Sensient Technologies Corporation

Third Quarter Earnings

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CORPORATE PARTICIPANTS

Steve Rolfs -- *Senior Vice President and Chief Financial Officer*

Paul Manning -- *Chairman, President, and Chief Executive Officer*

PRESENTATION

Operator
Good morning and welcome to the Sensient Technologies Corporation 2020 Third Quarter Earnings Conference Call. All participants will be in listen only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note, this even is being recorded. I would now like to turn the conference 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 third quarter earnings call. I'm joined this morning by Paul Manning, Sensient's Chairman, President, and Chief Executive Officer. This morning, we released our 2020 third quarter financial results. A copy of the release and our investor presentation 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 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. Our actual results may differ materially, particularly in view of the uncertainties created by the COVID-19 pandemic, governmental attempts at remedial action, and the timing of a return of more normal economic activity. We urge you to read Sensient's filings, including our 10-K, our second quarter 10-Q, and our forthcoming third quarter 10-Q for a description of additional factors that could potentially impact our financial results. Please bear these factors in mind when you analyze our comments today.

Due to changes we have made to our portfolio and the divestitures we announced last year, we are updating our group and product lines. The most notable change is that our flavors and fragrances segment will now be named the flavors and extracts segment. You will also notice some small changes to the names we use for some of our product lines. Sensient's focused portfolio strengthens our ability to service the food, pharmaceutical, and personal care markets. We will continue to report the three divested product lines of fragrances, yogurt fruit preparations, and inks as long as these product lines impact our comparisons. Now we'll hear from Paul Manning.

Paul Manning
Thanks, Steve. Good morning. Sensient reported third quarter earnings this morning, and I'm pleased to report that results were in line with our expectations and our overall guidance for the year. I'm very pleased with the continued revenue and profit growth in our flavors and extract group, as well as our food and pharmaceutical business in the color group. Our Asia Pacific group also posted solid profit growth in the quarter.

Overall, each of our groups performed well despite the adverse impact of COVID-19. COVID-19 continues to be a net negative to the company. The market decline in the makeup industry continues to impact the color group's personal care business. And on a geographic basis, we continue to see headwinds in Asia Pacific, Europe, and Latin America. In the midst of this pandemic, we have ensured our employees are safe and healthy, our facilities remain open, our supply chain remains strong, and we have delivered our products on time to our customers.

Based on current trends, I expect that we will deliver on our EPS outlook for the year as the foundation of our business remains strong. Our focus over the years on customer service, on-time delivery, and sales execution has led to a high level of revenue from new product wins during the second half of 2019 and the first half of this year. Furthermore, as the pandemic continues and new product development at certain companies has slowed, we have focused on regaining lost business and gaining share at our customers. This focus, coupled with lower overall sales attrition, is paying off in our results and should continue to benefit future periods.

Last year at this time, we announced three divestitures. In the second quarter, we completed the sale of inks, and I'm pleased to say that we completed the sale of the yogurt fruit prep business during the third quarter. This is our second completed divestiture in 2020, and I am optimistic that we will complete the divestiture of fragrances in the near future. As I mentioned last year, the divestiture of these three businesses allows us to focus on our key customer markets: food, pharmaceutical, and personal care.

I'm very pleased with the progress of our flavors and extracts group this year. The group had an impressive quarter with adjusted local currency revenue growth of 13% and profit growth of 24%. This is the third straight quarter of revenue growth, which has resulted in continued profit and margin improvement. This growth is based on the group's focus on sales execution, which has resulted in a high win rate, a focus on retaining existing business, and an overall decline in the group's attrition rate. Additionally, the group's focus on transitioning the product portfolio to more value-added solutions and the reduction of its production cost structure from restructuring and ongoing initiatives is complementing the revenue growth and the overall improvement in the group's profit and margin.

Within the flavors and extracts group, the natural ingredients business had another strong quarter, with local currency sales growth of 14.5% as a result of strong demand for seasoning, snacks, and packaged foods. This business has a solid foundation to deliver a consistent and reliable supply of high-quality natural ingredients to its customers.

