# Sensient Technologies Corporation

## 2022 Third Quarter

## October 21, 2022 at 9:30 a.m. Eastern

**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 Third Quarter Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation there will be an opportunity to ask questions. To ask a question you may press star then one on your touchtone phone. 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. Welcome to Sensient's third quarter earnings call. I'm Steve Rolfs, Senior Vice President and Chief Financial Officer of Sensient Technologies Corporation. I'm joined today by Paul Manning, Sensient's Chairman, President and Chief Executive Officer.

Earlier today, we released our 2022 third 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 removed 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 the 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 today.

I would also like to remind everyone that comments made during this call, including responses to your questions may include forward-looking statements. Our actual results may differ materially from those that may be 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 first quarter and second quarter 10-Q and our forthcoming 10-Q for a description of additional factors that can potentially impact our financial results. Please bear these factors in mind when you analyze our comments today.

**Paul Manning**

Thanks, Steve. Good morning and good afternoon. Earlier, today we reported our third quarter results, we had another strong quarter of revenue and operating profit growth in each group. Nearly every business in the company reported strong revenue and operating profit growth. Our year-to- date performance has been outstanding and follows our strong results from 2021 and 2020. In early October, we completed the acquisition of Endemix, a natural color and extract company based in Turkey. This acquisition strengthens our extensive natural color portfolio, and improves our vertical integration for critical raw materials. We continue to look at other acquisition opportunities that support our strategic initiatives within our core product lines.

Our focus on sales execution, technical support and product delivery continue to fuel our growth. We

have proven to be a reliable supplier to our customers and we continue to win new projects across each group. Our focus on on-time customer delivery, technical support, and a robust product portfolio has positioned us nicely for future growth.

As discussed throughout this year, we continue to experience increases in our input costs, including raw materials, transportation, energy, and labor. We're addressing these rising input costs with disciplined pricing actions, and we continue to maintain a higher inventory position to address ongoing supply chain challenges. While we have seen some signs of relief in select raw materials, most categories remain elevated, and we saw continued increases in cost this quarter across the company. Despite the current global economic environment, I continue to expect to generate solid growth across the company. Sensient is a recession resistance business that I believe can weather the current global economic challenges. Therefore, we are confirming our growth expectations for 2022. We're also confident in our 2023 prospects. Overall, we believe the year will finish with a more normal mid-single digit revenue growth and mid to high single digit operating profit growth. I will now discuss the group results.

Color Group had another excellent quarter, the Group delivered 15% adjusted local currency revenue growth and 11% adjusted local currency operating profit growth. Operating profit margin in the third quarter was 18.6% and was impacted by our continuing increases in raw materials and other costs. Food and Pharmaceutical Colors and Personal Care both delivered strong third quarter results. The group's revenue increase was driven by a high single digit price increase and mid-single digit volume growth. The Food and Pharmaceutical business delivered double digit adjusted local currency revenue and double digit adjusted local currency operating profit growth in the quarter. This year, the business has generated a high level of new sales wins stemming from its innovative natural color portfolio, and its focus on customer service. Our recent acquisition of Endemix will strengthen our supply chain and support the strong project wins we are seeing in natural colors. The integration of Endemix has begun and I expect this integration will to continue throughout 2023.

The Personal Care business delivered high single digit local currency revenue, and double-digit local currency operating profit growth in the third quarter. Like the Food and Pharmaceutical business, the Personal Care business benefited from an innovative product portfolio, strong customer service and product line diversification. These factors provide the foundation for growth going forward. Color Group is having an exceptional year, the group is on track to deliver double digit revenue growth and double-digit operating profit growth and an operating margin close to 20% in 2022. Over the long term, I expect the Color Group to deliver mid-single digit revenue growth and an operating margin of 20%.

