Sensient Technologies Corporation

2020 Fourth Quarter and Year End Earnings

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CORPORATE PARTICIPANTS

Steve Rolfs – *Senior Vice President and CFO*

Paul Manning – *Chairman, President and CEO*

PRESENTATION

Operator
Good morning, and welcome to the Sensient Technologies Corporation 2020 Fourth Quarter and Year End 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 event 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 fourth 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 fourth 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 measures is available 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 previous SEC filings and our forthcoming 10-K 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.

Now we'll hear from Paul Manning.

Paul Manning

Thanks, Steve. Good morning. Sensient reported fourth quarter earnings this morning, and I'm very pleased to report that we delivered adjusted fourth quarter local currency revenue growth of 7.9%, and adjusted local currency operating profit growth of 19.2%. We continue to have strong results from our Flavors & Extracts Group, our Food and Pharmaceutical business in the Color Group, and in our Asia-Pacific Group. Our results were at the top end of our EPS guidance for the year.

Overall, the company had a strong financial and operating performance in 2020. Flavors & Extract Group had an outstanding year, achieving high single-digit revenue growth and double-digit profit growth. Within the Color Group, the Food and Pharmaceutical business also had a strong year, with mid-single digit revenue growth and double-digit operating profit growth in 2020.

The Company's cash flow from operations increased over 23%, and we reduced debt by over $90 million in 2020. We completed two of our three divestitures, and signed a purchase agreement for the third, which we expect to close in the first half of 2021. Our focus over the past years on customer service levels has been a significant factor for our strong revenue growth in 2020. Our continued focus on sales execution, along with lower overall sales attrition across all three groups, is paying off, and should continue to benefit future periods.

In addition, our focus on reducing fixed cost has also contributed to our overall profit improvement and strong operating leverage. Flavors & Extract Group had a great year in 2020 and finished with a very strong fourth quarter, with adjusted local currency revenue growth of 14%, and adjusted local currency profit growth of 55%. The Group's revenue and profit growth are driven by a high sales win rate, lower sales attrition, focus on sales execution, robust customer service, and our continued transition to more value-added product solutions.

The cost reduction initiatives from our earlier restructuring efforts, along with our ongoing fixed cost takeout initiatives, have also contributed to the overall profit and margin improvement. Within the Flavors & Extract Group, the Natural Ingredients business had a strong year, with double-digit local currency sales growth. Our Natural Ingredients business supply CPG, foodservice, and innovative food and spice companies around the world with the highest quality natural, organic, and value-added ingredients. This business continues to grow by leveraging its robust supply chain, strong customer service model, and focus on new product development. The business is well-positioned for further growth in the years to come.

Overall, the Flavors & Extract Group's operating profit margin was up over 300 basis points in the quarter, and 50 basis points for the year. Over the long-term, I expect the Flavors & Extract Group to deliver mid-single digit revenue growth, with continued operating profit margin improvement.

Within the Color Group, revenue for food and pharmaceutical colors is up mid-single digits for the quarter and year. The Group continues to see solid demand for natural colors and functional extracts used in food, nutraceutical, and pharmaceutical OTC applications. The growth in these areas is a result of our focus on clean label technologies, innovated natural color solutions, strong customer service, and sales execution. As a result of these efforts, the business achieved a high win rate throughout 2020, which will continue to benefit 2021 and future years.

Also within the Color Group, revenue in personal care continues to be down as a result of the negative impacts of COVID-19. Overall, the demand for makeup and hair care products in North America, Europe, and Asia was down substantially in 2020. Given the uncertainty with COVID-19, I anticipate continued strong headwinds for personal care at least through the first half of 2021. Despite this impact, we continue to make progress on our operational improvement plan, which is designed to consolidate some of our cosmetic manufacturing operations. These actions will better align our cost structure in the personal care business for long-term sustainable growth and continued strong operating leverage.