Flavors extracts and flavor ingredients also had a nice quarter, up 12% in local currency. The business' strong technology platform in flavor modulation and enhancement, its clean label solutions, and its applications expertise are leading factors in the growth of this business. Overall, the flavors and extracts group's operating profit margin was up 110 basis points in the quarter. Long term, I expect mid-single digit revenue growth with continued margin improvement for the group.

Now turning to colors. Revenue for food and pharmaceutical colors was up low-single digits for the quarter. The group continues to see solid demand for natural colors in the market. There's also strong consumer interest in functional natural extracts and nutraceuticals, and the group's product portfolio and innovation are well positioned to support this demand. Despite the continued growth in food and pharmaceutical colors, revenue in personal care continues to be down as a result of the negative impacts of COVID-19 on the color makeup market. The

demand for makeup in Europe, North America, and Asia continues to be down substantially for the year. Given the uncertainty with COVID-19 and ongoing restrictions, I anticipate challenges for this cosmetics product line to continue.

The color group's adjusted operating profit increased 3% in the quarter. Food and pharmaceutical colors had a great quarter, generating profit growth of more than 20% and about 15% for the first nine months of 2020. However, the lower demand for makeup and other personal care products continues to be a drag on the group's profit performance. Overall, the color group's operating profit margin increased 110 basis points in this quarter. Long term, I continue to expect mid-single digit revenue growth from food and pharmaceutical colors, as well as personal care once demand normalizes from the impacts of COVID-19.

We've made good product—progress in our Asia Pacific group this year. Similar to flavors and extracts and colors, the group has focused on sales execution and building a stronger customer service and technology-driven organization. The group has created a solid infrastructure and has been focused on localizing production.

During the quarter, the group had solid sales growth in certain regions. However, this growth was offset by declines in other regions as government COVID-19 restrictions continue to significantly impact many sales channels. The group had another strong quarter of profit growth, up approximately 15% in the quarter and 17% for the first nine months of 2020. The group's operating profit margin increased 200 basis points in the quarter. This was the third straight quarter of strong profit improvement. The Asia Pacific group is well positioned for long-term growth, and I anticipate that, as certain COVID-19-related restrictions ease, the group will resume mid-to-high single-digit revenue growth.

Overall, I'm very pleased with the results of our groups this year. Our flavors and extract group is having a great year, and the food and pharmaceutical business within the color group continues to have solid revenue and very strong profit growth. Our Asia Pacific group is well positioned for future revenue growth. Overall, COVID-19 continues to be a headwind for the company. Despite this headwind, I'm excited about the future growth opportunities for Sensient to the strength of our portfolio of technologies and our exceptional customer service. Steve will now provide you with additional details on the third quarter results.

Steve Rolfs
Thank you, Paul. In my comments this morning, I will be explaining the differences between our GAAP results and our adjusted results. The adjusted results for 2020 and 2019 remove the impact of the divestiture-related costs, the operations divested or to be divested, and our recently implemented operational improvement plan. We believe that the removal of these items provides a clearer picture to investors of the company's performance. This also reflects how management reviews the company's operations and performance.

During the third quarter, the company initiated a plan primarily to consolidate some of our global cosmetic manufacturing operations. The company expects to complete this operational improvement plan during the first half of 2021. The costs of this plan are estimated to be approximately 5 million to 7 million.

Our third quarter GAAP diluted earnings per share was $0.78. Included in these results are $1.4 million, or approximately $0.03 per share, of costs related to the divestitures and other related costs and the cost of the operational improvement plan. In addition, our GAAP earnings per share this quarter include approximately $0.04 of earnings related to the results of the

operations targeted for divestiture, which represents approximately 23.6 million of revenue in the quarter.

