Sensient Technologies Corporation

2022 First Quarter

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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 2022 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. After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star and then one on your telephone keypad. To withdraw your question, please press star then two. Please note, this event is being recorded.

And at this time I'd like to turn the conference over to Mr. Steve Rolfs. Please go ahead, sir.

Steve Rolfs
Good morning. Welcome to Sensient's first quarter earnings call. I'm Steve Rolfs, Senior Vice President and Chief Financial Officer of Sensient Technologies Corporation. I am joined this morning by Paul Manning, Sensient's Chairman, President, and Chief Executive Officer. Earlier this morning, we released our 2022 first quarter financial results. A copy of the release and our investor presentation is available on our website at sensient.com.

During our call today, we will be explaining the differences between our GAAP results and our adjusted results. We did not make any adjustments to our GAAP results for 2022. The adjusted results for 2021 remove the impact of the divestiture-related costs, the results of the operations divested, and the impact of the costs and income related to our operational improvement plan. We believe the removal of these items provides investors with additional information to evaluate the company's performance and improves the comparability of results between reporting periods.

This also reflects how management reviews and evaluates the company's operations and performance. 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 from those that maybe expressed or implied due to a wide range of factors, including those set forth in our SEC filings. We urge you to read Sensient's previous SEC filings, including our 10-K 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 and good afternoon. I'm pleased to report 8% consolidated adjusted local currency revenue growth and 16% adjusted local currency EBITDA growth. During the first quarter of this year each of our groups continued their strong performance from 2021. Flavors and Extracts Group achieved 5% adjusted local currency revenue growth and 15% adjusted local currency profit growth. Our Color Group had an outstanding quarter, reporting 12% adjusted local currency revenue growth and 18% adjusted local currency operating profit growth. Asia Pacific Group achieved 14% adjusted local currency revenue growth and 31% adjusted local currency operating profit growth. We had an outstanding first quarter and we are off to a great start to the year.

Our continued focus on sales execution, customer service and product delivery are driving the growth in each of our groups. Each group is generating a high level of new sales wins and continues to build on an already strong sales pipeline. Our exceptional customer service, broad product portfolio and our robust technologies have positioned us as a reliable supplier for our customers, and have also positioned us for future success.

As discussed during our last couple of calls, we continue to experience an increase in input costs, including raw materials, transportation, energy and labor, along with logistical delays. We're addressing the higher input costs with pricing and we're addressing the logistical delays with a higher inventory position. While we expect these supply chain and inflationary challenges to persist throughout 2022, we will continue to provide robust customer service and on time product delivery, and we will conduct additional pricing actions as required.

Turning to the lockdowns in China and the war in Ukraine, the current situation in each of these regions has not had a significant impact on our revenue in the first quarter and we do not expect these situations to impact our guidance. Any impact on Sensient as a result of the events in China or Ukraine will most likely be on raw material availability, shipping and logistics. We continue to work through these supply chain issues and we believe we can manage each of these situations.

Now turning to our group results. Flavors and Extract Group had another strong quarter, delivering 5% adjusted local currency revenue growth and 15% adjusted local currency operating profit growth. The operating profit margin in the first quarter rose to 15.1%. The higher adjusted local currency revenue was primarily a result of favorable pricing and volume growth in Flavors, Extracts and Flavor Ingredients as well as favorable pricing in natural ingredients. Overall, the Flavors and Extract Group achieved a mid-single digit price increase in the first quarter.

During our last call, I mentioned that the natural ingredients business would face a modest volume headwind in the first half of 2022 primarily as a result of strong 2021 demand and a more limited supply of onion. I anticipate this situation to begin to improve in the second quarter and into the back half of the year. Excluding natural ingredients, the Flavors and Extract Group experienced double digit sales growth across all of its product lines. This is a direct result of the group's focus on more value added products and customer service.

Flavors and Extract Group’s operating profit margin increased 140 basis points in the quarter. The growth in the group's operating profit margin is a result of a focus on more value-added product solutions, lower overall cost structure as a result of the group's past restructuring and the divestiture activities and recent pricing actions. Flavors and Extract Group is off to a good start to the year. I expect the group to deliver mid to high single digit revenue growth in 2022 and operating profit margin improvement of 50 to 100 basis points for the year. The group is well positioned for the foreseeable future. Over the long-term, I expect the Flavors and Extract Group to deliver mid-single digit revenue growth and operating profit margin improvement of 50 to 100 basis points annually.