Long term for the Color Group, I continue to expect mid-single digit revenue growth from food and pharmaceutical colors, driven by new product launches and growth in natural colors and extracts. Once the impacts of COVID-19 subside, I expect mid-single digit revenue growth from our personal care business, as a result of its strong technology platform, and market trends toward natural products in skin hair and makeup. Over the long term, we expect to maintain our EBIT margin at or above 20% for the Color Group.

Within our Asia Pacific Group, we are seeing high sales win rate as a result of the Group's focus on sales execution, and building a stronger customer service and technology-driven organization. The

Group's revenue continues to be negatively impacted in certain regions by COVID-19 restrictions. However, as these restrictions begin to ease, the Group should resume mid to high single-digit revenue growth. Overall, the Group's local currency adjusted revenue was up 3% for the year, and local currency operating profit was up over 14% for the year.

In summary, I expect Flavors & Extracts, Asia Pacific, and our Food and Pharmaceutical businesses to each grow revenue at a mid-single digit rate in 2021. Our personal care business will continue to face headwinds for at least the first half of 2021 due to COVID. Our operating profit margin within the Color Group continues to be around 20%, which is a good long-term level for the Group.

The operating profit margin for our Flavors & Extract Group continues to grow, and we expect a 50 to 100 basis point improvement in 2021. Our balance sheet and cash flow are strong. We have made good progress on reducing our inventory, which we reduced by more than 30 days in 2020. There is still more opportunity to reduce our inventory further. We continue to invest in good ROI capital projects, and we are evaluating sensible acquisition opportunities. Absent an acquisition, we will continue to pay down debt, and we have the option to buy back stock.

Before I turn the call over to Steve, I want to take a moment to recognize all of our employees who supported our success throughout 2020. Our employees remain committed to keeping our plants open, and delivering our products to our customers on time. I'm very proud of the way that our employees adapted to a constantly changing environment, and tirelessly worked to ensure a safe and healthy workplace, all while supporting our essential mission to provide ingredients to the food, pharmaceutical, and personal care markets.

Steve will now provide you with additional details on the fourth 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, the impact of the costs related to our operational improvement plan, and a one-time COVID-related payment to our employees. 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 fourth quarter, the company's Board of Directors approved a one-time payment to our employees to recognize their commitment during the COVID-19 pandemic, and the extraordinary and unforeseeable challenges associated with COVID-19. The cost of this payment is approximately $3 million.

Our fourth quarter GAAP diluted earnings per share was $0.59. Included in these results are $3.2 million, or approximately $0.07 per share, of costs related to the divestitures, the cost of the operational improvement plan, and the one-time COVID payment. In addition, our GAAP earnings per share this quarter include approximately $0.06 of earnings related to the results of the operations targeted for divestiture, which represents approximately $25.2 million of revenue in the quarter.

Last year's fourth quarter GAAP results include approximately $0.01 of earnings per share from the operations to be divested, and approximately $33.7 million of revenue. Excluding these items, consolidated adjusted revenue was $309.5 million, an increase of approximately 7.9% in local currency, compared to the fourth quarter of 2019. This revenue growth was primarily a result of the Flavors & Extracts Group, which was up approximately 14% in local currency.

Consolidated adjusted operating income increased 19% in local currency, to $36.8 million in the fourth quarter of 2020. This growth was led by the Flavors & Extracts Group, which increased operating

income by 54.9% in local currency. The Asia-Pacific Group also had a nice growth in operating income in the quarter, up 7.8% in local currency.

Operating income in the Food and Pharmaceutical business in the Color Group was up nearly 15% in local currency. The increase in operating income in these businesses is a result of the volume growth Paul mentioned earlier, combined with the overall lower cost structure across the company. The overall impact of COVID on the company's results has been a net negative. The impact on our Food and Pharmaceutical businesses is mixed, but as we have discussed, the negative impact in our personal care business within the Color Group was significant in 2020.

Our adjusted local currency EBITDA increased 16.9% in the quarter, and 3.2% for the full year of 2020. Our cash flow from operations was extremely strong in 2020, up 53% for the quarter, and up 23% for the year, due to our strong earnings growth and significant efforts to reduce our inventory levels.