The Flavors & Extracts Group delivered 7% adjusted local currency revenue growth and 6% adjusted local currency operating profit growth. The group's operating profit margin in the third quarter was 14.1%. and it's up 10 basis points compared to the prior year. The year-to-date operating profit margin is 15%, up 120 basis points compared to the prior year. Revenue growth in the group benefited from a 12% pricing increase in the quarter.

As we have mentioned during our last few calls, the Natural Ingredients business has faced a volume headwind throughout 2022 as a result of onion availability. I had initially anticipated a return to normalcy in this product line in Q3, but that did not fully materialize. We are now better positioned on our supply of the product and I expect volumes to improve in the future. In Natural Ingredients, we continue to see increasing costs as a result of the inflationary environment for labor, energy, land, water, fertilizer, and other grower costs as well as the ongoing drought in California. We will need to manage these input costs with additional pricing actions.

In the rest of the Flavors & Extracts Group, revenue growth and operating profit growth was up double

digits, primarily driven by pricing and modest volume growth. I expect the Flavors & Extracts Group to deliver high single digit revenue growth and double-digit operating profit growth for the year. Over the long term, I expect the Flavors & Extracts Group to deliver mid-single digit revenue growth and I expect operating profit margin to improve 50 to 100 basis points annually for the next few years.

The Asia Pacific Group delivered 14% adjusted local currency revenue growth and 16% adjusted local currency operating profit growth. Operating margin in the third quarter was 19.7%. The group had solid revenue growth in almost all regions. Revenue growth was almost equally split between pricing and volume. The group is on track to deliver double digit revenue growth and double-digit operating profit growth for the year. Over the long term, I continue to expect the group to deliver mid-single digit revenue growth at our current margins.

This year has been an excellent year for Sensient. Our focus on sales, execution and product delivery, and our robust product offerings are the foundation for the growth we have achieved. Clearly, we have seen outsized growth in 2022, which we expect to moderate beginning in the fourth quarter and continuing into 2023. Overall, we are well on track to meet our full year guidance for 2022 and I remain optimistic about the year and the future of our business.

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

**Steve Rolfs**
Thank you, Paul. Sensient's third quarter GAAP diluted earnings per share was $0.85. As I mentioned in our opening remarks, we do not have any adjustments to our GAAP results for the third quarter of 2022. Last year's third quarter GAAP results included divestiture and operational improvement plan costs, which decreased last year's third quarter results by approximately $0.04 per share. In addition, our GAAP earnings per share in the third quarter of 2021 included the operations of the divested product lines, which were not material to diluted earnings per share. Our adjusted EPS in the third quarter of 2021 was $0.85. Excluding these items in our 2021 results, our consolidated adjusted revenue in the third quarter of 2022 grew by 9.9% in local currency to $361.1 million. Our adjusted local currency EBITDA was up 7.8% for the quarter, and our adjusted local currency EPS was up 7.1% for the quarter.

Foreign currency exchange rates decreased adjusted earnings per share by approximately $0.06 in the third quarter.

As we have stated throughout the year, we are making strategic investments in our inventory position, which is the main reason for our lower cash flow from operations this year. We continue to invest in inventory to support the high demand we are experiencing and to ensure we have appropriate safety stock positions as supply chain and energy challenges continue. We believe future inventory increases will be modest. Capital expenditures were $19.2 million for the third quarter. We continue to expect our capital expenditures to be near $90 million this year. We are prioritizing return on investment capital projects and we hope to spend around $90 million next year. Our debt-to-adjusted EBITDA is 2.0. Our balance sheet remains well positioned to support our capital expenditures, sensible M&A and our long-standing dividend.

Regarding our 2022 guidance, we are maintaining our guidance that reported GAAP EPS will increase at a high teen growth rate compared to our 2021 reported GAAP EPS of $2.81. We do not anticipate any material divestiture related costs or operational improvement plan costs in 2022. We expect to see additional cost increases in the fourth quarter and beyond. We also expect our interest expense to continue to increase in the fourth quarter compared to our third quarter interest expense of $3.7 million. We are maintaining our 2022 adjusted EBITDA and EPS guidance, which both call for high single to

double digit growth in local currency. On an adjusted basis, we are also maintaining our revenue guidance to be up high single digits in local currency compared to our 2021 adjusted revenue. Based on current exchange rates, we expect currency to be a headwind of approximately $0.20 for the full year of 2022 for our GAAP reported results.