Last year's third quarter GAAP results included approximately $0.02 of earnings per share from the operations to be divested and approximately 34.1 million of revenue. Excluding these items, consolidated adjusted revenue was 300 million, an increase of approximately 6.1% in local currency compared to the third quarter of 2019. This revenue growth was primarily a result of the flavors and extracts group, which was up approximately 13% in local currency.

Consolidated adjusted operating income increased 10.1% in local currency to $41.5 million in the third quarter of 2020. This growth was led by the flavors and extracts group, which increased operating income by 24.1% in local currency. The Asia Pacific group also had a nice growth in operating income in the quarter, up 15.5% in local currency. And operating income in the food and pharmaceutical business in the color group was up over 20% in local currency. The increase in operating income in these businesses is a result of the volume growth Paul explained earlier combined with the overall lower cost structure across the company.

Our adjusted diluted earnings per share was $0.77 in this year's third quarter compared to $0.74 in last year's third quarter. As Paul mentioned, the overall impact of COVID on the company's results has been a headwind. The impact on our food and pharmaceutical businesses is mixed, but as we have discussed, the negative impact in our personal care business is significant.

We have reduced debt by approximately 60 million since the beginning of the year. We have adequate liquidity to meet operating and financial needs through our cash flow and available credit lines. Our debt-to-EBITDA is 2.6, down from 2.9 at the start of the year. Cash flow from operations was 143 million for the first nine months of 2020, an increase of 12% compared to prior year. Capital expenditures were 34 million in the first nine months of 2020 compared to 26.1 million in the first nine months of 2019. Our free cash flow increased 7% to 109 million for the first nine months of this year.

Consistent with what we communicated during our last call, we expect our adjusted consolidated operating income and earnings may be flat to lower in 2020 because of the level of non-cash performance-based equity expense in 2020. We also expected a higher tax rate in 2020 compared to our 2019 rate, which was lower as a result of the number of planning opportunities. Based on current trends, we are reconfirming our previously issued full-year GAAP earnings per share guidance of $2.10 per share to $2.35 per share.

The full-year guidance also now includes approximately $0.05 of currency headwinds based on current exchange rates. We are also reconfirming our previously issued full-year adjusted earnings per share guidance of $2.60 to $2.80, which excludes divestiture-related costs, operational improvement plan costs, the impact of the divested or to-be-divested businesses, and foreign currency impacts. The company expects foreign currency impacts to be minimal in the fourth quarter. We are also maintaining our adjusted EBITDA guidance of low-to-mid single-digit growth.

In conclusion, we continue to expect long-term revenue growth rates of mid-single digits in each of our groups. Our stock-based compensation and other incentive costs have reset this year. Going forward, this should be less of a headwind for us. We do expect our tax rate to trend up slightly in future years under current law. As a result, we believe adjusted EBITDA is a better measure of the company's operating performance and expect this metric to grow at a mid-single digit rate or better.

In terms of our capital allocation priorities, we will continue to pay down debt in the near term. We also continue to evaluate acquisition opportunities. Absent an acquisition, we have the ability to buy back shares. We expect our capital expenditures to be in a range of 50 million to 60 million annually. Our divestiture activity and our operational improvement plan allows us to focus on our key customer markets of food, pharmaceutical excipients and personal care, while providing the foundation for future revenue and margin growth. Thank you for your time this morning. We'll now open the call for questions.

Operator
Thank you. We will now begin the question-and-answer session. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster. And the first question will be from Mark Connelly with Stephens. Please go ahead.

Mark Connelly
Thank you. You've talked in the past about the benefits of B2C clients in terms of food innovation. But one of the most common questions we get is what are supermarkets doing in terms of prioritization. There's a view that supermarkets are de-emphasizing new and smaller companies that are—that they see as less reliable. Although, I have to say, in my own area, we're not seeing that. I was hoping you could just give us a sense of how that's impacting your customer base, just the access to the market right now.