Capital expenditures were $52 million for 2020, and our free cash flow increased 58% in the quarter and 21% for the year. We have reduced debt by approximately $90 million since the beginning of the year. Our debt to adjusted EBITDA is now 2.4, down from 2.9 at the start of the year.

Now, turning to 2021. We expect GAAP EPS to be up mid to high-single digits, compared to our 2020 reported GAAP EPS of $2.59. Our full-year guidance for 2021 includes approximately $0.25 to $0.30 of divestiture-related costs, operational improvement plan costs, and the impact of the businesses to be divested.

On an adjusted basis, we expect our 2021 adjusted local currency EPS to be up mid-single digits, compared to our 2020 adjusted EPS of $2.79. We also expect our adjusted local currency EBITDA to grow at a mid-single digit rate in 2021. Based on current tax law, we expect our tax rate to be in line with our rate in 2020. Our reported results include the impact of currency, and based on current exchange rates, we expect our earnings to benefit by approximately $0.10 due to currency.

As we have discussed, the impact of COVID on the Company in 2020 was a net negative. The impact on our Food & Beverage business was mixed, as new product launches were low, and the quick service restaurant market was negatively impacted. Other areas, such as savory products, saw solid growth. Furthermore, the market decline in the makeup industry has significantly impacted the Color Group's personal care business, and we expect this to continue into 2021. The exact timing of a recovery for our personal care business from the impact of COVID is uncertain, but we could see year-over-year improvement starting in late second quarter.

In conclusion, over the long term, we continue to expect revenue to grow at a mid-single digit rate in each of our Groups, and our adjusted EBITDA 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 anticipate our capital expenditures to be in the range of $55 million to $65 million in 2021. We also continue to evaluate acquisition opportunities, and we have the ability to buy back stock.

We expect to complete the sale of our fragrance business and the operational improvement plan in the first half of 2021. The completion of our divestitures and the operational improvement plan allows us to focus on our key customer markets of food, pharmaceutical, and personal care, while providing the foundation for future revenue and margin growth.

Thank you for your time this morning. We will now open the call for your questions.

QUESTIONS AND ANSWERS

Operator

We will now begin the question and answer session. To ask a question, you may press star then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

Our first question is from Heidi Vesterinen with Exane. Please go ahead.

Heidi Vesterinen
Hi, good morning.

Paul Manning
Hi, Heidi.

Heidi Vesterinen
Couple of questions on the strong growth in flavors, please. On the 14%, first of all, could you please quantify how much was volume and price? And then the second question on flavors, we know that you have big exposure to the US market, and the US market overall was very, very strong last year. How much of your growth do you think was market driven, and how much do you think was driven by the initiatives you outlined, and you regaining customers that you had lost?

And on that point on customers, you know, is there further to go on to regain the many customers you had previously disappointed? Let's start with that. Thanks.

Paul Manning
Okay. A couple of comments and the US. The US market, as we observed, it kind of went in cycles or waves, however you want to describe it. A lot of the volume growth was certainly towards the first half of the year, as consumers were stockpiling. By the second half of the year, a lot of that stockpiling had receded. I think that's one point.

Number two, product launches were certainly down throughout 2020, really across the board in these categories. Now, the product launches, by our estimates, were down about 10% in just a raw number of product launches, but when you consider the value of those launches, it was down quite a bit more than that. In other words, it was a lot of smaller customers launching, fewer launches from the bigger customers, meaning less value attainable, I think, for suppliers.

Those are two factors. I think the reduction in launches, it was a second-half factor. I think the volumes, as I mentioned, were very heavy in the beginning, and then were much lower towards the end of the year. But as you can see in our Flavor Group, our growth accelerated throughout the year. And, I think it's fair to say that we grew well in excess of the market in second half, regardless of what we could believe that market rate to be. It was probably, in actuality, about a 3% to 5% volume growth in some of these segments. Other segments were quite a bit higher. Our success was really kind of across the board in the US, in each of our key segments within the Flavor Group, and certainly within the Food, Colors and Pharma Group.