The Color Group had an outstanding first quarter. The group delivered 12% adjusted local currency revenue growth and 18% adjusted local currency operating profit growth. The operating profit margin in the first quarter rose to 20.7%.

The group saw double digit growth in both food and pharmaceutical colors and personal care. A portion of the group's revenue increase was driven by a mid-single digit pricing increase. The food and pharmaceutical business has a high level of new wins as a result of the group's innovative natural color portfolio and its focus on customer service. The food and pharmaceutical business is off to a great start in 2022 and I expect this to continue for the year. The personal care business continues to rebound

nicely from the impacts of COVID-19. The business delivered double digit local currency revenue and double-digit local currency operating profit growth in the first quarter. The business continues to focus on customer service and building appropriate safety stock to support its rebound and growth. Furthermore, the focus on product line diversification into skin, body care and other categories is a key component of the business's growth in 2022 and will be for the foreseeable future.

Long-term I expect the color group to deliver mid-single digit revenue growth and an operating profit margin at or above 20%. The group has had a great start to 2022 and is on track to deliver mid to high single digit revenue growth and an operating profit margin at or above 20% for the year.

Asia Pacific had another outstanding quarter, delivering 14% adjusted local currency revenue growth and 31% adjusted local currency operating profit growth. Operating profit margin in the first quarter rose to 22.5%. The group experienced solid demand in almost all regions. In addition, the group implemented a low single digit price increase in the first quarter.

The investments we have made in the group's technical leadership team are key factors to our growth and success. The group continues to have a high sales win rate and is on track to deliver mid to high single digit revenue growth in 2022. Over the long-term, I expect the group to deliver mid-single digit revenue growth.

We've had a great start to 2022. We are operating at or above the previous guidance we outlined for the year. As Steve will discuss, we are raising our guidance. We're very excited about our new sales wins and I'm confident that our focus on customer service and new product development will provide us a foundation for continued growth in the years to come. I remain very optimistic about the year and the future of our business.

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

Steve Rolfs
Thank you, Paul. Sensient's first quarter GAAP diluted earnings per share was $0.88. As I mentioned in our opening remarks, we do not have any adjustments to our GAAP results for the first quarter of 2022. Last year's first quarter GAAP results included divestiture and operational improvement plan costs, which decreased last year's first quarter results by approximately $0.07 per share.

In addition, our GAAP earnings per share in the first quarter of 2021 included approximately $25.6 million of revenue, and approximately $0.05 per share of earnings related to the divested product lines. Excluding these items in our 2021 results, our consolidated adjusted revenue in the first quarter of 2022 grew by 8.4% in local currency to $355.5 million.

Our adjusted local currency EBITDA was up 16.3% for the quarter, and our adjusted local currency EPS was up 16.9% for the quarter.

Foreign currency exchange rates decreased adjusted earnings per share by approximately $0.02 in the first quarter. Our cash flow from operations was down in the first quarter, primarily due to strategic investments in our inventory position and higher incentive compensation payments.

As Paul mentioned, we continue to make strategic investments in our inventory to support our demand and to ensure we have appropriate safety stock positions, as logistics and supply challenges continue. Capital expenditures were $12.7 million for the first quarter. We expect our capital expenditures to be near $90 million this year.

Our debt to adjusted EBITDA is 2.1. Our balance sheet is well positioned to support our capital expenditure spend, attractive M&A, and our long-standing dividend.

Turning to our 2022 guidance, we are raising our reported GAAP EPS to now increase at a high teen growth rate compared to our 2021 reported GAAP EPS of $2.81. Our previous guidance called for a mid-teen growth rate. At this time, we do not anticipate any material divestiture related costs or operational improvement plan costs in 2022.

We are also raising our revenue guidance to be up mid to high single digits in local currency compared to our 2021 adjusted revenue. Our previous revenue guidance called for a mid-single digit growth rate in local currency.