Paul Manning
Hey, Mark. Good morning. I would say this. There’re many different channels that our customers deal in, and supermarkets is certainly one of them. Supermarkets in the U.S. is certainly a subset of that. Your comment about certain B and C brands perhaps being de-emphasized in supermarkets in the U.S. that's—I think that's probably directionally correct, but I think B and C companies, many of the ones that we deal in—and sure, supermarkets is one channel, but there are many other channels specialty stores, online, a lot of these other areas that continue to grow.

Certainly, online is yet a small fraction of what you could do in a supermarket channel, but I think, directionally, your comment is correct. I would tell you that we see some of that in the European market, perhaps a little bit less pronounced than in the U.S. market. And I see that as being even less of a factor in, say, places like Latin America and Asia Pacific.

Mark Connelly
Okay. That's helpful. Thank you. And just one more question, then I'll jump back in the queue. In Asia, you talked a little more extensively last quarter about the impact of local restrictions. I was hoping you could give us a little bit of a sense of how that's evolving. You've obviously got a lot of local manufacturing and supply. Can you talk to about how much of what you produce in those countries in Asia stays within the country?

Paul Manning
As a general statement, in this country, we produce where our customers are. And to that end, our operations in China, largely produced for China, although not—we do bring in products from other part of the Sensient manufacturing footprint into China, because we don't make everything there. But as a general statement, yeah, our supply chains for raw material production tend to be fairly localized.

That said, we have continued to generate really solid—in fact, probably even better than in normal times, on-time delivery and service levels to our customers. And I'd like to tell you that we've been out of front of this for really since this began seven months ago. We began to really accumulate certain raw materials in key markets and in key product lines. And from that and plus having really good supply chain operations, we've been able to maintain output to our customers.

As you think about lockdowns in Asia, say, versus Europe or the U.S., what we see happening right now is Asia lockdowns tend to be a little bit more broad-based in my opinion than, say, what you may see in—elsewhere. For example, you look at the United States. Well, Wisconsin, where we are, is on kind of a bad boy list right now for COVID infections. And that has restricted certain travel and—but the lockdowns are very much pointed here.

You go to Asia, some of these lockdowns are less about an individual county or state or even city, and they're more broad-based. I think that has been the big difference between the markets as we see it and in our experience with our products. Nevertheless, Asia was able to generate some topline growth, and they did really exceptionally well on their profit growth. I think we were able to overcome that pretty nicely.

But kind of circling back to your question, I would continue to tell you that we feel very good about our supply chain. Even though we do produce locally, we do still source many raw materials from Asia for the rest of the Sensient operations in, say, the Americas and Europe. Nevertheless, we feel very good about that. And whether it came through sort of stockpiling some of those raw materials or just having a very broad-based supply base, I think we've been able to capitalize on this pretty well.

Mark Connelly
Thank you. I'll jump back in the queue. Thank you.

Operator
And the next question will come from Heidi Vesterinen with Exane. Please go ahead.

Heidi Vesterinen
Good morning. I have a few questions. The first one, why have you not upgraded full-year guidance after such a strong quarter?

Paul Manning
Heidi, I'll take that one. I would say this. It was a really strong quarter. We had great results out of each of the three groups. Am I being conservative? Sure, I'm probably being conservative. I mean, we certainly feel very confident at being at the top-end of that range, possibly even above that. But it's—I don't necessarily want to be too granular on any sort of 90-day period. I think that—ultimately, I think that the businesses are going to continue to deliver and to deliver very nicely. You saw the flavor numbers, you saw the food colors, and you saw the Asia profit numbers. Not to mention, they each had very really good EBIT margin growth.

I feel good about them. I feel good about them in the rest of the year and into next year, but there's moving parts in tax. There's moving parts in COVID, whether there may be additional lockdowns. It's hard to anticipate at this point. But we've kept guidance all year. Some companies remove their guidance, we did not. We've been very committed to that. And in short, yeah, maybe—there's some moving parts, but maybe I'm being a little conservative.