We spend a lot of time focusing on our core customers, our B and C customers, and to your question about regaining them. You know, the restructuring is many, many years gone now. I think that we are well past those impacts. I think really the success is built upon the new wins that we've generated, our ability to hold on to the business that we have, which was something that really hurt us, certainly back in 2019 and 2018. I think these are two very, very key factors.

As you look at 2021, there's certainly a lot of opportunity for us to continue to win, to continue to maintain the business that we have. We're in a part of the market that's very, very aggressive about

launching products to end consumers. And so, we like our chances there. We think we compete very, very effectively there.

With respect to your volume price, I'll let Steve take that.

Steve Rolfs
Sure. The flavor growth was largely volume driven. I would say price was about 1%. Most of the growth there was volume.

Heidi Vesterinen
Thanks. Then, if I could follow-up on the—you talked about product launches being down. Do you see that picking up, and do you see innovation appetite picking up, or is it too early in flavors?

Paul Manning
Well, one of the bellwethers we use is our rate of sampling to customers. Interestingly enough, our sampling was down probably 10% to 15% on average during 2020, consistent with about a 10% to 15% reduction in launches with our customers. As we look forward here, I think our sampling would suggest that we believe a mid-single digit revenue growth rate is achievable in 2021. I think the launches would be more of a back half factor than they would be in the first half factor. That is absolutely true when you're thinking about our personal care business. But even in our food business, I think there's definitely indications, as we look at our pipeline, that most of the launches at 2021, we would anticipate being more back heavy, second-half-type timing than first half timing. That's using the sample bellwether.

Certainly, as we talk with our customers, we certainly see indications of a tremendous interest in our customers launching. We have a lot of customers who've taken this opportunity during COVID to really revitalize their product line, cleaning up labels, introducing more natural ingredients. There was a lot of very good activity in 2020 I think for the long-term of the market.

But the real short answer here, Heidi, is, I would say second half, in particular for personal care on launches, second half for food and beverage, but I would anticipate some incremental improvement here in the first half in food and beverage.

Heidi Vesterinen
Thank you.

Operator
Again, if you have a question, please press star then one. The next question is from Mark Connelly with Stephens Inc. Please go ahead.

Mark Connelly
Thank you. A couple of things. I'm thinking back to the first half of last year. Well, really the second quarter when you got hit hard in categories like ice cream and candy and energy. Can you talk about how much recovery you've actually seen in those particular categories?

Paul Manning
Yes, I would say that ice cream, you're right, the first half of last year was pretty bad, particularly in Europe. I think as the year progressed, the ice cream market improved in the Americas, but it continued to be feeling a lot of headwinds in Europe. Much of that is driven occasion for use, right? A lot more ice cream is consumed outside the home in Europe than say the Americas market. And we saw that continue to be a big headwind in Europe because folks aren't going out.

Candy, I think in the traditional areas that we would play, i.e., highly-colored, highly-flavored products, I think that growth was pretty—there were a lot of headwinds there throughout 2020. If anything, maybe second half was a little less worse than first half, but I wouldn't say was by much. There's definitely been improvements in chocolate, but we don't really play in that area, because it's not colored and it's not flavored beyond cocoa flavors, and things that we don't necessarily indulge in.

On the energy side, energy drinks, we saw pretty steady growth and pretty steady market really across the world, from Asia, to the Americas, to Europe, on energy drinks, and that had a good year for us.

Mark Connelly
Okay, that's helpful. And second question, you've obviously made a lot of progress over the last couple of years on your manufacturing footprint, but in the last couple of quarters there was some talk about maybe some more room to go there. Is that going to be a significant initiative, or is that just sort of at the margin?

Paul Manning
No, I would say it's at the margin. I mean, our big work was the restructuring phase one and phase two many years ago, principally directed at Flavors. I think we have the right footprint substantially. The divestitures that you saw, and we completed in the last 12 months, those were certainly on top of that, and certainly very much portfolio driven. I think in the wake of that, we are a far more streamlined organization, Food and Beverage, Pharma, along with Personal Care. It's a very, very focused portfolio for us. I like our footprint. But I'll tell you, we're always looking at areas to enhance the business, right?