In addition, we are also raising our 2022 adjusted EBITDA and EPS guidance to both grow at a high single to double digit growth rate in local currency. Our previous guidance called for adjusted EBITDA and EPS to grow at a high single digit local currency growth rate. Based on current exchange rates, we now expect currency to be a headwind of approximately $0.12 per share.

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

QUESTIONS AND ANSWERS

Operator
Thank you. We will now begin the question-and-answer session. To ask a question, you may press star and one on your touchtone phone. To withdraw your question, please press star then two.

Our first question today will come from Ghansham Panjabi of RW Baird. Please go ahead.

Ghansham Panjabi
Thank you. Good morning, everybody.

Paul Manning
Good morning, Ghansham.

Ghansham Panjabi
Good morning, Paul. Maybe we can start off with the drivers of the increase in core sales growth for the year, how much of it is from incremental pricing versus what you thought initially, because it seems like volume comparisons will be very difficult 2Q onwards, and maybe you could just update us on your specific views on volume by segment as the year unfolds?

Paul Manning
Sure. So, if you look at Q1, I'll go through each of the groups. So, starting with Asia Pacific, as you saw, we're up 14% on revenue, kind of low single digit on pricing, about 3%, which then implies a double digit increase in volume. So really strong volume growth there, driven a lot by new wins, targeted customers. Again, our sweet spot of these sort of B and C style customers applies very strongly there in Asia Pacific.

Looking over at Colors, as you heard, they were up 12% revenue, their pricing was about a mid-single digit type increase, figure about 5% was pricing, which then suggests 7% was volume. There, again, really, really strong new wins across a broad variety of customers, really good growth across really each of the geographic regions and the product lines. So good outcome there.

And then Flavors, I know there's a number of new investors on the call today, too, so let me just take a little bit of a journey here. So, as you know, Flavors consists of Flavors, Extracts, our flavor ingredients, which are HPPs, and yeast extracts. And then of course our Sensient natural ingredients, which is onion and garlic. So, if you take Flavors extracts and Flavor ingredients, that's about two-thirds of the Flavor Group. That part of the business was up about 13, almost mid-teen revenue growth, with very nice operating leverages there, well into the double-digit profit growth. That two-thirds, we got a kind of a mid-single digit pricing increase, pretty much what we expected, about 5%, which then implies that part of the business got about a 7% or 8% volume contribution. So very, very nice volume build there, again, a lot of new wins, targeted customers, et cetera.

Now you look at that other part of the Flavor, the one-third of the Flavor Group, the two-thirds is flavors ingredients and extracts, the one-third, the SNI business, this is where volume was down and the volume was down because we sold quite a bit in 2021. And it was really effectively a product availability situation here in Q1. So, this is the headwind I flagged in the earlier call, the Q4 call, suggesting that this would be a bit of a headwind for the first part of the year. But the crop comes in April, it's being pulled as we're speaking right now, but it's pulled from a lot of different regions. So, it's pulled over the next several months. So far, so good. And we feel very good about SNI for the year, that one-third of the Flavor group, we feel very good that they'll achieve what they need to achieve from a volume standpoint and from a revenue standpoint as well as pricing.

So overall, as expected, a little bit of a headwind there. Again, this is really kind of a market driven thing. There have been, as you heard, and know very well, droughts and other situations, in the west coast in particular, that have impacted the crops for this last cycle. But the cycle moving forward, we expect that to be a much improved situation. So, we feel good about things for the rest of the year.

Ghansham Panjabi
Great. Thanks for that, Paul. Maybe picking up on that on the, I don't think we've ever discussed onions on a conference call on our end, but maybe take us through how much that impacted you, specific to the first quarter. And then just given the supply shortages, you cited weather, what does that imply for the cost basket specific to onions, but also just broadly for Sensient as the year unfolds as well?

Paul Manning
Well, I think, at the highest level here, we're raising our guidance for the year, because we think we see very broad-based growth across all the groups really driven by new wins. New wins is eclipsing pricing as a factor in this revenue growth. So, I think that's a very, very important insight. I think SNI, it's somewhat of a temporary headwind. But we feel very confident from the standpoint of driving volume to the back half of the year and even starting towards the end of the second quarter, we feel really good about that.