Thank you for participating in the call today. 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 then one on your touchtone phone. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

And the first question will be from Ghansham Panjabi from Baird. Please go ahead.

**Ghansham Panjabi**
Thank you. Hey, guys, good morning.

**Steve Rolfs**
Good morning.

**Paul Manning**
Good morning.

**Ghansham Panjabi**
Good morning. I guess first off, Paul, maybe kind of building on your comments on volume moderation for 4Q onwards, I mean, clearly comparisons are more difficult for you, et cetera, but just how are you thinking about at this point volume outlook for 2023 in particular, as you run through the various segments?

**Paul Manning**
Yes, so I think in 2023, we feel like 5% mid-single digit or so revenue, mid to high single operating profit growth is the good, sustainable long-term expectation that investors and others should have for our groups. Now, what the composition of that may be, and what is the timing of that, that's really getting at the nature of your question, right. So the long term, we feel very good about that type of growth model. As you look at 2023, it's anybody's guess when inflation stops, and therefore, pricing increases that we have to give moderate. So you could very well have a situation where we continue to price in the front half of the year, and don't have to, and perhaps even have the ability to back off some pricing in the back half of the year. So trying to predict that in any one 90-day period is going to be particularly tricky, so I think that's why as we think about the growth model, it's one of it may be up and may be down on those averages on any given quarter. But I think we feel very good about that formula, and the relationship between revenue and profit for 2023 and beyond that.

But we continue to take pricing as we need to, depending on the business and depending on the market. But pricing, as you know, you have to be very, very sensitive. We're not here to throw as much pricing as we possibly can at our customers. You have to work with your customers, and you have to make sure you're not making their products uncompetitive. So this is not always an easy thing to do and timing is very, very important and the messaging is important, but I think we've done a fairly good job balancing the interests of our customers, and then obviously the inflation that we feel.

So net-net mid to high single on OP, mid-single on revenue for each of the groups in '23 is a pretty good number to write down and I think model out.

**Ghansham Panjabi**
Okay, that's very helpful. And then just as a follow up to that, just in context of your customers obviously absorbing significant inflation across the various cost baskets on the ingredients side, how does that kind of fit in with your wheelhouse in terms of new product activity and maybe customers looking to substitute ingredients to moderate the cost impact?

**Paul Manning**
Yes, that's a great question, because the ultimate question here is how much new product activity do customers—so actually, let me start that over. They have resources, those resources can be strongly utilized for new products, those resources can be strongly utilized for cost take out. So obviously, that will vary significantly, depending on the customer, depending on the region and the product line. There will be some customers who literally, I think put the vast majority of their technical resources, shift them from new product launches to more of a cost take out, because it's an imminent problem in a number of businesses and product lines around the world. But in others, I think they'll continue a very robust pace.

If I were to just give you some overall measurements of the market, I mentioned on the last call for the first six months of 2022 new product launches for food and non-food in the US and European markets by our sources were down double digits, which is to say launch activity in '23 versus '22 was down approximately 10% overall in those markets. Now, that moderated somewhat in Q3. From our databases, new product launches declined about 3% in Q3. So there is variance depending on the type of customer, obviously some that was a little bit bigger, some a little bit smaller, but that would suggest that new launches will continue.

And so part of what emboldens me to say we can achieve these results moving into '23 and beyond is because there is still launch activity. Maybe it's line extensions over new to the world products, but there's launch activity. And if you're a good supplier, you're a reliable supplier, you're responsive, you can continue to capitalize on that dynamic for sure, even in a market in '23. We've obviously been doing that in '22 and '21 and then as well in '20. So I think continuing that approach and that expectation, I think we can continue to be successful.