We took out 30 days inventory. Actually, I think it's like, more like about 34 in 2020. There's still more for us to do. We're not, by any means, done with optimizing the organization, from a manufacturing standpoint or an SG&A standpoint. But, yes, there is no massive restructuring I'm contemplating, but we're always looking to take out costs, to optimize the organization, to utilize technology, to really improve in efficiencies around here. Still a lot of good opportunities there. We have a big team working on that for us. And, I think these are going to be very, very helpful as we continue to improve the operating profit margin, in particular in Flavors.

Mark Connelly
And if I could just slide in one more question. You've pointed to lower customer attrition. You've obviously made some significant changes in the way you market your products. Is there more room to run there, or have you hit your lower attrition targets?

Paul Manning
Well, you always want attrition to be zero. I suppose it's more of a philosophical target than a real target. But, yes, I mean, our attrition is substantially down, and some of the attrition is natural. Customers, they have a product, they de-list it, they remove it from the market. That's kind of a natural thing that you would expect in the markets that we're serving, which is to say then, you have to win a lot of new projects to make up for the things that are being pulled from the market. But there's other attrition driven by providing poor service, or letting your customer down in some other way, and this is the part I'm particularly focused on. And everybody out there in Sensient knows, I hate losing business.

And, we make a very strong point of really blanketing our customers with really good customer service. It's a very fundamental part of running any business, but I think it's often something that gets lost in the day-to-day activities, and the other things that businesses may indulge in. No, we're very, very focused on that. I think 2020 was a real banner year, in terms of improving and reversing some of those trends you might have seen in, say '18 and '19. I like that.

And the last point on the attrition is, there are certainly more sophisticated products that we've been focused on selling in our groups. Those tend to be far more defensible as we tend to say sticky business. That represents a very good and technically sophisticated answer for our customer, that perhaps other competitors don't have, or there would be tremendous risk in contemplating swapping those out.

Those are some of the things we think about with respect to attrition. It's going to be an ongoing part of how we think commercially. Yes, I'd like to get it down even lower if I could.

Mark Connelly
That's very helpful. Thank you.

Operator
The next question is a follow-up from Heidi Vesterinen with Exane. Please go ahead.

Heidi Vesterinen
Hi again, a couple. What is your outlook on raw material costs and price increase? And specifically, in Natural Ingredients, I think last year you had talked about a cost headwind. What is the latest there as we look at 2021?

And then the second question is on, what is your exposure to the plant-based trend, please? And perhaps if you could give some examples, if you're exposed there. And then lastly, you talked about some looking at sensible acquisitions. What sort of sensible acquisitions are you interested in, please? Thanks.

Paul Manning
Okay. I'm going to talk about, I'll start with your price raw material, and I'll have Steve speak more specifically about our SNI business, which I know folks can be interested in. I think, in general, we don't see a tremendous amount of inflation on raw materials, as we went into annual pricing discussions. There are, of course, always some. There were a couple of products that were somewhat problematic for us over the last year, due to availability or some other factors. But, in general, raw material inflation was very, very reasonable, really across the board on an overall impact to us.

And, therefore, the growth in 2021 for us is going to be a more of a volume game than a pricing game. Certainly, we may take some surgical pricing here and there, but it's not, say, a broad-based initiative for us as a revenue contribution in 2021. If I had to project, I would say probably 80%, 90% of our growth will come from volume, and the balance would come from price.

On your question about plant-based, yes, that's a real booming market right now. A lot of companies getting involved with that one. It's a really good technical challenge. And what's nice about it is that most of the producers of these products, it's an open market. There are no such things as core listings, and all these other constraints on trade, that, in my opinion, you see in other parts of the market. This is a, whoever has the best technical solution wins. We like competing there. We've actually done quite well there, in particularly with our natural color solutions.

We like that market. I think there's some real continued potential in that market for a number of years to come, but it's one that really requires a lot of technology to get it right.

Let me go back to that raw material one on SNI, Steve. Do you want to take it from there?