So, overall for Q1, our revenue was up 8%. If not for the SNI impact, as a company we would probably have been up about 10% or 11%, with about, say overall say 5% of that pricing and 6% volume. So, I really want to continue to emphasize the really good wins that we are generating, the volume growth that we are seeing. And it stems a lot from the technology side of things. It stems a lot from the customer service side, the delivery side. We don't operate in an organization that tolerates excuses. So, we drive to perfection. COVID or no COVID, recession or no recession, we expect a high level of service out of all of our businesses every single day. No excuse. So, I think that drives a lot of our success commercially here.

Ghansham Panjabi
Okay, perfect. Thanks so much. Thanks for fitting me in.

Paul Manning
Sure thing.

Operator
Our next question today comes from Heidi Vesterinen from BNP Paribas. Please go ahead.

Heidi Vesterinen
Good morning.

Paul Manning
Hello, Heidi, how are you?

Steve Rolfs
Good morning.

Heidi Vesterinen
Good, thank you. So, I think you said in your prepared remarks that you're expecting percentage margin to improve this year. What gives you that confidence? It's a very confident statement in an inflationary environment. So that's my first question. Thanks.

Paul Manning
So, yes, I think when you look at—I'll kind of break down each of the regions, starting with Asia. Asia, what's driving a lot of that margin improvement is the product mix. As you heard me say, we didn't necessarily drive a lot of that revenue with price. So, the continued emphasis on Flavors, the continued emphasis on natural colors, and with the types of customers that we like to emphasize, I think, is paying dividends.

When you look at Color, a very similar dynamic in terms of the types of products, natural colors there. But we're also seeing a nice and continued rebound out of the cosmetics market. While makeup is still not quite where it was in the pre-pandemic measures, hair care, body care, these markets still continue to grow very, very nicely. And so we expect a continued successful outcome from the personal care side. And as you know, that's a profitable business for us. So that's what gives me some confidence there.

And then of course on the flavor side, why I think we can continue to improve the margin is, again, a lot of fundamental good volume in the Flavors and Extract side of that business, precisely what we've been emphasizing for many, many years now. That restructuring thing we went through, that very painful process, is still paying dividends for us. As we continue to better utilize our capital footprint, we continue to see a very nice uplift in that operating profit margin. So, even though it seems like it was many years ago, and sometimes I wish it was even longer ago, in my own mind, anyway, it really has had a profoundly beneficial impact on the Flavor Group in terms of helping us to raise that margin.

So mix, the outcome of that restructuring and cost savings work that we did and of course, in each case, pricing is going to be a little bit of a factor. But really pricing is in accordance with the inflation we see. So, I think that would be the third of the factors that I would point out. So you wrap all those together and then you pair that with our good service levels, and our strong wins across the board, and that gives me a great deal of confidence for the year.

As I look at Q2, I'm looking at sales for April right now, sales look really good in each one of the groups. And then as I look out here in May and June, sales look really good. So, I guess my confidence is born of what I'm actually seeing right now too actively in Q2. So those would be some of the factors that

come to mind for me.

Heidi Vesterinen
Thanks for that. Second question, can you see any signs of price elasticity in any market? And if we were to see like trading down, for example, how would that impact Sensient?

Paul Manning
Well, yes, that's a great question. And that's what's on everybody's mind right now. I mean, certainly, there's evidence in some markets of folks trading down, Europe, for example, has tended to be a much larger private label market compared to, say, the U.S. market.

Ironically enough, it would appear that private label sales in some product segments in the U.S. are actually down despite this inflation. So, right now, it's kind of hard to predict how that pricing elasticity is going to play out here in Q2 and beyond. But I would tell you this, Sensient as a company, we deal in all types of customers, from the biggest multinationals to some of the smallest startups, we're dealing across every one of the product categories, from beverage to pet food, to savory snacks, we're very, very well represented, we have a very substantial sales force. We insist on very active sales force covering these customers. So, I feel really good about our coverage. So that when somebody wants to go from a very expensive drink, to a not as expensive drink, well, the not as expensive drink still has color, and it still has flavor in it.

So that's the nice thing about this business, Sensient is a very recession resistant business. The nature of our products are products that people continue to buy, whether there's a recession or not. Yes, they may trade down, but ultimately we're still represented even in those products they would trade down too. We have a very good presence in private labels throughout Europe and the U.S., and so I think we're fairly well insulated for whatever this market may throw our way over the next year or two.

