Sensient Technologies Corp.

Q4 2022 Earnings Results

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CORPORATE PARTICIPANTS

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

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

PRESENTATION

Operator
Good morning and welcome to the Sensient Technologies Corporation 2022 fourth quarter and year-end earnings conference call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing "*" "0". After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*" then "1" on your touchtone phone. To withdraw your question, please press "*" then "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. Welcome to Sensient's earnings call for the fourth quarter and full year of 2022. I'm Steve Rolfs, Senior Vice President and Chief Financial Officer of Sensient Technologies Corporation. I am joined today by Paul Manning, Sensient's Chairman, President, and Chief Executive Officer. Earlier today, we released our 2022 fourth quarter and full-year 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. The adjusted results for 2022 remove income related to an earnout payment received in connection with the divestiture of our yogurt fruit preparations business.

The adjusted results for 2021 remove the impact of the divestiture-related costs, the results of the operations divested, and the cost 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 and our forthcoming 10-K for a description of additional factors that could potentially impact our financial results. Please bear these factors in mind when you analyze our comments today.

Now we'll hear from Paul Manning.

Paul Manning
Thanks, Steve. Good morning and good afternoon. Earlier today, we reported our fourth quarter and full-year 2022 results. I'm very pleased to report for the full year of 2022 that we delivered 10% adjusted local currency revenue growth and 13% adjusted local currency EBITDA growth. Each of our groups had outstanding adjusted local currency revenue and adjusted local currency operating profit growth in 2022. We exceeded the guidance we communicated at the start of 2022

for adjusted local currency revenue, adjusted local currency EBITDA and adjusted local currency EPS.

Our strong operating and financial performance in 2022 follows the very strong results we had in 2021 and 2020. Our performance is a direct result of our focus on sales execution and customer service, as well as our broad product portfolio. We have proven to be a reliable supplier to our customers, and we continue to achieve new sales wins at customers across each of our groups.

Our portfolio of natural flavors and colors and our wide variety of product technologies continue to position us for future growth. Input costs grew throughout 2022, including the fourth quarter. Overall, we continue to see higher costs in a number of categories, particularly in agricultural and natural raw materials, which impacted our margins in the fourth quarter. We elected to wait to implement additional pricing until the first quarter of this year. We anticipate these costs to remain at elevated levels, at least for the first half of 2023, and we plan to continue with disciplined pricing actions as needed.

Because of the dramatic inflationary environment over the last two years and the timing of our pricing actions, margin comparisons and other year-to-year comparisons will at times be distorted. As a result, we believe it is best to judge our performance over the full year.

During the fourth quarter of 2022, we announced the acquisition of Endemix, a natural color and extract company based in Turkey. This acquisition is now included in the Color Group's results and strengthens our existing natural color portfolio, and improves our vertical integration for several key raw materials. We consider this to be a bolt-on acquisition consistent with our natural color strategy. Endemix represents approximately 1% of the Color Group's fourth-quarter revenue. We continue to look at other reasonable acquisition opportunities that support our strategic initiatives within our core product lines.

Now turning to the groups. The Color Group had an outstanding 2022, reporting 15% adjusted local currency revenue growth and 15% adjusted local currency operating profit growth. The Food and Pharmaceutical and Personal Care product lines each delivered excellent results in 2022 with strong adjusted local currency revenue and operating profit growth. Overall, the group's annual revenue growth was driven by high single-digit volume growth and high single-digit pricing.

Within the Color Group, food and pharmaceutical colors achieved 17% adjusted local currency revenue growth. We delivered a high level of new sales wins in 2022, stemming from the company's strong customer service levels and innovative natural color portfolio. The acquisition of Endemix strengthens our natural color supply chain and supports our new natural color wins. I anticipate our food and pharmaceutical product line will have another good year in 2023.