**Ghansham Panjabi**
Okay, just one final one if I could on the raw materials side. What was 3Q inflation on a sequential basis relative to 2Q, and what's your initial guess on where you think for 4Q will come in?

**Paul Manning**
So on the year-to-date, we're looking at input costs overall, a little bit of variance by the groups, but I would say it's about overall approaching 9% to 10% for the full year. As you look at Q3, it was right around that range, a little bit less worse in Asia than it was in, say, the Americas and in Europe. But think high single digit inflation is a pretty good estimate. The composition will vary by group, whether it's raw material in some markets, labor and other transportation. We mentioned in the agricultural side, we have a lot of those input costs around fertilizer and water, which has a strong impact on the SNI business, but that also feeds into things that we do on extracts that feeds into natural colors. But I think if you want a model that out kind of high single, and it continued in Q3, I think specifically in Q2 it was about 8%. And it looks like Q3 is about 8% or 9%.

**Ghansham Panjabi**
Perfect. Thank you so much.

**Paul Manning**
Okay. Thank you.

**Operator**
And our next question is from Heidi Vesterinen from BNP Paribas. Please go ahead.

**Heidi Vesterinen**
Good morning.

**Paul Manning**
Good morning, Heidi.

**Heidi Vesterinen**
I'll go one by one. So, I wanted to clarify what you said about Flavors & Extracts, please. So you talked about the volume supply issue in SNI, so could you maybe talk about volume and price by segment within Flavors & Extracts. I'm wondering if the non-SNI part of the business had volume growth or not. Perhaps you could clarify that point, please. Thanks.

**Paul Manning**
Sure. So just for everybody's benefit, as you look at what we call the Flavors & Extracts Group, about one-third of that revenue is SNI, this is the onion, garlic, what I also call the agricultural business, about two-thirds of that Flavors & Extracts Group is what folks would describe as traditional flavors, extracts and ingredients. So, volume decline is effectively isolated to SNI. We had modest volume growth in the two-thirds of the Flavors and Extracts Group related to flavor extracts and ingredients and we had modest growth in Q3, about 5% volume growth year-to-date. So the declines have been effectively isolated to that particular segment of the Flavors and Extracts Group, because you'll know that we also had very good volume growth in Color and in Asia, both 5% to 6% volume growth. And these are in markets that are declining and so I think that's a very noteworthy outcome for the company, obviously, ex-SNI.

**Heidi Vesterinen**
Thank you for that. That's very clear. Next, I wondered if you could talk about the trends you're seeing by region in each business, please. Some companies have talked about destocking in certain areas, including North America. Some are cautious about the UK market. So what are you currently seeing in flavors and colors, please?

**Paul Manning**
Yes, and you're right to ask that on a regional basis, because it does vary. And so just to make sure I'm calibrated here, when I'm talking destocking I'm talking Sensient's customers potentially destocking. I'll tell you, compared to 2021, sure, there is destocking. Compared to 2019, at the start of the pandemic, is there destocking? I don't know. I haven't really measured it that far back. But certainly on a year-over-year, there would be what I think most folks would describe as destocking underway, pretty much in most of the markets, most of the regions.

And so our response to that, though, is, they may be destocking some of our products because our service levels have been quite good, so we're seeing a strong connection with our customers destocking efforts. It's very much related to the reliability of their supply chain. So in other words, if they feel very comfortable that the flavors will continue to come and will come at a reasonable lead time and a predictable on time delivery and a reliable on time delivery, they're more apt to take those moves to destock particular raw materials, for example. So those to me are the real biggest factor. But to answer your question, sure, there is absolutely destocking among our customers. But I think we've still

obviously been very successful, winning, growing volume in the vast majority of the company and generating new wins, even with that somewhat of a headwind.