Heidi Vesterinen
Thank you. And then lastly, I wonder if you're seeing any regulatory tailwind helping your business. I think last time we met we had talked about titanium dioxide as an example. Has that been a big growth driver for you?

Paul Manning
Well, regulatory in general, I like to always see that as a tailwind. Consumers want what they view as better products, and better products require more technology. And so that's where we feel like we fill a real need in the market in many of these segments.

Specifically, about titanium dioxide, yes, I think there's a lot of activity. As you know, the European Union has come out very strongly against titanium dioxide, I'd say the food agencies have, and so there is a very strong need to swap that out. And the nice thing is we don't manufacture titanium dioxide, but we do manufacture the replacements for titanium dioxide. So, it's a very exciting opportunity. We've got a lot of work and a big pipeline associated with that.

So yes, it's very early for some customers, given the recent regulatory change, but for other customers, they've been working on this for some time. So that's a very good example of the type of innovation work that we do. It's very market driven. It's very customer driven. It's very much when you say R&D, it's kind of little R, really big D and titanium dioxide replacement is a good example of that type of dynamic.

So yes, I think that'll be a nice tailwind for us for Europe. And then as it migrates over the Atlantic for the U.S., and then eventually into the Asia Pacific region as well.

Heidi Vesterinen
Thank you.

Paul Manning
Okay. Thanks, Heidi.

Operator
Our next question will come from Mitra Ramgopal of Sidoti. Please go ahead.

Mitra Ramgopal
Yes, hi. Good morning, everyone. And thanks for taking my questions. Paul, I was just curious, first, on the color makeup, I know you mentioned it's not back to where we were pre-pandemic, but do you expect to ever get back there, given that it seems like remote work has become sort of a permanent thing for a lot of companies now?

Paul Manning
I do. I think it will. You still have to look good on the camera, Mitra, and so I think there's always going to be a need for that. I think the demographic has changed, a lot more younger females using makeup, males using makeup. So, there's a lot of dynamics that have been added to this market over the years. So, I think makeup has been used for probably the last 2,000 years of human history. I really don't anticipate it closing shop here on account of COVID. Sure, there is still some headwinds, inasmuch as not everybody's out and about yet. But continued relief in some of the lockdowns and things like that, it's only helping situations. And so we have very strong demand. Much of that customer is recovering, in some cases recovering their inventory positions from during the pandemic.

But yes, I think there's a lot of good telltale signs. The pipeline has picked up. But that's a market where I think many of our customers are very much emphasizing, okay, we've got to go to customers with innovative products. We need to show them interesting things, different things. And so that is very much the nature of what we're seeing in our pipeline here.

So, I think you're going to see a little bit of a renaissance perhaps in some of the color makeup, but remember this too, personal care, it kind of moves in cycles. A couple of years ago makeup was the biggest thing. And now we're kind of in a lower cycle and skincare is the biggest thing. But ultimately, consumers make choices about where they're going to spend their money, and that evolves and that shifts, and so having a very diversified business, well represented business, is what ultimately will insulate us. And as you know, we had a larger subscription in the makeup segment going into the pandemic. But over the last couple years we've actually been quite successful diversifying into some of these other segments. And I think that's going to be an important part of our success moving forward.

But the short answer is, absolutely makeup is coming back. When precisely and to what degree, that's a little bit harder to predict. But I would tell you that the pipeline looks very good, the customer activity is quite good. And there's a tremendous interest on the customer end in really building out some great products moving forward.

Mitra Ramgopal
Thanks. That's really good color. Switching over now on price increases, you clearly have had some success here in terms of being able to implement increases across all businesses. I was just curious if part of the negotiation is more or less just trying to offset the higher input costs you're seeing, or maybe perhaps squeeze out even more than that.

Paul Manning
Well, we're not looking to put our customers at a disadvantage. We know they have to compete in the market. But we also know that our products don't necessarily change the economics for our customers substantially. So, our goal is, obviously there's many input costs to address and to cover. Our goal is to certainly cover those and to maintain our gross margin in the process. And so I think philosophically that's what we've done. And I think we've been as successful as we've needed to be in the process. Again, we don't want to put our customers at a disadvantage. And we certainly don't want to lose business. So you have to be very sensible and judicious. Pricing is not as easy as it may seem; it can be quite complex; it can be very time consuming. And you've got to work with your customers.