The Personal Care product line also had an excellent 2022, achieving 10% adjusted local currency revenue growth. The product line has rebounded nicely from the impact of COVID. Personal Care's focus on product line diversification, customer service, and innovative technologies are fueling our current growth. The Color Group also had a strong finish to 2022, reporting fourth quarter adjusted local currency revenue growth of 12% and adjusted local currency operating income growth of 8%. The group's revenue increase was driven by a high single-digit price increase and low single-digit volume growth. Food & Pharmaceutical Colors continued its strong performance in the fourth quarter, achieving 15% adjusted local currency revenue growth. Personal Care slowed to a mid-single-digit growth rate in the fourth quarter, primarily due to customer destocking.

Color Group is well-positioned for growth in 2023 and beyond. I expect the group will deliver mid-single-digit local currency revenue growth and mid-to-high single-digit local currency operating profit growth in 2023. We believe Food and Pharmaceutical Colors will have solid growth throughout 2023. We believe personal care will improve throughout 2023 as customer destocking declines.

The Flavors & Extracts Group had another solid year in 2022, reporting 6% adjusted local currency revenue growth and 10% adjusted local currency operating profit growth. We also achieved an 80 basis point improvement to our operating profit margin for the year. For the year, flavors, extracts, and flavor ingredients reported double-digit adjusted local currency revenue and operating profit growth. These product lines benefited from high single-digit pricing and mid-single-digit volume growth in 2022.

Revenue in the Natural Ingredients product line was down in 2022, primarily due to lower volumes related to customer destocking and lower production volumes from the 2022 crop, which we have previously discussed. In the fourth quarter of 2022, the Flavors & Extracts Group delivered 3% adjusted local currency revenue growth. Adjusted local currency operating profit was down 4% due to higher input costs and volume declines, primarily due to customer destocking in the Natural Ingredients product lines.

The Flavor Group has implemented pricing actions that will begin to offset these increases, but we anticipate customer destocking to continue in the first quarter. Despite these first-quarter headwinds in the Flavors & Extracts Group, we expect sequential improvement throughout 2023. For the year, I expect the Flavors & Extracts Group to deliver mid-single-digit revenue growth and mid-to-high single-digit operating profit growth in 2023.

The Asia Pacific Group delivered an impressive 14% adjusted local currency revenue growth, and 23% adjusted local currency operating profit growth in 2022. The group benefited from strong revenue growth in almost all regions. Overall, during 2022, the Asia Pacific group achieved mid-single-digit pricing and high single-digit volume growth. In the fourth quarter of 2022, the Asia Pacific Group reported 6% adjusted local currency revenue growth and 4% adjusted local currency operating profit growth. The Group continues to benefit from solid revenue growth in almost all regions.

Revenue growth benefited from a mid-single-digit price increase and modest volume growth in the fourth quarter. As input costs continue to increase, the Group has implemented pricing increases that will benefit the business during the start of the first quarter. For the year, I expect the Asia Pacific Group to deliver mid-to-high single-digit revenue growth and mid-to-high single-digit operating profit growth in 2023.

I'm very pleased with our performance in 2022 and over the last few years. Our focus on sales execution, customer service, and innovative technologies are fueling the growth in each of our groups. Our product portfolio is strong, and we remain focused on our key customer markets of food, pharmaceutical, and personal care. We continue to evaluate sensible acquisition opportunities.

We spent approximately $80 million in capital expenditures in 2022. We have very good internal investment opportunities that should drive future growth. And as a result, I expect our capital expenditures to be between $85 (million) and $95 million in 2023. Our inventory levels have peaked, and I would expect a reduction in our inventory throughout 2023. Absent an acquisition, our capital allocation plan will be focused on paying down debt.

I'm very happy with our financial performance in 2022. We finished at the top end of our guidance for adjusted local currency revenue, adjusted local currency EBITDA and adjusted local currency EPS for 2022. I am optimistic about 2023 and the future of our business. Steve will now provide you with additional details on the fourth quarter results.

Stephen Rolfs
Thank you, Paul. Sensient's fourth quarter GAAP diluted earnings per share was $0.69, included in these results are $0.04 per share of income related to an earnout payment received in connection with the divestiture of our yogurt fruit preparations business. Last year's fourth quarter GAAP results included divestiture and operational improvement plan costs, which decreased last year's fourth quarter results by approximately $0.07 per share.