Steve Rolfs

Sure. So, on SNI, or Sensient Natural Ingredients, for everybody's benefit, this is a product line within the Flavor & Extract Group. It's our dehydrated onion, garlic, chili peppers, other types of products like that. Paul had mentioned in his prepared comments that it's done very well this year on the top line.

Looking at the supply chain and the cost for that into next year, parts of the crop look a little better, other parts of the crop look about the same. No big change in the cost structure there. And I think we also have gone out with pricing to recapture whatever we needed to. No big change on the cost front there, and we expect that product line to perform well into '21 as it did in '20.

Paul Manning
And then your third question, Heidi, on sensible acquisitions. With a much more focused portfolio, these are really portfolios that we want to continue to invest in. I would tell you that any one of our product lines could constitute good avenues to acquire. Whether we're talking about food colors, pharmaceutical excipients, personal care ingredients, of which there are many; everything ranging from solubilizers to surface treated pigments. Any one of these things could potentially be in the mix for us.

And, it's an interesting market, right? I mean, there's a lot of startup companies out there. There's a lot of more established companies out there, and we insist on being able to acquire and earn a return for our shareholders.

And, when I say sensible, I'm talking about our ability to implement, to generate the returns that would be, I think something in the interest of our shareholders. And, maybe there are fewer of those, but these things sort of tend to move in cycles. And, we can be very, very patient on some product segments. But I'm optimistic that there may be something kind of of interest in 2021, but I would not anticipate you're going to see us make some sort of blockbuster acquisition in 2021. I think, we want to be very, very prudent. But, hey, you never know. Something bigger could come along, too. And, we're very, very open to a range of possibilities there, but we have to make sure we're paying and earning a return on that, that acquisition.

Heidi Vesterinen
Thank you.

Paul Manning
Okay. Thanks, Heidi.

Operator
Excuse me. The next question is from Mitra Ramgopal with Sidoti. Please go ahead.

Mitra Ramgopal
Yes, hi, good morning. Thanks for taking the questions. First, I just wanted to, as you look back at 2020, and I know it's a little objective, but if you can give us a sense as to what you think the impact of COVID was, in terms of the bottom line?

Paul Manning
Well, as Steve mentioned, it was a net negative to the company. Leading that net negative was clearly our personal care, and more specifically our makeup portion of that business. With people not going out, it just took a real toll. Just go over to food and beverage, it was also somewhat mixed, right? Foodservice was hit very, very hard in the first half, less so in the second half, but still a headwind.

Candy, to the comment Mark asked earlier, that was a problem for us, that was a headwind. Ice cream was sort of a headwind, but then it wasn't. And, it's a real mixed bag, but I would suppose, in conclusion, it was very much a net negative for us.

Now, what was a net positive for us is we really took this as an opportunity to invest in parts of our business. It's a really, really focus commercially on our customers, and just to service the hell out of them. And then I think we really accomplished that mission in a very meaningful way, and I think that really was instrumental in helping us to win a lot of business in this market.

We review as being very reliable in a lot of fronts, whether it's delivering samples or delivering shipments, people knew Sensient was opened for business, and we took our mission very, very seriously. I think that was certainly a benefit from COVID. But as we go into '21, I think everybody's optimistic that the second half is going to improve, and we do see incremental improvements with respect to product launches and customer activity. We're optimistic that we can achieve our mid-single digit growth rate for the year.

Mitra Ramgopal
Okay, no, that sounds great. And then, as it relates to the operating plan improvement, it seems you're about halfway through that, and I'm assume the guidance is also baking in some contribution from those initiatives.

Paul Manning
Yes, this is, you know, when you think about what we've done in the past, this is a fraction on the order of magnitude scale, which is to say, we're really talking about a couple of facilities, not a huge economic impact from a charge-off, most of that being noncash. And, we're speaking in terms of millions, rather than say tens of millions. But, no, those are progressing quite nicely. We have a lot of experience born of restructuring. And, I feel very confident that we'll get that done and we'll get that done correctly. But that will be really a kind of a first half event, is where we'll conduct a lot of that activity, and then we should expect to see some of those benefits again. Fairly nominal benefits second half of the year, and then probably more like 2022 is where you'll see the full impact of that. And that would be really in the Color Group, in the personal care segment, is where you see that.