Mitra Ramgopal
Thanks. And then I know you've highlighted the Flavor solutions business contributing this quarter. Just curious, almost a year into that acquisition, if it's kind of met your expectations or even exceeded it. And also, I think you mentioned on prior calls, maybe in 2022 probably, aside from just focusing on acquisitions, maybe an update on supply agreements, in terms of maybe some exclusivity being a possibility.

Paul Manning
So, FSI, I would tell you that would be exceeding my expectations. We bought it last year. It was about $10 million in revenue. But they had some very unique technologies, and they had some very unique customer access that we did not have. So those were two compelling reasons that we saw when we acquired that business. And so I would tell you, it's exceeded it, a very good cultural fit. They've got very hardworking, very dedicated people in that business. So, we're very happy to have them as part of our business. And so I think that's all going very well.

Moving forward, sure, there's always a possibility of M&A and there's certainly a fair amount of activity now. But as you just referenced, sometimes you don't need to buy a company, when you can set up the appropriate relationship, whether it's a contractual obligation, or a contractual arrangement to purchase their material. That could be a nice alternative to buying something if your goal is to secure your supply chain.

So, there's a lot of different scenarios. And again, we don't necessarily always have to buy something to get what we're trying to get. Maybe we license the technology. Again, maybe we contract on the supply chain side, and that gets you what you want. Maybe it's not as sexy as M&A, but you know what it doesn't have is some of the headaches associated with M&A too. So it's a good outcome in a number of different scenarios.

Mitra Ramgopal
Okay, thanks. And then finally one for Steve, always a tough one in terms of the tax rate. A little higher than I was looking for this first quarter. I'm just curious how we should think about that with the remainder of the year.

Steve Rolfs
Sure. So you're right, it was up about 100 basis points in the quarter, and in most quarters this year I expect it to be up a little bit over last year. So for the full year, we're probably looking at maybe 200 basis points above prior year, would be my guidance. And, unfortunately, it'll be a little up and down each quarter. But by the time the year is done, we're looking at about a 200 basis point increase.

Mitra Ramgopal
Okay, that's great. Thanks again for taking the questions.

Paul Manning
Okay. Thanks, Mitra.

Operator
Our next question will come from Leigh Ferst with Hightower Advisors. Please go ahead.

Leigh Ferst
Thank you. I have a few questions. First on personal care, I'd like to get a little more high-level color, pun intended. It sounds like skincare is more of an issue than makeup and also lip color. I know from an anecdotal perspective that mask wearing is a problem with the last two categories, so could you just give us a high-level further comment on that?

Paul Manning
Sure. So, Leigh, our personal care business, we have skin care, makeup, hair care, body care is really kind of our four key segments. To your point around skin and makeup, skin has been a very strongly growing part of the market right now, for a lot of different reasons. Whether it's whitening effects, or anti-aging, or anti polluting factors, a lot of interest in skincare, and that has been robust throughout the pandemic.

As you turn to makeup, as I mentioned before, we're not quite fully recovered from COVID. Makeup is still a very good part of the market. To your comment about masks, it's very interesting you say that, because eye makeup has actually done pretty well, because you can't hide your eyes. I guess you could put a mask over your whole face, but I don't think many people have done that. So, eye makeup is still an important piece. And we had a lot of interesting innovations that we launched during that time and emphasize that part of our portfolio.

So yes, when you wear a mask, though, it's not so great. So that's why we're glad that people don't have to wear masks as often anymore, because I think that's only going to contribute. But yes, I think that would be the only other comments that I would make on that one.

Leigh Ferst
Okay, thank you. And can you elaborate a little bit more on pricing? I mean, obviously, inflation is high, so it opens up the dialogue. But is there more or less resistance in any particular categories, or any particular customer groups?

Paul Manning
Well, nobody likes getting a price increase.

Leigh Ferst
Of course.

