Sensient Technologies Corporation

Q1 2021 Earnings Conference Call

Friday, April 23, 2021, 9:30 A.M. Eastern

CORPORATE PARTICIPANTS

Stephen Rolfs – *Senior Vice President & Chief Financial Officer*

Paul Manning – *Chairman, President & Chief Executive Officer*

PRESENTATION

Operator
Good morning and welcome to the Sensient Technologies Corporation 2021 First 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 (0). After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star (*), then one (1) on your touchtone phone. To withdraw your question, please press star (*) then two (2). Please note, this event is being recorded.

I would now like to turn the conference over to Mr. Steve Rolfs. Please go ahead, sir.

Stephen 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 first quarter earnings call. I am joined this morning by Paul Manning, Sensient's Chairman, President, and Chief Executive Officer. This morning, we released our 2021 first 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-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.

Now, we'll hear from Paul Manning.

Paul Manning
Thanks, Steve. Good morning. I'm pleased to report 4% consolidated adjusted local currency revenue growth. Our Flavors & Extracts Group reported 9% adjusted local currency revenue growth, more than 20% adjusted local currency operating profit growth, and 130 basis points adjusted operating profit margin improvement in the quarter.

Our Asia Pacific Group reported 5% adjusted local currency revenue growth and over 30% adjusted local currency operating profit growth. Our balance sheet is strong, and our debt-to-EBITDA is now at 2.4, down from 2.9 a year ago. In April, we completed the sale of our Fragrances business, and we are currently assessing various acquisition opportunities. Overall, I'm pleased with our first quarter results and our start to the year. We continue to see an increase in new sampling requests and strong activity in the sales pipeline, both of which are good indicators of future product development opportunities and product launches. Our sales attrition rates continue to be at the low levels we achieved throughout 2020.

The impact of COVID-19 continues to vary, depending on geographic region and product line. Geographically, we are beginning to see positive trends in the U.S. and certain Asia Pacific countries. However, Europe and Latin America continue to be impacted by government regulations, slower vaccine rollouts, and softer markets. From a product line standpoint, we continue to see growth in a number of our sweet, savory, and natural ingredient product lines. However, we continue to see headwinds in personal care, makeup, and QSR. We expect much of the personal care headwind to subside later in the year.

During the first quarter, we experienced an increase in the number of supply chain challenges, from shipping container shortages to Brexit disruptions, Suez Canal backups, and unusual weather in Texas. Despite these challenges, we continued to provide robust customer service, and we have mitigated raw material shortages and cost increases. I'm very pleased to report that in early April we closed on the sale of our Fragrance business. This completes a third of our three divestitures identified in 2019 and positions the company to be strongly focused on our core product lines within food, pharma, and personal care. We continue to look at sensible acquisition opportunities that support our strategic initiatives within these core product lines.

Turning to the group results. The Flavors & Extracts Group had another strong quarter with 9% adjusted local currency revenue growth and 21% adjusted local currency profit growth. The group continues to benefit from a strong sales and customer service focus and a continued transition to more value-added product solutions. The group's operating profit and profit margin improvement is a direct result of the strong sales growth, product mix shift, and our ongoing fixed cost takeout initiatives. Overall, the group's adjusted operating profit margin increased 130 basis points in the quarter compared to last year's first quarter. We are well on track to achieve our 50-to-100 basis point operating profit margin improvement for the year and our mid-single digit revenue growth goal for the year.

Within the Flavors & Extracts Group, the savory business had another very strong quarter. Our savory business supplies companies with flavors, flavor enhancers, and taste modulators that are found in a wide variety of products, including plant-based proteins, savory snacks, sauces, and prepared foods which are supplied to foodservice, CPG, and other innovative food companies. This business continues to grow as a result of its strong flavor technologies and exceptional customer service. Our savory business is well positioned for growth, and I'm optimistic about its future opportunities.