Heidi Vesterinen
Thanks for that. That's great to hear. And congratulations on the flavors number, by the way. Spectacular. Just to focus on that segment, do you confirm that there was nothing really one-off or exceptional in nature in terms of growth? There's no, like, I don't know, pull forward of demand or, I don't know, something one-off? And also, what was the contribution of volume and price in that flavor growth number?

Paul Manning
Flavors—we were up certainly well into the double digits, and that has translated very nicely to the operating profit. We're starting to see that operating leverage I referenced at the beginning of this year where we would see an increasing profit picture as we went.

In terms of one-off, I would not point to any one-off. I think the demand has been pretty solid, and it's been pretty well across the board. You look at each of our product categories I referenced in the script. Whether it's SNI or flavor ingredients or any of our segments for that matter, the growth was really quite good and quite broad-based.

Certainly, there are pockets where demand is struggling considerably, for example, quick service restaurants. I think that's been a very hard-hit area. You look at some other product categories in the sweet flavors and even some of the dairy categories. Some of them not doing as well. Some of them are rebounding. But then, of course, you see seasonings and snacks and things like that doing quite well. No, I wouldn't point to any one-off. They just generated a lot of good wins.

I think that our attrition is way down. And I think one of the things that I kind of talked about last year, but obviously, it was somewhat lost in what was going on, but we had very good win rates last year in the flavor group. And what was ultimately suppressing that optically was the fact that we had very high attrition in some of our legacy product lines.

Now that we've largely flushed that through, and of course, as you know, we sold two of our businesses, and we expect to sell that third, I think we very strongly removed that headwind. I suppose that there's one—if there's a one-timer that I would point to, maybe it's those businesses kind of going away, and you can kind of see that distinction between our GAAP and non-GAAP on those business lines. But no, I think ultimately, you're getting at the sustainability of the flavor results. And I feel really good about flavors moving forward. And I think that mid-single digit revenue is going to be very, very achievable. And I think we've got a real nice future going there in flavors.

Heidi Vesterinen
Thank you very much. I'll get back in the queue.

Paul Manning
Okay. Thanks, Heidi.

Operator
Thank you. And our next question is from Mitra Ramgopal with Sidoti. Please go ahead.

Mitra Ramgopal
Yes. Hi. Good morning. Thanks for taking the questions. I believe in the first half, the net impacts of COVID on EPS was about $0.10. Just wanted to get a sense of that impact in 3Q and how you see it playing out over the rest of the year.

Steve Rolfs
On the negative impact—and understand that this is somewhat subjective, because we don't know exactly where every product goes with our customers. But we looked at direct costs, and then we also looked at the sales impact. Year-to-date, the direct costs are probably close to $5 million. However, we're seeing an offset by lower travel and other SG&A type expenses. That mitigates most of the direct cost impact.

And where we really see the negative impact is on the topline. It is certainly most pronounced within the color group, where our cosmetic business is down about 12% on the topline in the quarter. We really have probably in excess of 20 million of revenue year-to-date that we believe were down as a result of COVID. And what that converts into in terms of EPS, it's around $0.20.

Mitra Ramgopal
Okay. No, that's great. Thanks for the color there. And obviously, you've talked about the operational improvement plan. Was that something that was sort of as a result of what you're seeing in with the COVID-19 pandemic? Or was that something you're probably going to do in any event as you look to improve efficiencies?

Paul Manning
Yeah, it's probably a matter of interpretation. I think the profit improvement plan as we look at—that for some folks who may be newer to the Sensient story, they'll note that we did have a series of restructuring events over the last number of years. And those were designed to consolidate many of our facilities to shrink some of our capacity to ultimately remove some of our legacy products that were—had become quite a headwind. We had tremendously high fixed costs in many parts of the company.

And we went through those restructuring programs. We took out a lot of that cost. And I think some of the impact you see and some of that operating leverage is obviously very closely linked to some of those efforts. But we're always looking at the business. And any time you talk to a plant manager, and he's talking about volume and the need for volume to cover its fixed cost, well, you intuitively know you have a fixed cost problem in that facility. And, with that philosophy, which we've applied really everywhere in the company, we're always looking for opportunities in different parts of the world, and —and in different business lines, for that matter.