Mitra Ramgopal
Okay, no, thanks. And with the divestitures coming to a close with one more to go, I was just curious, as you look at now at the revamped product offering, if you're very comfortable with—I know you always could add something here or there, but in terms of just the existing business, how comfortable are you with that going forward now, in terms of being able to really see some nice growth?

Paul Manning
Well, I like it. I like our odds there. We've demonstrated a very nice track record in certainly our food colors, and I think personal care right before COVID had done quite well over the years. I like our chances there, great markets. I think we have very strong strategies there. I think we have very good portfolios. I think our innovation programs are really, really good, and we have great leaders. And what drives a lot of the success around here is we insist on having leaders who are really smart and really tough, and they operate with a high degree of integrity, and we have that there. And ditto for the Flavors & Extract Group, right? Same type of leaders, and the same types of expectations, and markets with really good underlining trends and growth, whether it's converting to extracts from a natural flavor, or having a much more desirable label for our customer. Lot of great opportunities continue, in my estimation, in Flavors & Extracts for sure.

And then, of course, our SNI business, with trends towards more local production, with trends towards real food. I think it is also similarly well-suited to have a successful year and a successful future. And then again, to the acquisition point, where we can layer on, fill a gap in the portfolio, maybe open up a market that we're not in, that those could be real good reasons to add something on top of that. But the portfolio, I think, is really, really strong, it's really good. I think the businesses that we sold, as I said once before, fundamentally good businesses, but unless you're willing to invest a lot more in them, they

probably make sense in the arms of a much larger organization that can cultivate them in a way that either we couldn't, or we were not interested, and based on our preference for these other segments.

Mitra Ramgopal
Okay, thanks. And then finally, if you can just give some color on the Yatsen collaboration. Is that a way of really sort of having a local partnership to gain more traction within the China market, or is that meant for the platform to just expand globally still?

Paul Manning
Well, certainly, it goes a long way in China, and it does. This is a global partnership. And, we see really good opportunities. China is a very good cosmetic market for us, and we're optimistic that that market fully recovers, and we go pack and resume our very strong and high growth rates. And this partnership with Yatsen, I think is indicative of the types of things that we are working on with our customers. And, in that case, a lot of co-development and a lot of insight sharing, and I think they recognize, and we recognize a good collaboration potential to grow, not only within the Asian market, but beyond.

We're quite excited about that. And again, I think we have great opportunities in that cosmetic business in Asia Pacific for sure.

Mitra Ramgopal
Okay. Thanks for taking the questions.

Paul Manning
Okay. Thanks, Mitra.

Operator
The next question is from David Green with Boldhaven. Please go ahead. Mr. Green, your line is open on our side.

David Green
Hi, Steve, hi, Paul. Hi, Amy, if you're there.

Paul Manning
Hello, David.

Steve Rolfs
Hello, David.

David Green
Can you hear me?

Steve Rolfs
Yes.

Paul Manning
Sure.

David Green
Hi, how are you doing?

Paul Manning
We are having great day. It was five degrees Fahrenheit. Yes.

David Green
I hope you're well.

Steve Rolfs
Yes, we are.

David Green
We beat you in London. It's zero here. Just a couple of quick questions, please. When you talk about better sales execution, what does that actually mean in practice, and what are you actually doing better here? Just on the Flavors business specifically, obviously very, very strong. Are there any specific end markets that are driving that?

And then, two final questions, if I may. One is a net promoter score. I don't know if that's an internal benchmark that you have, and whether you could give us some color on it. And finally, just there seems to be a trend in the industry towards a full service end-to-end offering. Just wanted to get your thoughts on that and how well-placed you are?

