some challenges amid smaller competitors doing well. Can you discuss the customer mix you are seeing in cosmetic colors and visibility on sales trends going forward?

Paul Manning: I think we've got a pretty good coverage of the customer base. Of course it is not where we want it to be. There is always opportunity to identify new customers, up-and-coming ones or even grow within many of your existing ones.

As you probably know, we tend to have very good access to customers in the world of personal care and cosmetics. I think we will continue to emphasize thoughtful growth.

I think we will continue to emphasize customers that would value our approach to this market. We see, it is not universal growth, there are some larger multinationals that perhaps may have some challenges right now.

Then there are others that are doing quite well and ditto for many of these local and regional customers. I think overall, as I look at that market, it is one that is very good.

It is one that is constantly looking for innovative products, products that have multifunctional benefits. You cannot ever -- as I'm looking over here at Steve Rolfs, you can't ever look as young as Steve. Steve has been using this stuff for years.

I want to take it up a notch though. I think what happens with cosmetics; you always want the dye to last a little longer in your hair, can the lipstick go a little bit longer, can it also have this attribute.

That is the key part why we continue to see a lot of growth in this market because we have invested heavily in R&D and development work in that business. A lot of our new sales are coming from those types of customers that are emphasizing new launches and new products.

Operator: Your next call comes from the line of Francisco Pellegrino with Sidoti & Company.

Francesco Pellegrino: Looking forward to working with the restated figures for the Asia Pacific group and the Color group, so I appreciate that going forward. Wanted to talk about your guidance.

I think you said in local currency you are guiding for a 10 percent growth, ex-currency comes up to 4 percent to 7 percent. You did 700,000 -- repurchased 700,000 shares in 2016. Does 2017 guidance incorporate any share repurchases at all?

Paul Manning: Since we do it on an opportunistic basis, nothing explicitly for 2017. Certainly there is benefit that you realize from 2016 buybacks that would obviously be in the baseline for 2017.

In other words, we bought in Q4, we would expect there be some nominal benefit in Q1 through Q3 for the reduced share count stemming from those purchases. That is how we would factor into the budget.

Francesco Pellegrino: Just right now, what is being factored in is just the ending share count at Q4 2016 and no repurchases in Q1 through Q4 of 2017

Paul Manning: Yes.

Francesco Pellegrino: It was either Steve or you Paul, that mentioned something about normalize compensation in 2016. What is the compensation outlook that is being incorporated into guidance for 2017.

Steve Rolfs: It would be similar to what we had in 2016. Just to step back and give the details on that. In 2015, for a number of reasons, our performance-based comp was extremely low.

In 2016 we are at a more normalized level. Most of that -- you'll see that flowing through the corporate line, the corporate expense line and that accounts for most of the increase you saw from 2015 to 2016. In 2017, I'd expect more of just an inflationary increase in the line.

Francesco Pellegrino: Going back to the Asia Pacific group in the restated figures. I know the rule of thumb, at least when looking at 2016 numbers before they were restated, was Asia Pacific's business was one-third Colors, two-thirds Flavors & Fragrances.

Now, what is left in Asia Pacific right now? Just all Flavors & Fragrances business?

Paul Manning: Well no, it is still a -- that was a smaller piece that was transferred to the Color group. As we effectively globalize that Food Color's business to incorporate North Asia, that is only a small chunk of it.

The remaining part of Asia Pacific, it is a combination of Flavor and Color and probably pretty close to that ratio you just quoted.

Francesco Pellegrino: The guidance that you have given for each group. I think you said flat revenue for Flavors & Fragrances and flat -- what did you say for operating profit?

Paul Manning: Mid to high single-digit OP growth.

Francesco Pellegrino: I was a little bit taken back by the Color group when you gave high single revenue growth but only high single operating profit growth, given how well the segment performed in 2016. I thought we could possibly be seeing some low double-digit teen growth possibly for the Color group.