Done a lot of work there in flavors. We've done work there in colors. We're doing some additional work there in colors now. I would say, Mitra, it's really in the normal course of business for us to be looking to operate as efficiently as possible. The rounds that we've been working on really closely have really been tied to fixed costs, but we're not blind to opportunities within SG&A, as well, and whether that is automating certain processes or standardizing. It's always in the mix for us.

We're always looking to drive that OP margin. There's a lot more OP margin that this company is able to, I think, going to be able to produce. Many of you also who've been with the story for some time would note that flavors is now starting to move up on the OP margin ladder, and I think that's going to continue. Certainly, as we get into 2021, I could see that being up another 50 basis points to 100 basis points. And color in Asia right now, you see those folks are 20% roughly and 20% plus at times. I feel quite good about those groups. And I think the focus here is going to be in flavors. And, a lot of the activity has been in flavors. But yeah, in short, it's kind of in the normal course of things, I would tell you, Mitra.

Mitra Ramgopal
Okay. No, that's definitely great. And then, just curious on the personal care side. Obviously, you're experiencing some softness due to COVID, but I believe at one point this is an area you felt there were some really nice opportunities you'd be looking to expand into whether it was oral care, et cetera. I was wondering if anything has changed on that front.

Paul Manning
No. Cosmetics, or, as we will oftentimes refer to it as personal care, is an outstanding business for us. It's generated a lot of profit over the years. It's very profitable. It's a very technically driven business, lot of applications are required. We have a very extensive portfolio. And it's a tremendous market with tremendous customers, right? We deal in the who's who of the cosmetic world.

And, as you look at that business today, it's makeup, it's skin care, it's hair care, but it's also more specifically personal care items, as you referenced, such as oral care, things like body wash, and those types of products, which, as you can imagine, are doing quite well. Well, actually, not so much the oral care. You may find this one interesting, Mitra. A lot fewer people are brushing their teeth nowadays and also chewing gum, right? Be mindful, the next person you get close to—although you shouldn't get close to them, right, with COVID times.

But you get the idea here. There’re some temporary factors in the market that are playing out. But our business is—the majority of our business, more than 50% of that business that we have is makeup. And then we—as—of course, as you know, we have a lot within hair care and hair colors, and then we also have skincare and other related products. We continue to diversify that business. Makeup is still going to be a very good category.

I think as restrictions continue to ease and as we potentially find vaccines and other opportunities to suppress this virus, I think we're going to see a very nice return to that business. But even with that, come March, we start lapping a lot of these real negative headwinds we've had in cosmetics moving forward. But no, this is an outstanding business. It's very much going to be a part of our future. The dynamics are outstanding in it. And I think we've got a very strong leadership position there to boot.

Mitra Ramgopal
Okay. No, that's great. And then finally, just again, it was a result of COVID, obviously, that there have been some positives for you. I believe you had talked in the past about a favorable product mix shift in terms of customers transitioning from more—from synthetic to more natural, et cetera. Just wondering if there are any other trends, you're seeing that you think would really be positive for you longer term.

Paul Manning
Well, I think you mentioned one. You mentioned natural colors, which is going to continue to be a very nice trend for our company. Natural flavors, which has been a long-standing trend, I think that continues. But extracts and functional ingredients in general, whether it's designed for a nutraceutical product, for a food product, or even for a pharmaceutical over-the-counter product, that continues to be a very, very strong part of the portfolio for us.

You probably noted some CPGs talking about returning to their core brands, many of which do not really contain a lot of natural ingredients. I think that's kind of more of a temporary statement, because, as I look at our pipelines around the company, I see a lot of activity continuing in this world of natural colors, extracts, functional ingredients.