Paul Manning
[Overlapping voices], they're all trying to do their jobs and our salespeople are trying to do their job. So, again, it takes skill, it takes judgment, and you've got to work with your customers, whether they're beverage or snack or savory or whatever they may be selling. And so different impacts, different raw materials are obviously affecting different markets. So maybe some have stronger logistical costs, because, for example, beverage, the products tend to be heavier. So, they're paying more for logistics. So, they may have more of an impact there than say, a snack food, which wouldn't have some of the same constraints there. But then again, a snack food has a lot of grains and so they may have more raw material inflation that you're working through.

So, I think that most of the raw material inflation, logistics, utilities, et cetera, that you read about in the Wall Street Journal, those are essentially the things that we have to contend with. I don't think we have anything exotic or unusual or beyond the norm there. And so again, it's a matter of working with your customers, you've got to keep it so that they can continue to be competitive. But you obviously have to address some of these input costs that you're facing as a business.

Leigh Ferst
Okay. Can you talk a little bit about the M&A environment in terms of rates and the dollar and just what you're seeing when you're looking around? I know a lot of deals are opportunistic, and not strictly driven by the economy, but could you just talk about the M&A environment right now?

Paul Manning
Well, I think you can see the number of companies that have been bought and sold over the years, and I think it's a fairly robust environment, even during COVID deals were happening. How that will change in the coming year, well, I can guess just as much as anybody else can guess. But I don't think I'll do that. I would tell you, though, that we're always looking at companies. Some of them, we may approach. Others, it's part of an auction process. And so there's a lot of interesting technology to be had. There's a lot of potential supply chain security to be gained through an acquisition.

But as I mentioned, to Mitra, sometimes you don't need to do an acquisition to get those things that you want from that situation. And so we'll continue to evaluate, we will continue to be very sensible. I don't want to say conservative, I just want to say sensible. We need to earn a return. We have a cost of capital and we have expectations from investors and we have needs of a company, technology and otherwise. So, you put all those together, and if you can have something for a price that makes sense for both sides, then hey, it can work. So, I don't necessarily see more or less now than I did even a year ago. We're always looking. We're always in the market.

Leigh Ferst
Thank you so much.

Paul Manning
Sure thing.

Operator
Our next question today will come from David Green of Boldhaven. Please go ahead.

David Green
Hi, Paul. Hi, Stephen.

Paul Manning
David, good morning. I was waiting for you here.

David Green
I just thought I'd wait for last, if I could. A couple of questions, guys. What's given you the confidence to upgrade so early in the year, I guess, especially given the uncertain macro backdrop? Is there just anything that's given you a high level of visibility for specific reason? Is the pipeline a lot stronger than it may have been historically? That's my first question.

Paul Manning
Okay. So probably three factors gives me confidence. Number one, the actual numbers that I'm already seeing for April, May, June, and they're good. Number two, I would look at our sales pipeline, what's in

our pipeline, is it bigger than it was last year, and make an evaluation on what would close in the next year. And the third thing I look at is what's my trailing 12 months of new wins. We've been generating a lot of new wins and that gives you a pretty good indication of what your next 12-months may look like.

During our trailing 12 months, our new wins has been very, very robust. And it continues to be robust in the month of April, in the month of March. So that tells me and it gives me a great deal of confidence, those three factors, that I feel good raising our guidance for '22. And I think it's a very achievable outcome for this company.

David Green
Great. The second question was just with regard to price increases. What percentage of the portfolio has this now been done across? And I guess, leading on from that is when should we think about getting the full impact through from those price increases?

Paul Manning
Well, you know, in a lot of cases, pricing is ongoing. I think you're seeing our revenue, I quoted the price and volume impact for each one of the groups. So you can see that that's happening. You can also see that we're generating operating leverage in each of our businesses. With that revenue came profit growth, above and beyond the revenue growth. So that's a good factor. But pricing is a moving thing right now. And so we are working with all of our customers. And you know what, maybe it's just this one raw material, or maybe it's just this one shipping line, or maybe it's just one country facing this utility inflation.

So, I would tell you that we're going to continue to monitor the situation and take action as we need to. So there's no silver bullet, there's no easy answer to that one. Again, every day you kind of pick up the newspaper, or maybe you pick up your phone and look at the newspaper and there's information about something. And you talk to your purchasing folks, and they're like, there's something going on every day. So, very dynamic situation. But I think we've managed through it very skillfully; our salespeople have done a hell of a job. Our general managers and other sales leaders have done a great job managing this process. We've got a good program in place, so I'm very confident that we will do what we need to do and work with our customers in a very judicious manner, as the year continues.