In the first quarter, we acquired a production facility for our natural ingredients business that will give us additional capacity to better service our customers and to support the increased demand we see within this business. We look forward to bringing this facility online and anticipate it contributing to the group in the latter part of this year. I continue to expect Flavors & Extracts Group to deliver mid-single digit revenue growth and continued operating profit margin improvement over the long term.

Within the Color Group, revenue for food and pharmaceutical colors was up low-single digits for the quarter. The group continues to see demand for natural colors and functional extracts used in food, nutraceutical, and pharmaceutical OTC applications. The group's focus on sales execution and customer service, as well as its strong technology platform and brand positions us to capitalize on the strong consumer demand for natural colors. We believe our low-single-digit growth this quarter is a result of a slowdown in product launches that use natural colors. However, we expect a much improved second quarter and back half of the year due to the increasing rise in new sample requests and new customer project activity. Also in the Color

Group, revenue in our personal care business continues to be down as a result of the negative impacts of COVID-19 on the makeup industry.

During our last call, we communicated that the first half of 2021 would be challenging for this business. As we enter the second quarter, we are already seeing signs of recovery. The personal care business continues to make solid progress on our operational improvement plan, which is designed to consolidate some of our cosmetic manufacturing operations to better align our cost structure for the future. The Color Group's adjusted operating profit was down approximately 13% in local currency in the first quarter. The profit decrease is primarily result of the ongoing lower volumes in personal care. Many of our personal care customers experienced growth in the first quarter. As our business lags their results, we are optimistic that our second quarter results and back half of this year should be much improved.

Turning to our food and pharmaceutical business, we were up in many of our markets. However, we experienced unfavorable product mix due to a soft market in Europe and lower new product launches in the U.S. Looking ahead to the second quarter of this year and beyond, we expect profit to improve in the Color Group in both personal care and the food and pharmaceutical business.

Over the long term, I continue to expect mid-single digit revenue growth from food and pharmaceutical and mid-single digit revenue growth from our personal care business once the impact of COVID 19 subsides. Our Asia Pacific Group had another strong quarter with 5% adjusted local currency revenue growth and over 30% adjusted local currency profit growth. The group had solid revenue growth in almost all regions driven by strong new sales wins, a strong focus on customer service, and solid utilization of our technology platforms.

Over the last year, the group has reduced its cost structure, which along with the volume growth, is contributing to the group's operating profit and margin improvement. Based upon current trends, I expect the Asia Pacific Group to continue to deliver mid-single digit sales growth throughout the year. We've had a good start to 2021, and we are on track with our guidance, we outlined for the year. Despite the ongoing impact of COVID-19, we continue to see an increase in customer sample requests, which is an excellent bellwether of new product innovation. As always, I'm very excited about our new sales wins. I remain optimistic about the year and the future of our business.

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

Stephen 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 2021 and 2020 remove the impact of the divestiture-related costs, the operations divested or to be divested, and the impact of the costs related to our operational improvement plan. We believe that the removal of these items provides a more clear picture to investors of the company's performance. This also reflects how management reviews the company's operations and performance.

Our first quarter GAAP diluted earnings per share was $0.75. Included in these results are $3.1 million, or $0.07 per share, of costs related to the divestitures and the cost of the operational improvement plan. In addition, our GAAP earnings per share this quarter include approximately $0.05 of earnings related to the results of the operations targeted for divestiture, which represents approximately $25.6 million of revenue in the quarter. Last year's first quarter GAAP results include $10.9 million, or approximately $0.26 per share, of costs related to the

divestitures. In addition, our GAAP earnings per share in the first quarter of 2020 include $0.03 of earnings per share from the operations to be divested and approximately $36.6 million of revenue.

Excluding these items, consolidated adjusted revenue was $334.1 million, an increase of 4% in local currency compared to the first quarter of 2020. This revenue growth was primarily a result of the Flavors & Extracts Group, which was up 8.9% in adjusted local currency, and the Asia Pacific Group, which was up 4.7% in adjusted local currency. The Flavors & Extracts Group reported 21.2% adjusted local currency operating income growth, and the Asia Pacific Group reported 31.4% adjusted local currency operating income growth. Adjusted local currency operating income in the Color Group was down 13.3%, primarily as a result of the personal care performance.