**Heidi Vesterinen**
So are there any specific regions you would call it out? Or is it a more global basis that you're seeing this?

**Paul Manning**
None really stand out to me that I fret over in any particular way. We may see a little bit more destocking in Europe than, say, the Americas. We're seeing less of this impact in the Asia Pacific region. But yes, up until now it's not really been a major concern for us. As we look at our own inventory position, it's obviously elevated. But our intention there, it's intended, right, we want to, and we have built stock on finished goods, in some cases, raw materials on others, because if you have it and you're reliable you win business, and you win more business. And so I accept the cash flow ramifications of that in the interest of generating the new wins and continuing to maintain customers' confidence in us.

So, some folks have asked, are you worried about shelf life? Well, not so much. Most of our products have a long enough shelf life that we can manage that process reasonably well. That's not to say that these things last for thousands of years, but certainly when you look at some of the personal care ingredients, some of our colors, these have shelf lives that I'm not worried about obsolescence, by any means. The thing you really have to manage in a situation like this is that in the world where demand is declining in some categories, and as we referenced, we're not going to remain a 15% revenue growth operation here for the long term, I believe we will moderate back to the mid-single digit growth rate. So managing that process, because you don't want to be stuck with a bunch of inventory and then you have a bunch of underutilized plants, and then I don't need to get into accounting nonsense on that one, but you get the idea, there can be profit impacts from that.

So I look more at utilization of our plants rather than inventory obsolescence. But in the broader scheme of things, yes, I think that the destocking is certainly underway versus '21, and may very well continue—we expect it to continue into 2022. But again, a lot of that's tied to the reliability of the supply chain.

**Heidi Vesterinen**
Thanks for that. And then another question, Colors, so we saw that top line was extremely strong. Why wasn't there more operating leverage in Colors? You talked about inflation but did you basically see a bigger step up in inflation and are you seeing prices lagging? Or is there any other fact we should be thinking about?

**Paul Manning**
I would say it's cost. I don't think there's any major change in our portfolio, the mix of products. In fact, I think the mix of products is been quite good. But it's cost. You can go out with a pricing increase and then two weeks later, oh gosh, I got another one. And so you can't keep going to customers every two weeks. And so you have to be very thoughtful about that. But in the very beginning of all this, we got well ahead of the pricing situation, I think you noted that a couple calls ago. So I think you saw this outsized relationship between revenue and profit, but now it's cost catch up and you may be on multiple rounds with customers, and trying to get the clarity of what's next, trying to find the right timing is certainly very, very important.

So all things considered, I'm very happy with the very strong revenue. We still have very good profit growth. Most companies that I look at nowadays, they might have nice revenue growth, but they're declining profit, they have declining volumes. That's not a good recipe. I feel really good that Colors is

up 15%, 11% on profit. Yes, okay, in a normal year, I'd be like, why aren't we getting more leverage? But it's anything but a normal year, and so I'm sitting here feeling really good about 15% and 11% with 6% volume growth. But I think as things get back to normal, sure, you will see more operating leverage as the inflationary environment sort of moderates. But yes, I think we should all feel really good that Sensient is covering their costs, generating volume, generating new wins. It's not exactly how you draw it up from an operating leverage standpoint, but I think the alternatives these days are pretty dire in a lot of other places.

**Heidi Vesterinen**
Thank you for that. I'll get back in the queue.

**Paul Manning**
Thanks, Heidi.

**Operator**
The next question comes from Mitra Ramgopal from Sidoti. Please go ahead.

**Mitra Ramgopal**
Yes. Good morning. Thanks for taking the questions. First off, I want to follow up on the last question there and the comments, a lot of companies seeing revenue growth but margin deterioration certainly an issue. And I think you feel comfortable as you look out the next year, even if we were to have a recession, that you should still be able to grow not just the top line, but the bottom line. So I'm just curious, in terms of what's separating you versus a lot of companies reporting headwinds, whether it's on raw materials, supply chain labor costs, et cetera. You've obviously done a great job navigating that so far, and I'm curious as you look out to '23 if any of those headwinds apply.