I'm not sure if maybe it is because you had such a standout -- the group had such a standout performance in 2016. I'm wondering if maybe the operating profit growth might be viewed as a little bit conservative or maybe if there is upside?

Paul Manning: I think that is a fair comment.

Francesco Pellegrino: You said that in the Flavors & Fragrance's group you got rid of $10 million of some Savory Business. You sold that business right?

Paul Manning: We sold the facility.

Francesco Pellegrino: You still have about $100 million of Savory exposure, because I think Savory represents 20 percent of the Flavors & Fragrance's group?

Steve Rolfs: That is right. Just a little under 20 percent. This was just one facility.

Francesco Pellegrino: Right, just one facility. It seems has if you are trying to maximize the efficiencies of each of the groups.

I know you guys are excited about the Color group. I know you see the inkjet market as something that could really accelerate growth for the Color group.

At the end of the day, are there any, maybe additional sub categories within each group to sell? When I ask that question, only because I look at Fragrances in the Flavors and Fragrance's group and when I think about your market shares for each of the different sub categories.

Fragrances, you have some nice exposure. It is probably one of the smaller items within the Flavors & Fragrances platform but then at the end of day the market share is really low. Maybe the question is, what type of benefit do you get within Flavors & Fragrances to having this Fragrance exposure?

Paul Manning: We see a lot of growth opportunity in Fragrance. We have traditionally really emphasized aroma chemicals and just for everybody's benefit, if you think of it; many of the aroma chemicals that are sold in the market are building blocks to what we would describe as a fragrance compound.

Some of the aroma chemicals are quite commoditized. Some of them are quite sophisticated, protected by IP and other trade secrets. There's a whole range of aroma chemicals.

Our business had historically focused on aroma chemicals, that more and more, have become somewhat commoditized. To that end, we set about to not only develop some new aroma chemicals but to also emphasize the fragrance compound portion of the business, where we saw a lot of opportunities -- through growth.

Many of these geographies that we sell into, our quite fragmented. There is very good opportunities for a company like us, that has a lot of resources and technology; perhaps we're not the premier name in fragrances.

These types of local and regional companies perhaps afford us an opportunity to grow in a very competitive way. I think fragrances is a good opportunity for us. We have got a lot of work that we've been doing in that business.

There's certainly some overlap with our cosmetic business, that could potentially afford us some new growth opportunities but in general, I think that is an important piece to the future. Perhaps it is not as linked to our Flavors group and maybe over time it becomes more linked to the Color group.

It is hard to say. I think that it's a good business, but you are right, it is a low market share, smaller piece of the pie right now.

Francesco Pellegrino: I use the fragrance subcategory has, just as an example, is there any sub category out there, that may be you want to start reducing your exposure to a little bit more?

Paul Manning: I think that is what we're doing in this culling exercise. Where it is not so much a segment, like Savory or Beverage, as it is a group of products. Those group of products could span any number of segments.

We tend to, as a company, conceptualize the business according to a chemistry. Not necessarily an end market but what's the chemistry and where could the chemistry be applied as opposed to here is my end market and what chemistries or technologies do I have?

To that end, it gives us a lot of flexibility in terms of how we think about growing the business.

Francesco Pellegrino: Shifting to -- and I always appreciate the industry color commentary that you provide us with, especially within Food and Beverage given your industry-leading market share for that category. When I think about the category and I think you said, one-third of products shelves use natural colors but then in 2015 or 2016, 75 percent of all new product launches are incorporating natural colors.

I know that customer relationships tend to be very sticky in the industry. I was just wondering if your customer base is becoming more fragmented and if instead of large multinationals really coming to you with purchases; you are seeing some more smaller companies popping up that I think would provide a little bit more stability to the top line.

In case you would lose a customer here or a customer there; it is more smaller customers as compared to larger multinational customers that you would really rely on for a significant part of your business within the Color group.

Paul Manning: Let me answer it this way. People would say boy it is a flat food market in many of these countries you guys serve and you are pretty well aligned with these multinationals. Despite that you are Color group was still up 7.5 percent. What is the secret here?