Our adjusted local currency EBITDA was up approximately 2% for the quarter. Our cash flow from operations was down in the first quarter, primarily due to higher cash incentive payments in the first quarter of 2021 compared to the first quarter of 2020. We continue to focus on our working capital levels and expect continued improvement throughout the rest of the year. We are executing on our capital expenditure plan and have identified a number of attractive investment opportunity projects, which will bring us to the top end of our previously stated capital range of $55 million to $65 million for the year. During the first quarter, we bought back approximately $12 million of company stock. Absent an acquisition, we expect to continue to pay down debt and buy back stock on an opportunistic basis. Based on current trends and the current tax law, we are reconfirming our previously issued GAAP EPS, adjusted EPS, and adjusted local currency EBITDA guidance.

Our GAAP EPS guidance calls for mid-to-high single-digit growth compared to our 2020 reported GAAP EPS of $2.59. Our full-year guidance for 2021 includes approximately $0.30 of divestiture-related costs, operational improvement plan costs, and the impact of the businesses to be divested. On an adjusted basis, our EPS guidance for the year calls for mid-single-digit local currency growth compared to our 2020 adjusted EPS of $2.79. Furthermore, we continue to expect our adjusted local currency revenue to grow at a low-to-mid single-digit rate in 2021 and our adjusted local currency EBITDA to grow at a mid-single digit rate. Given current proposals related to changes in the corporate tax law, we continue to believe that our adjusted local currency EBITDA metric provides a reliable measure for our underlying business growth.

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 for the year.

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

QUESTIONS AND ANSWERS

Operator
We will now begin the question-and-answer session. To ask a question, you may press star (*), then one (1) on your touchtone phone. To withdraw your question, please press star (*), then two (2). At this time, we will pause momentarily to assemble our roster.

Our first question comes from Heidi Vesterinen with Exane BNP Paribas. Please go ahead.

Heidi Vesterinen
Morning. I just have a few questions.

Paul Manning
Hello, Heidi.

Heidi Vesterinen
Hi, how are you? So, I wondered if there is anything you can share on the exit rate in Q1. So, is it fair to say Flavors & Extracts might be slowing and Color is improving? Do you see that already? So, that's the first one, and then the second question is more specific on Colors. Could you talk more about the slowdown in food and pharma, please, the 1% growth that you saw and also the unfavorable product mix that you highlighted? Are both of these related to the slower launches in naturals that you talked about in your speech and what's the outlook? And then lastly, could you maybe update us on pricing and inflation trends for the year? Thank you.

Paul Manning
Okay. So, let me start with the first one, the exit rate for Q1. I would say the businesses are both on track to achieve our goals of mid-single digit revenue growth for the year. I feel very, very confident about that. Flavors obviously had an outstanding quarter, and so I see continued very good growth there. I think Colors, I'll get specific to the food and pharma here in a moment, but overall, you heard me note that personal care, cosmetics, we are already starting to see that rebound. I mentioned in the script that many of our customers are starting to report favorable results. There tends to be a little bit of a lag between our customers' results and our uptick in volume. There is a rather vast supply chain there. Many of these products tend to have longer shelf lives, so, that's why you tend to see a little bit of a lag, but we're already seeing those positive signs even as I sit here in the third week of April, we see a rebounding in personal care. So, that's very exciting for Q2 and beyond for Color. We were not necessarily sure it was going to happen as quickly as it has. So, I think that's really good and so therefore, I feel very good about mid-single digits for the Color Group for the balance of the year.