**Paul Manning**
Well, I can't necessarily speak to what other folks are doing, but I'll tell you what we're doing: we focus on running this business, sales execution, customer service, customers come first. And we don't really engage in other sorts of nonsense, Mitra. We're a no excuse style operation, and people like that because when you win people get very, very excited. And so some of it is just that philosophy, but the practical matter of keeping customers first, really emphasizing new wins, and even when there may be slowdowns we don't build in excuses for the businesses and the businesses know that this is not an environment where excuses are tolerated. And so I think that can play out very, very strongly, as it has.

But beyond that, we've got a great portfolio of products, we've got a great group of customers that we really emphasize just servicing the hell out of them. And I think that's a great model. We've got great people, if anything, our turnover has reduced each of the last three years in a lot of our key roles around the company. And so a lot of these things are coming together in a real positive way. And I'm very, very happy with the quality of the people we have here, the portfolio, after all that painful restructuring, this is a great portfolio, and we've got a lot of really new products that are coming out, we've made a lot of good capital investments, Steve mentioned what our capital spend will be for the year. So I think that's been largely the formula for us.

**Mitra Ramgopal**
Okay. Sounds good. And then just on the natural colors and flavors, obviously, it's been a trend in terms of consumers' preference for more natural ingredient colors, but as you referenced higher input costs, has that resulted in a slowdown from synthetic to natural?

**Paul Manning**
No. Interestingly enough, we've observed the opposite. There are a lot of great brands out there that are going to be aggressive, even in these types of markets, they're going to launch new products, they're going to launch exciting products, and we are right there with them supporting their needs. So no, the natural color sales continue to be quite strong, literally in almost every one of our regions, and so we have not seen a slowdown. By our estimates what we read, 78% to 80% of new product launches around the world continue to be using natural colors as the type of color, and then the other balance is synthetic and in Europe coloring foods. So it's a really, really good dynamic and we see continued underlining strong trends in growth coming out of natural colors.

In natural flavors, most of the markets we deal in have substantially already converted to that. I would tell you that, for example, in the US, 90+% of our flavors are natural flavors. There are still some product lines out there utilizing more of a synthetic flavor profile, so less to say about that one, but yes, for the natural colors still really good dynamics.

**Mitra Ramgopal**
Okay, thanks. And then finally, I know you just announced the Endemix acquisition, just curious in terms of your M&A appetite given the rising interest rate environment and your willingness to lever up the balance sheet?

**Paul Manning**
Well, I guess as a rule of thumb, we've always said, in the M&A side of things, if you want it bad, you're going to get it bad. And we've been very, very disciplined, such that we don't use that mindset. We've walked away from a lot of potential opportunities that we felt were not valued consistent with our valuations. We're very, very excited about Endemix. I think this fits in exactly with the type of company we want. In their case, they have a very nice position from a supply chain standpoint but we could find a win-win with that organization. I think it's a great cultural fit to Sensient. And it is what we've always described as kind of this bolt-on acquisition. And we're not going to fret over integration activities and moving around plants and screwing up a bunch of stuff. We buy it, we invest in it and we continue to make use and learn from a lot of their techniques, and leverage their products around throughout the rest of the Sensient network.

So, we're always looking at things to acquire. But you have to have a win-win, and a win-win means they get a fair price and we get a fair price. So if I can continue to find those scenarios, it sounds great. We've got the balance sheet to accommodate that. Yes, you're right, interest rates, those certainly factor into the denominator, these valuations. But you can still, at the type of scale that we're looking at, maybe that's less of a consideration than if I was going to buy some massive entity out there somewhere.

**Mitra Ramgopal**
Okay. That's very helpful. Thanks again for taking the questions.

**Paul Manning**
Thanks, Mitra. Yes.

**Operator**
Again, if you would like to ask a question, please press star then one. The next question is from David Green with Boldhaven.