I think the secret is, you go after the right customers. The customers may be big, they may be small, but you had to have a business that is flexible enough to accommodate both, when we're talking about natural colors here.

The movement, depending on the segment in the market may not be driven by a large multinational. It may be driven by local or regional account that is very influential and could potentially even influence that large multinational to convert or to do something else in the form of a natural color conversion.

Those are some of the dynamics that we look at. We spend a lot of time finding the right customers, finding the right opportunities to grow and I guess it is working because like I said, the Color group is up well in excess of any of the markets that they are currently operating in.

Francesco Pellegrino: My last question for you. New administration in the White House. When I think about where the FDA rules have been for like, color additives, it can be interpreted by some as being very vague, very loose.

Where do see this administration going with rules and regulations regarding the Color group? Opportunities that this could present for Sensient, could present for the market and maybe some restrictions that it could present for you going forward?

Paul Manning: I would say we're very adaptable as a company. Whether something is going to be legislated or it's going to be consumer driven, you have to accept the outcome of whatever political environment that you are in. I would not anticipate the FDA, this is in my opinion, I would not anticipate the FDA legislating in the similar fashion as has occurred in Europe.

If there were, we are prepared to meet that particular approach to the market. We do not fight City Hall.

We do not make political donations. We are very ambivalent, agnostic to whatever political parties may be in office in any country that we are in.

Francesco Pellegrino: Is there anything specific that the industry or you guys are closely monitoring within the FDA, that is up for debate?

Paul Manning: I think you're hinting at here, is with respect to natural colors. What could be the legislation governing what natural colors are permitted for use in the US. This is something that is being discussed in committee, perhaps even as we speak.

We always watch the FDA and other government bodies, Health Canada, any number of these bodies throughout the world. We are prepared to operate within whatever constraints that they provide to the market.

That said, I cannot begin to predict where any one of these government bodies may come out. I think we are prepared to be successful in any eventuality.

Francesco Pellegrino: There is no concern that may be -- I know right now there are seven FDA certified color additives. That it might go from seven to six or seven to eight, that the industry is chomping at the bit to see what happens. There is nothing that you can hone in on to provide us with a little bit more insider things to monitor is there?

Paul Manning: I will keep you posted.

Francesco Pellegrino: OK, I appreciate it. Thanks again, guys.

Paul Manning: OK, thanks Francesco.

Operator: We have approximately five minutes remaining in the conference call, and we will try to handle one more call – one more question. If anyone has a follow up question that we are unable to get to, please contact the Company. Your next question comes from the line of Andrew Lane with Morningstar.

Andrew Lane: Hi Paul and Steve, congrats on the strong quarter. To start with more of a high level question. You indicated that the shift from synthetic to natural colors is in the later innings in Europe. I think you said something along the lines of 80 percent of the way there.

What inning would you say the US market is in on the shift towards natural colors and then more importantly, is the rate of change in the US steady or accelerating in recent quarters?

Paul Manning: Is about in the third inning. Maybe we were starting to second quarter for the football fans out there, don't want to disenfranchise them. Probably about one-third of the way through.

In terms of what we're seeing now versus perhaps what we have seen in previous years; we're seeing more of a push towards converting existing brands. The momentum previously was about incorporating natural colors into new products.

The real potential change here, that we think could be rather profound, is existing legacy brands converting to natural colors. I would tell you that there has been an acceleration of interest and certainly an acceleration of public declarations by many of those companies suggesting they wanted to move in this direction.

Andrew Lane: You had previously laid out a long-term target of 20 percent operating margins for the Flavors & Fragrance's segment. A couple of questions on that front.

First, is that a target you're expecting to hit by the end of the decade and then additionally, you made a distinction earlier between the restructuring process and then the optimization process. Could you give us a sense for how much of this margin expansion would you expect to come from restructuring versus the subsequent optimization once your new footprint is established and static.