Ditto for Asia. Asia has got a lot of unusual lockdowns and then some unusual events going on, but we were able to eke out some pretty solid growth there. As I again look at the pipeline there, I look at the sample activity really across all three groups, I feel really, really good here. As we took stock of the 2020 launches, you might find this one interesting. The total number of launches, say, in the U.S. and Europe was not too far off what the total number of launches were in 2019. The nature of those launches was a little bit different, which is to say the launches were a little bit smaller in the market in 2020 versus 2019, but it in terms of an aggregate number of product launches across the food industry in Europe and the U.S., it was fairly consistent, but I think the big difference is the slowdown in launches from perhaps some of the larger CPGs who would have had larger product launches, more impactful in any non-COVID year. So, our win rate was quite good and our win rate continues to be quite good here in Q1.

Now, the slowdown in food and pharma, these are things that can happen in any 90-day period, I would say. Some of this has to do with timing of launches -- some launches, you think they're going to be Q1, and they wind up being Q2 or perhaps even later or perhaps even earlier. So, I think that was a factor. I think overall -- the mix in terms of the types of products that were launched was a little bit different than what we've seen. There is a slowdown in Europe. I think that is undeniable. That has been for that business was kind of tricky to overcome.

But I would tell you that there's really nothing systemic that I see here. I see very, very good activity. We feel very good about Q2 and the rest of the year. We've had a very nice long run on natural colors growth, and I think that's only going to continue. We've invested and we

continue to invest very strongly in that business, and we believe we have a very, very strong portfolio. We have broad-based access, and that's yet another factor here for the food colors.

We generally are regarded in very near the top as a natural color company, and so we enjoy very good access, which is to say then that launch activities and things of that nature are very much reflective of big customers and small customers. So, tying that to my comment about some of the big customers having fewer launches, we see that impact a little bit more strongly in Color versus say Flavor, where we tend to focus on the segment of the market that we would traditionally describe as B or C-type customers, but no, I feel very, very good here. I think this is kind of just an intermittent thing. These things can happen, but I think the prospects continue to be quite good there.

Now pharma, okay, I think people have noticed that there has been a slowdown in certain nutraceutical categories. Nutraceutical is certainly an area that benefited substantially from COVID in most markets, I would argue, last year, at least as we saw it. But there is naturally a slowdown as folks get vaccinated and as markets begin to open up more. I don't think you're going to see the same level of nutraceutical OTC-related products that you did during a COVID year. So, I think that's a natural outcome of easing of certain COVID restrictions in certain parts of the world. So, that's a little bit of a slowdown there, but that's a smaller part of the portfolio, as you know. So, I don't think that's going to be a significant headwind for us.

And then your last question, pricing and inflation. There has been a lot of talk that certain businesses out there, certain CPGs are already guiding towards raising their prices. What we saw last year was not necessarily raising prices so much as is elimination of discounts. So, instead of a two-for-one, well, you pay for two if you want two. And we saw a lot of reduction in promotions. But I think what we're seeing this year is, we're certainly seeing announcements about CPGs and other brands raising their prices or projecting to raise their prices. So, what we're seeing from our suppliers, certainly we're seeing inflation in transportation. We're seeing inflation in some raw materials that are having some trouble in China being either produced or exported. I think some of this is we can handle with surcharges and other factors like that, but we don't see a massive wave of inflation at this point.

Could I anticipate that there could be some inflation next year? Oh, for sure. I think that's a -- that would not be a significant surprise to me, but I think as a business, as an organization, food ingredients and personal care ingredients, we tend to be fairly successful in helping overcome that raw material inflation with pricing of our own. So, I don't have any major concerns on inflation right now. Yes, there are individual items. Yes, there are transportation-related cost increases, but thus far, we've been able to mitigate those pretty successfully.

Heidi Vesterinen
Thank you.

Paul Manning
Okay, sure.

Operator
The next question is from Mark Connelly with Stephens. Please go ahead.

Mark Connelly
Thank you. This is sort of a hard question to follow up on, but your Color performance was better than we expected overall, and I'm trying to get a sense of whether that's because

cosmetics was less bad or the other pieces were significantly better than I had modeled. Can you just give a little sense of sort of what's going on sequentially or involving part of the cosmetic side?