Paul Manning
Okay. On the first one, sales execution, what does that mean? It's a good question, right, because it sounds very, very simple, and in principal and concept it is. It's about the basics of being very, very responsive to your customer, a good understanding of what his or her expectations are versus what you're willing to do. A lot of the distinctions, or the problem with customer interactions is the expectations are very, very different. Some customers may be expecting these eight things, you're only willing to give them three; others expect two and you give them eight. And, I think it's a lot about gaining alignment between you and the customer.

And, a lot of our commercial strategy has been built around, you have to pick the right customers, and you have to pick the ones where we can successfully compete, and we can successfully deliver things that make them better and help them make money.

And, I think our focus on serving our customers and making their lives better, making their business better, helping them make more money, that's how we think about sales. And, then it manifests itself, obviously, in a very close contact and very good focus on the fundamentals of selling very close management and collaboration with our salespeople, and fundamentally good support. I want our salespeople to get as much bonus as they possibly can. And, in order to do that, they have to execute on their job, but the organization has to support very strongly what they're doing as well. And, these are our cultural aspects of our business that I think are continuing to improve, but like everything around here, we have a lot of areas we want to continue to work on and get better at, and that's certainly no exception.

Your second question, I think I heard you say net promoter score, and I don't know what that is. What does that mean, David?

David Green
It's basically a score that your customers are giving you, in terms of the feedback of how well you're doing, but I guess not all companies will have it.

Paul Manning
Yes, and there is no, that I'm aware of, no necessarily indisputable benchmark for the markets that we're serving in on that metric. Yes, to answer the question more conceptually, we do take and ask for a lot of feedback from our customers, and we do ask them to compare us with others, but I don't have that quantified in this net promoter score matrix, but it sounds kind of interesting. I'll take a look at that.

On your third one, though, the full service, and I think some folks would describe this as integrated selling, or offering a basket of goods, or being a one-stop shop, or any one of those descriptions. In my estimation, and I think the opinion of most folks in this company, that is something that is dependent on the customer. I don't believe that that is a broad-based approach because, at the end of the day, you have to ask yourself, what does the customer get from that? Yes, you may get something for that, but what does your customer get? What does he care? And a lot of times they don't. In fact, they don't want it all. They want you to deal with them independently, depending on the ingredient.

But in other cases, it could be quite helpful and helpful to the customers. We tend to take a rather surgical view, or at least surgical execution of that concept in the market, and I think that's the right way to approach it.

David Green
And then apologies, on any specific end markets driving the Flavors business?

Paul Manning
Oh, yes, I'm sorry. Yes, I think that the growth was pretty broad-based, despite even some of the headwinds that you heard me describe. I mean, certainly we did quite well in savory. Our sweet and beverage business, our SNI business, each of these businesses perform very, very well, and for a lot of the reasons we talked about.

Now, there were headwinds. Foodservice is a big headwind in a number of our businesses, as was the ones that I mentioned before, candy and ice cream. Certain beverages were, as well, hit pretty hard during the pandemic. Gum really was wiped out in a lot of ways. In a lot of markets, it was down 30%, 40%. The growth that we experienced was really acquisition of a lot of new customers; growing with the B and C customers that continued to launch products; and then again, focusing on our service model, which I think enabled us to win a lot of business, really across each of these segments. And I would say, these are not just comments for the Americas. These are comments that I think are applicable in Europe and in Asia as well.

David Green
I'm sorry, one quick one on that. If we take the end markets, where there was more of a headwind, so QSR, candy, gum as well you mentioned, how much would they be as a percentage of flavors in terms of end market?

Paul Manning
I guess small enough that we could overcome them in some of these markets. I don't have that specific breakdown in front of me. There was a lot of headwinds in some of these markets, there were tailwinds and others, and our distribution worked in our favor, I suppose is the conclusion that we would offer.

David Green
Great, many thanks.

Paul Manning
Okay. Thanks, David.

Steve Rolfs
Thanks, David.

CONCLUSION

Operator

There are no further questions at this time. I will turn the conference back to the company for any closing remarks

Steve Rolfs
Okay. Thank you, everyone, for your time this morning. That will conclude our call. And thank you again for tuning in to hear about the results.

Operator
The conference has concluded. You may now disconnect.