Paul Manning: The long-term goal is 20 percent operating profit margin, which I think is a symptom of the types of products and the types of customers that we are pursuing, so that is our goal as an organization. We have done and we have moved on that continuing pretty well in the last three quarters.

I continue to see momentum on the operating profit margin moving into 2017 and 2018. I think that is a very achievable goal. Many of our businesses are already at that level.

Some in excess of that level. Again we've got a lot of good benchmarks which would suggest that this is achievable. This is not just simply pipe dream that we hope would come true.

I think that is -- that would be my comment about the first part. With respect to restructuring versus post-restructuring optimization, we had an overall savings target for restructuring.

We expect to get the balance of those benefits in 2017 but this other -- that will be the bulk of it, certainly in 2017. As we get into 2018, you would see the savings or optimization in that post-restructuring world.

We would expect there to be some improvement, 2018 even perhaps beyond that. For 2017 purposes it is really going to be about restructuring.

Some post optimization out of the plants that have completed most of their restructuring activities. It would be hard for me to quantify that at this point because I think it is a matter of completing the restructuring in these plants and then seeing where the economics are versus where you wanted them to be and then defining your improvement program from there.

I think where we have become this process already, we have seen -- we're going to start to see some benefits here, small way in 2017 but perhaps even into 2018 we'll start seeing the bigger benefits.

Paul Manning: We can take one more question. I know we're getting close to the limit but go ahead whoever's got the next question.

Operator: Your next call comes from the line of Christopher Perrella with Bloomberg Intelligence.

Christopher Perrella: What are your thoughts around FX hedging and ways to reduce the volatility on earnings with the strong dollar that seems to be in place for the foreseeable future?

Steve Rolfs: Our best plan to hedge would to be to have a natural hedge and as a general statement, a lot of our businesses; if they are selling in a currency, they are also going to have a lot of their cost in the currency. There are exceptions where we are selling across currencies and in that case we try to hedge those transactions.

Of course, the big impact we have been seeing the last couple of years. The $0.08 last year, the $0.10 we're predicting this year, there we are referring to translation and we do not attempt, really in any big way, to hedge translation.

What we try to do, is we try to base our businesses in the markets in which we operate, match our costs and our revenues. When we are buying a raw material in another currency, we do try to hedge that.

Christopher Perrella: So the bulk of -- primarily all of the FX headwind is translational?

Steve Rolfs: Yes. The $0.08 and the $0.10 that we spoke of, yes.

Paul Manning: Let me just make one other comment for everybody, since we're on a public conference call, this makes this very easy. Let me talk about the guidance for 2017 in terms of maybe some of the timing.

There were a number of questions about assumptions around individual quarters and the like and again -- it is certainly much easier for me and others to predict these trends on a year basis rather than any 90 day incremental time. However, as you are building out these models for 2017, please keep in mind, in Q2 of 2016 we did have a one time, $0.04 positive benefit in those results. One time meaning it will not repeat in Q2 of 2017.

We've got the overall, $3.35 to $3.45 so as you are building your models, I would ask you to keep that in mind. One other note with respect to FX, we anticipated a $0.10 impact, as was our custom in 2016, 2015, 2014 and seemingly every year I have been talking on these calls.

We will update you on the impact. Is it $0.10? Is it above it, is it below it?

We will provide that guidance to you as we go but as we're sitting here today, $0.10 would appear to be the annual impact. That will be more heavily weighted to the first half because most of that FX change took place in the second half of last year.

Two factors, I would ask you to consider as you are building your platforms, your models, your guidance, et cetera, for the year. Otherwise, I think the growth rates that we described, are what we expect to achieve for the year.

We did not get to everybody possibly. If you do have calls, as you all know, we are very happy to speak with anybody. You can reach us and Steve has a more formal way of saying this --

Steve Rolfs: If we have missed anybody, by all means please contact us at the contact information included in our press release. With that, that will conclude our call for today. Thank you.

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