Paul Manning
Yes. If I were to answer your question very, very literally, yes, it was probably a little bit less worse in Q1, cosmetics that is, but I think maybe what would help it even further is to give you a little bit more idea about what we're seeing right now. When you think about our personal care business, we're dealing in makeup, hair care, skincare. Skin continues to be a very good part of the market and is a good part of our portfolio, but a smaller part of our portfolio. Hair was generally okay. It was not as good as we would have expected, but all things considered, there were some positive signs in there. Really where we got hit very, very hard was makeup, and so I think that, yes, there was some definitely activity that was positive. Particularly in Asia we've started to see signs of life in some of those markets, and so as we look at Q2, I think I've already -- as I look over at daily sales, they look pretty good right now, and I would tell you that based on what I see this month and the rest of the quarter and really for the rest of the year, I feel really good about cosmetics coming back in this makeup segment. I think that's going to be really the most significant factor for the second quarter and for the back half of the year for the Color Group.

Food and pharma, you heard my comments there. I think we're going to be very, very good. I think we're going to be solid there, but the big thing is cosmetics coming back, and as I said, I didn't think that would happen till about the second half, but I'm feeling pretty good that that's coming back really as we speak. So that's a real high positive.

Mark Connelly
That's really helpful color. Thank you. So, one of the things that we keep hearing from food companies and QSRs in particular is that they may bring sort of new items to their menus more slowly. You talked about overall new product wins, and I know the QSR isn't necessarily the be-all and end-all, but we keep hearing you talk about how the shift they made to comfort food may evolve back to normal more slowly. So, as you think about the kinds of products, you referenced the CPG separately. Their behavior is a little different, but as you think about the kinds of products that you're seeing in development right now, does it suggest that we're seeing a different kind of new product coming back or are we just in the early stages?

Paul Manning
Yes, that's a very interesting question. I think at a very broad-based level, the trends that we saw before COVID continue to some degree during COVID. So, for example, natural colors, that is a macro trend that I don't believe is going away and the level of natural colors in the U.S. market, coloring foods in the European market, I believe those levels continue to be very, very high and their usage and products continues to be consistent with what we saw before and during COVID.

One of the questions could very well be nutraceuticals, do those really maintain a level of robustness in product launches? That may be an area that I would, if you're asking me to predict, I could predict that that may fall off in some of our product categories, based on what I see in the pipeline today, but I think one of the things that we've noted is a lot of our customers, these B and C folks, they are very, very aggressive. They want to keep launching, they want to keep taking share, they want shelf space, they want online presence, and so they continue to

emphasize many of the things we've built this business around, naturals, natural flavors, and colors and extracts.

So, I think those trends amongst the B and Cs continue to be very, very strong. I think one of the things that we've noted is definitely an acceleration in SKU rationalization from many parts of the market. So, for example, foodservice, to your question, yes, they certainly rationalized their menus, many of them, during the pandemic. What they come back with -- I wouldn't be surprised if it was very similar to what you saw before COVID-19. So, I don't necessarily see a big, big shift in the types of products that customers are -- our customers are looking for and therefore, the end customers are looking for. Now are there big bonanza launches or are there more incremental launches, that really remains to be seen, because our pipeline feeds both, big ticket launches on tap, but also again more incremental, maybe you might call it a line extension type approach, but the nature of the product I don't really think they're going to change considerably.

Mark Connelly
That's super helpful. If I could just squeeze one more in. You talked about logistics. This past quarter we're hearing a lot more about difficulty in keeping plants fully staffed, either because workers are sick or quarantined or because hiring has got more difficult. What's been your experience this quarter and is it getting better or worse?