David Green
Great. A couple more if I may. When we look at the cost base of your peers, they all talk about or they all seem to be talking about more of a sort of high single digit, double digit increase in cost basis across the board. And when you're sort of articulating the trends that you're seeing, it feels like that you guys are closer to a sort of mid-single digit. Do you think there's any specific reason why you're seeing less cost inflation than your peers, aside from managing it better? Maybe that's a component of it.

Paul Manning
Well, you're right, our costs are more of like a mid-single digit, on the basis of our cost of goods sold. So, you've seen us take kind of mid-single digit pricing, mid-single digit on the basis of revenue, and that's, again, to cover mid-single digit on the basis of COGS costs. So, you don't have to get more than mid-single digit pricing to cover that and to maintain your gross margin, I think we talked about that before, so I think you follow that there. So why are we different? I don't know. I'll let you guess what you want to from that one. But I'm not going to answer that one.

David Green
Okay, thanks. A couple more, just the last two, I promise. And just in thinking about the margin actually for Q1 and sort of how to think about the cadence for the rest of the year, Color obviously should still benefit with makeup coming back. So would expect margins, I would have thought, to improve in that

division as we go throughout the year. I was just thinking how that cadence might look for Flavors and Extracts in APAC?

Paul Manning
Yes, so Flavors, we expect a 50 to 100 basis point improvement in that OP margin for the year. So, you heard what we did, we were over 100 in Q1. So, you know, those aren't necessarily linear and it doesn't necessarily always follow a neat, tidy pattern. So I like to kind of stick with where that'll be for the year. And I'd say 50 to 100 basis points is an achievable improvement in OP margin.

On the Color side, as I noted in my prepared comments, we look to be north of 20% OP margin for the year. Again, how one individual quarter may play out, I really don't want to predict that one because there can be some moving parts there. But last year we were 19.2 on the OP margin, so that implies something better than that, 50 to 100 basis point improvement there in Color, probably more like 80 to get to that 20% OP margin.

And then Asia Pacific, we expect a similar improvement, 50 to 100 for the year. And they're off obviously to quite a good start. They were about 20 last year, in Q1 they were 22.5. So we feel good about that one as well.

David Green
Great, thank you. And I promise the last question on the balance sheet. Doing a great job in terms of cash flow generation and as you mentioned, you're now down to a 2.1 times net debt EBITDA level. How are you thinking about what the optimal balance sheet structure looks like here? And how, aside from some M&A which is obviously a priority, and reinvesting into the business, post that, how are you thinking about potential shareholder returns, scope for buybacks in particular?

Paul Manning
Yes, well, I think the best way to give shareholders return is to grow EBITDA. And then once you have that cash to use, you want to invest in the business. So, step one on this train to me is CapEx, $90 million, is what we're planning this year. I'd love to spend $90 million next year, because if I’ve got a lot of ROI projects that is the purest, finest return I can ever offer to shareholders. So that would be point one.

Point two, we've got a long-standing commitment to the dividend. So we will continue to do that. And then, I like the debt to EBITDA, anywhere between 2 and 3 feels very manageable. We could even go higher than that, but I like the 2 to 3. That feels pretty good.

So, if I don't have an interesting company to buy, yes, I can pay down a little bit more debt. But then again, maybe it's a better return to shareholders to purchase back our own stock. So that's the way I'm seeing that right now. So if we had an acquisition on the horizon, which we might, we might not, I would tell you that, you know what, we're not going to do buybacks. But if you don't see an acquisition, then you could probably expect that there will be some buyback activity.

David Green
Perfect. Many thanks.

Paul Manning
Okay. Thank you, David.

CONCLUSION

Operator
Ladies and gentlemen, showing no further questions in the queue, this will conclude our question-and-answer session. And at this time, I'd like to turn the conference back over to management for any closing remarks.

Steve Rolfs
Okay. Thank you, everyone. That will conclude our call. Thank you for you attending today and we'll now end the call. Thank you.

Operator
The conference has now concluded. We thank you for attending today's presentation. You may now disconnect your lines.