**David Green**
Hi, Paul. Hi, Steve.

**Paul Manning**
Hi, David.

**David Green**
A lot of my questions have been answered. So I hope you don't mind some more sort of detailed ones or specific. Just actually on the SNI side, how much of a headwind to top line were those onion constraints and shortages in Q3? And then two sort of final questions. One was just on the SG&A which ticked up a bit this quarter, whether there was anything there or if that does normalize? And then the final question was on the corporate and other, which is obviously primarily the stock-based comp, which obviously has been increasing this year but you've obviously changed the structure now. So has this now peaked, and should we expect the absolute level to be quite a bit lower going forward?

**Paul Manning**
Okay, I'll take the SNI one, and then Steve can’t wait to answer questions two and three there for you, David, which are to some degree related.

On the SNI front, yes, as I said in the prepared comments, I got that wrong in terms of the timing of when we'd be in a better situation there, so, okay, I was off maybe a quarter or so. So I think that moving forward, we certainly confirm our growth expectations for Flavors for the year as an overall entity. I think as I look at 2023, I think the SNI piece is going to have a really good year. You remember last year we had, or I should say Q4 2021 I talked about how we had a real selling frenzy and we had sold and really kind of oversold and out sold our position, such that as we got into Q1 and Q2 of 2022 we had a real deficit of product. So we're not going to have that problem as we get into 2023. So I think you'll see some nice uplift coming out of SNI really right out of the gate, as you look at 2023. So that'll be a nice tailwind for us moving forward.

And then of course, as that being the one-third of the Flavors & Extracts Group, I continue to feel quite good about the two-thirds of the Flavors & Extracts Group related to flavors, where again we had very nice growth throughout the year, on the ingredients part of that portfolio a very nice growth rate this year. So I feel quite good about our chances there, and I think we'll be in a much better position and only be talking about the positive attributes of SNI as we begin 2023.

But with that, let me Steve, talk to you about the SG&A and the corporate one.

**Steve Rolfs**
Yes. So, I'll do the last one first, David, on the corporate expense. So on an adjusted basis, we're up about $2.6 million in the quarter.  I can tell you, about 60% of that was stock-based comp, and I know we've been talking about this for a while. But we have such a strong performance-based programs that a few years ago we essentially weren't earning equity awards. And that zeroed out. And so it really takes three years to sort of build that back and we're in that third year. So I think you're still seeing a little bit of step up this year, but then as we get to next year you should see more normal increases.

And then the second question was on overall SG&A, is that correct?

**David Green**
Yes, that's right.

**Steve Rolfs**
Yes. So there again, the increase, probably half of that was the stock I just mentioned and other incentives. So, if you go back to last year, Color's performance sort of improved over the course of the year, and they're having an excellent year this year. So you're seeing higher incentive accruals in parts of our business related to performance. Then the other half is really going to be travel, which has stepped up, and then higher salary and wages would make up the remainder of the increase.

**David Green**
Great. Thanks very much.

**Paul Manning**
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 for your time this morning. Just maybe a closing comment as you're updating your models after the call. Just keep in mind, we mentioned a couple of headwinds, and I'll just give you the specifics as to how those may impact Q4. So we talked about interest expense, in Q4, if you look at year-over-year EPS impact it's probably going to be approximately a $0.04 headwind and then foreign exchange probably about an $0.08 headwind in Q4 versus prior year. So I think everybody's aware that interest rates are increasing. We have a modest increase in our debt level, so you saw about a $600,000 sequential increase in Q3. We'd expect about approximately a $1 million sequential increase in interest going into Q4. And then on FX, I mentioned that was a $0.06 headwind in Q3, and it'll be a little worse, it'll be $0.08, by our forecast, in Q4.

So again, thank you for your time this morning. And that will conclude our call.

**Operator**
And thank you, sir. The conference has now concluded. You may now disconnect your lines.