Paul Manning
Our attendance has been absolutely outstanding from the day somebody said COVID-19 to today. So, we have been very, very proactive. We have talked about our mission a lot with our folks, about the importance of manning your position and coming to work and servicing the customers, and in very, very important areas. We've talked about pharma, we've talked about protein for vaccinations that we produce, we've talked about flavors for all sorts of foods. And so, our employees really understand the mission and they believe in it I think very, very strongly. So, our attendance has been great. I think that we've gotten a lot of our folks vaccinated around the company. We have been proactively testing our employees for many months now. And so, I think we've created a very, very safe working environment, which has really gone very, very far in giving our folks confidence to come into work.

And so, yes, is every part of the world as easy to get workers as it was before? Probably not, but I would tell you that really it is not been a significant factor for us. We're still hitting our on-time delivery figures. We're still getting products out the door, and that customer service element of our business continues to be very, very fundamental. So, but I wouldn't tell you that a 100% of the world is, again, as easy to get folks as it was before, but that is not -- of all the things I've talked about, that is not one that would be high on my problem list right now.

Mark Connelly
Super. A lot of good news there. Thank you, Paul.

Paul Manning
Okay. Thanks, Mark.

Operator
Again, if you would like to ask a question, please press star (*), then one (1). The next question is from Mitra Ramgopal with Sidoti. Please go ahead.

Mitra Ramgopal
Yes, hi, good morning. Thanks for taking the questions.

Paul Manning
Hi, Mitra.

Mitra Ramgopal
Hi, Paul, how is it going? First just want to get a sense in terms of the operational plan improvement. I think that was scheduled to be finished mid-year. Is that still on track?

Paul Manning
Well, if you're referencing the one in personal care, yes.

Mitra Ramgopal
Yes.

Paul Manning
We are on track with that one, and yes, that's going to be really, really helpful as that business comes back, because that business is going to come back not only with revenue but with lower fixed costs, which every accountant in the world loves to hear.

Mitra Ramgopal
Okay. No, that's great, and then obviously the out of costs I'm sure you're implementing. When should we -- I don't know if you can give us a sense as to maybe what inning are we along the overall this cost reduction effort?

Paul Manning
Well, I guess, I would think of it then less as a baseball game and more as baseball practice. We're always taking out costs, we're always practicing. I think it's very much a part of how we operate in every month. I'm reviewing that with our group presidents where you've taken out SG&A, where you've taken out fixed costs, where we've taken out raw material costs. So, it has become more and more of a fixture in this organization over the years really stemming from our experience with restructuring. We had some bumps, as you remember, years ago, but I think that made us pretty good at figure out how to do these things in the future. So that's just -- think of that more as ongoing, Mitra.

Mitra Ramgopal
Okay.

Paul Manning
I think personal care is a more recent one, but flavors and colors, you heard me reference a little bit of that for Asia as well. That's going to continue.

Mitra Ramgopal
Okay. No, that's good, and then, Paul, I know you talked about a lot of acquisition opportunities. First, I was wondering if you can give us a little more color in terms of the New Mexico with chili products acquisition, how meaningful that is, and obviously, you also mentioned expanded distribution with Univar. Both are in Mexico. Just curious if there is an increased desire to expand your presence there and just again overall maybe some of the acquisition opportunities we should be looking forward to.

Paul Manning
Yes. So, New Mexico, Chile, that was a facility we closed on very recently, as you noted, and that is going to give us incremental capacity in our SNI business which continues to do very, very well. So, not only will that give us capacity, but it will also give us greater proximity to certain growing areas which we believe will improve our logistical cost for that particular business. So, that's an acquisition really of a facility in the New Mexico -- Southern New Mexico.