While there may be a small hiatus from new product launches in many of the markets from the large multi-nationals, the level of product launches and pipelines on B and C customers continues to be quite strong. And we continue to generate wins, right. The revenue you're seeing in the company right now is no accident. And Steve kind of told you about the headwinds here, but we've been able to be successfully winning new projects at a lot of different customers. And it's because we're very committed to continuing to operate this company. Our employees are very committed to the mission of this company, and that is providing these essential products throughout the world.

But in some cases, we've won because customers call up and say, you guys are the only guys who are working. We continue to take advantage where we can take advantage. And these products that we have are ideally suited for many of our customers right now who are trying to advance these more health-driven products. But long term, it's a tremendous portfolio to do just that because I think those trends are trends. They're by no means fads in any way.

Mitra Ramgopal
Okay. No, that's great. Thanks for taking the questions.

Paul Manning
Okay. Thanks, Mitra.

Operator
Once again, if you would like to ask a question, please press star then one. The next question is a follow-up from Mark Connelly with Stephens. Please go ahead.

Mark Connelly
Thank you. Just two more. I was hoping you could give us a little bit of a sense of what the impact of this restaurant recovery with restaurants opening at reduced capacities. If this ends up being a new normal for, say, the next year or so, would you have to scale back any of your operations during that market more than you already have?

Paul Manning
I would say no. When we talk about restaurants, there's really kind of a very simple interpretation of things. You have the quick service, the brands you know and love, and oftentimes, those are serviced through drive-throughs anyway. They are still being hurt, but I think we can ultimately mitigate the impacts from that standpoint. But in a traditional sit-down restaurant, that's certainly part of our portfolio, but that doesn't constitute a vast part of our portfolio. The short answer is no. Even if this were to continue, I would not anticipate the need to do any sort of production or supply chain reconfiguration on the food side of things to address that.

Mark Connelly
Okay. That's helpful. And just one financial question. I was a little bit high on my cash flow assumptions. Can you tell us if there's anything that might be swinging in the fourth quarter? And how I should be thinking about working capital next year, assuming that we do have sort of a steady recovery?

Steve Rolfs
Yeah. Year-to-date, our results on cash flow are good. We're up about 12% in cash flow from operations. There's a little bit of a dip in the third quarter. One of the things going on there, there

were a number of tax payment deferrals. A lot of companies did not, and Sensient included, did not make their federal tax payments in the first half of the year and then had to catch up in the third quarter. And that was in place in some other countries, as well.

And then our sales were very strong really throughout the quarter in certain product lines. And I think there's a little bit of a timing element on receivables. If there was a little bit of dip in the quarter, it's just—it's those two items, but again, still up double digits year-to-date. We've made a lot of really nice progress in bringing inventories down, primarily in our flavors and extracts group this year. If you look at our—on a normalized basis, taking out the divestitures, I think we're down about 24 days year-over-year. I think we can—we have some additional improvement we can make in flavors and in colors, but we've made a lot of improvement really over the last year. I would look for more maybe smaller incremental improvement next year.

Mark Connelly
That's super helpful. Thank you.

Operator
And our next question is also a follow-up, and it's from Heidi Vesterinen with Exane. Please go ahead. Please proceed, Heidi. Perhaps your line is muted on your end.

Heidi Vesterinen
Sorry about that. Thanks for that. We saw recently that Chr. Hansen's colors business was sold for nearly 21 times EBITDA. Can you explain how your food and beverage colors business compares with Chr. Hansen, please? Thank you.

Paul Manning
Well, I think Chr. Hansen is a great competitor. And I think under their new ownership, I think they're going to continue to be a great competitor. Yeah, I guess that's what I'd say about that.

Operator
Thank you. At this time, I would like to turn the conference back over to the company for any closing remarks as there are no further questions.

Steve Rolfs
Okay. Thank you very much, everyone. That will conclude our call for this quarter. Thank you for your time this morning. Goodbye.

Operator
Thank you. That concludes today's presentation. Thank you very much for joining the call. You may now disconnect. Thank you.