M&A in general, I think we talk a lot about sensible acquisitions, we talk a lot about being very wise with our shareholders' wealth here, and we think that there's good opportunities I referenced in the commentary that there may be some opportunities there. You may hear about here soon. So, we've got -- we've divested ourselves of the part of the portfolio that we don't believe really works in our future and will be better in the hands of somebody else. But those core businesses, the food, pharma, and personal care are fundamentally very, very sound, great dynamics in those markets, technology-driven businesses, and so, you could potentially see an acquisition in any one of those three areas. Less so at this point probably about geography -- so, I wouldn't tell you that there is anything to your question on Univar and New Mexico, Chile. That's not an over-attempt to expand our presence in Mexico, per se, but I would tell you that we're really focused on technology, and we're really focused on incremental enhancements to the portfolio. I don't really have any bet-the-farm acquisitions in mind right now. These would be very, very sensible -- sensibly priced, bolt-on, with limited highly disruptive integration activities. These would be far less of that. So, yes, there could be some opportunities to talk about in the future on that front for sure.

Mitra Ramgopal
Okay. No, that's great, and then again, congratulations on the divestitures, completing the ones you were planning to. And now, I know you're always looking at the underlying business, and I'm just curious as you look at where you are today in terms of divestitures, you feel pretty comfortable going forward you have the mix you're pretty comfortable with.

Paul Manning
Yes. I feel great about the portfolio. Now, there may be some million-dollar paper dye business somewhere that Steve wants to sell, but other than that, no, I think we're feeling really good, Mitra. Steve, is there anything you could add to that?

Stephen Rolfs
No, I think the portfolio is in good shape after all of these moves over the last couple of years.

Mitra Ramgopal
Okay, great. Thanks, again. Nice quarter and thanks for taking the questions.

Paul Manning
Okay. Thanks, Mitra.

Operator
The next question is from Leigh Ferst with Hightower Advisors. Please go ahead.

Leigh Ferst
Thank you. Good morning. I have a big picture question. Can you talk about the external factors that are rolling through your outlook for the rest of the year? Like you said, Color is

getting better now. Maybe some of the emerging markets are not recovering as quickly. How do those puts and takes roll through the rest of your year in terms of your outlook?

Paul Manning
Well, I think we've considered many of these factors as we built out our projections, as we built out our EPS guidance. Certainly, COVID-19 has to top anybody's list of factors to consider, and I think if anything, personal care is coming back faster than we thought, but I would say in general, no real surprises there. Yes, maybe there are some questions about how much nutraceutical maintains post openings, but I think those broader macro trends continue to be very, very solid in our sampling, in our pipeline. So that's good.

I think what we're potentially seeing in some markets is a shift in share among our customers. I mentioned there are certain types of customers, we call them B and C customers, who have been fairly aggressive trying to take share in foodservice or in retail or in other outlets out there, and so, that remains to be seen how that one plays out, but that could have some interesting implications in certain markets where perhaps larger participants once had a very large share, they could see some inroads being made there. I think that could certainly be an external factor.

I talk about these logistic things, but you always have issues in a business. That's why you have folks here to fix problems, because there's always things like that. Okay, a bottleneck in the Suez Canal, yes, that one was a rather unusual event, but things like that will happen, and we can mitigate through those. I don't really see like there's much systemic problem there. I think really what it is, is when you turn off a supply chain that's really, really finely tuned and highly efficient and you turn it off suddenly without warning in certain parts of the world and then you try to start it back up, it's kind of tough. It's like a lawnmower you leave in your garage all winter and then you try to turn it on the spring, it doesn't necessarily start up immediately. So, I think there's a little bit of startup challenge from that standpoint trying to re-optimize these supply chains, but again, we have mitigated that through holding more inventory, we've mitigated that by producing more, forecasting more with our customers to really get through that one.

So, yes, I would say it's COVID, it's some of the trends around nutraceutical, and it's certainly the supply chain and logistics factors. Question came up about inflation for 2022. I think that's probably a foregone conclusion that there'll be some inflation, but I don't see that as being an impact in terms of our achieving our broader goals of mid-single-digit growth.

Leigh Ferst
Thank you.

Paul Manning
Okay. Thanks, Leigh.

Operator
The next question is from David Green with Boldhaven. Please go ahead.

David Green
Hi, Stephen. Hi, Paul.

Paul Manning
Hello, David.

Stephen Rolfs
Hi, David.

David Green
A couple of questions. Thank you very much. Just sort of the ongoing trends that you're seeing within the shift from synthetic to natural, any just general comments you could make there. Are there any verticals or new verticals that are really taking off? Second question is really, are you seeing any changes in trend where your customers want more of an end-to-end solution, and whether in that regard that's something where you need to team up with another party or how you address that specific dynamic? On the balance sheet, just if you could give us any update there, the impact potentially of the Fragrances disposal and more generally, any color you can give on cash flow generation as well would be great.

Paul Manning
Okay. Let me start off and then Steve will fill in some blanks and certainly take your balance sheet item there. The trend from synthetic to natural, it's pretty broad based. When we measure that, it's really the vast majority of new product launches contain natural colors. So, that would suggest that, and that's across all categories. So, whether you're talking about snacks or pet food or beverages, it's the vast majority of new product launches contain natural colors. Now, are there a lot of broad-based conversions of existing synthetic colors to natural? Not a huge number, but those certainly can happen as well, but I would say not a whole lot has changed there. It was 80% of new product launches contain natural colors going into COVID, and the last report in fact the one I got sitting right in front of me says it's 79% right now. So, not a lot has changed there.

The question about teaming up. Now, are you getting more at integrated selling? Let me understand where you're trying to go with that one.

David Green
I guess I was just thinking about whether it's more of an end-to-end solution I guess where a customer is asking you to provide the color component of that, but I'm not sure whether there would be another part of that, which was something that you couldn't provide that they were asking you for.

Paul Manning
Okay. Well, yes, we always look at backward integration and forward integration, whatever word you want to call it, but our bread and butter, so to speak, has always been we provide these food ingredients. Some of our customers you're providing a fully formulated product. That doesn't mean you'd necessarily sell them all those elements of their fully formulated product, and so we think a lot in terms of just really the development needs of our customers.

We don't necessarily engage strongly in a lot of their production needs. To my knowledge, we may have a handful of products that go directly to consumers. The vast majority of our business, probably 98% of it, is B2B, and as far as I'm concerned, we will continue with that approach, unless something seismic happens, but no, we like the position that we're in right now as an ingredient supplier, and we think that's where we create the most value for sure.

Do you want to take the balance sheet one, Steve?

Stephen Rolfs
Sure. So, first off on the divestiture. So, the sum of all the proceeds that we'll realize on the Fragrance divestiture will be in the low-$40 million range. Some of that came in right at the end of the quarter. Most of it will come in Q2. There will be some charges related to the divestiture now that that is closed, but those are largely non-cash. So, there won't be a lot of cash charges for the remainder of the year.

On cash flow in general, we were down slightly in the first quarter primarily because of the incentive payments, but outside of that, cash flow held up very well, and we expect to have strong cash flow for the year. Last year we realized a lot of cash from inventory, over $40 million, and we still have opportunity in areas of inventory, but there's other areas where we need to build up inventory a little bit, particularly in our natural ingredients business where we've been very successful commercially.

So, I would expect more of the cash flow this year to come from high-quality earnings growth as opposed to working capital, but we still have some opportunities in working capital.

David Green
Great. Could you just remind me, as we look at the portfolio today, what percentage of revenues do you think is from natural?

Stephen Rolfs
So, in our -- where there's the clearest distinction is in our food color business and there, we're probably about 55% natural. Across the rest of the business, you have varying degrees of naturality, and it's not as bright a line, not quite as black and white, but I could tell you that in the food area, most new product development is seeking natural solutions, and in the cosmetic and personal care area, there's a lot of interest in naturals as well. There's still a lot of synthetic products used certainly in personal care, but there's a lot of interest in natural there as well.

David Green
Great. Many, thanks.

Paul Manning
Okay. Thanks, David.

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

CONCLUSION

Stephen Rolfs
Okay. I'd like to thank everybody for their time this morning and that will conclude our call. Thank you.

Operator
The conference has now concluded. Thank you for participating in today's conversation. You may now disconnect.