Our GAAP earnings per share in the fourth quarter of 2021 include an immaterial amount of revenue and operating expenses related to the results of the divested operations. Excluding these items, our consolidated adjusted revenue in the fourth quarter of 2022 grew by 5.9% in local currency to $348.7 million.

Our adjusted local currency EBITDA was up just under 1% for the quarter, and our adjusted local currency EPS was down 6.8% for the quarter, primarily the result of higher interest expense. Foreign currency exchange rates decreased adjusted earnings per share by approximately $0.04 in the fourth quarter. As we have stated throughout this year, we made strategic investments in our inventory position, which is the main reason for our lower cash flow from operations this year.

We have invested in our inventory position 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 our inventory levels have peaked, and as Paul mentioned, I would expect a reduction in our inventory levels throughout 2023.

Capital expenditures were $79 million for 2022, and our net debt-to-credit adjusted EBITDA is now 2.4 as of December 31, 2022. Our balance sheet remains well positioned to support our capital expenditures, sensible M&A, and our long-standing dividend, and any excess cash will be used to pay down debt.

Regarding our 2023 guidance, we expect our 2023 local currency revenue to be up mid-single digits compared to our 2022 revenue, and we expect our local currency adjusted EBITDA to grow at a mid-to-high single digit rate in 2023. We expect our 2023 local currency EPS to be flat to up low-single digits compared to our 2022 adjusted EPS of $3.29. In 2023, our EPS will be impacted by higher interest expense and a higher tax rate. Based on current interest rates, we expect our interest expense to increase by approximately $11 million or approximately $0.20 per share in 2023 compared to 2022 full-year interest expense of $14.5 million.

Also, we expect our 2023 tax rate to be around 25% for the full year. On a quarter-to-quarter basis, our tax rate will fluctuate, and therefore, we continue to believe our local currency-adjusted EBITDA growth is an important measure of our performance. Based on current exchange rates, we expect currency to be a headwind for the beginning of the year and modestly favorable for the full year.

Thank you for participating in the call today. We will now open the call for questions.

QUESTION AND ANSWER

Operator

Thank you. We will now begin the question and answer session. To ask a question, you may press “*” “1” on your touchtone phone. To withdraw your question, press “*” “2”. 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
Yes, hey guys, good morning. . Congrats on all the progress. So first off, on the destocking paradigm that you called out, obviously, not unique to you, but rather the whole supply chain. But can you just give us more color on how exactly that dynamic played out throughout the fourth quarter? And then also, what customers are specifically sharing with you as it relates to channel inventory and the likelihood that it basically fades by the first quarter?

Paul Manning
Okay. I didn't get the second part of your question there, Ghansham.

Ghansham Panjabi
Yes. I was just asking about channel. What customers are sharing with you in terms of inventory levels in the channels and your confidence as it relates to maybe that stops in terms of destocking in the first quarter.

Paul Manning
Okay. Got it. Yes. So I would say, certainly, destocking, you could see that throughout our product lines, mostly in Europe and the U.S., less of that type of dynamic underway in Asia Pacific. But the destocking we're seeing is not unlike what you read in the newspapers. Consumers, end consumers are effectively responding to price increases by buying a little bit less, but then you have the added factor of many of our customers taking down inventory levels because there's no longer such a strong need to compensate for supply chain disruptions.

So what we saw in Q4, it hit hardest in the SNI business. And I would say second to that would be Personal Care. I think, again, while we face that in every one of our businesses, the new wins we generated in Flavors & Extracts, in Food Colors and Pharma, were so much larger than the destocking impact that we were able to come out on dry ground there from a revenue standpoint and then of course from a profit standpoint in color in Asia.

In some cases, the destocking by our customers has been rather dramatic. In other words, we've heard testimony from some customers to the extent that we're going to take down our inventory 20% or 30%, and we're going to do it very dramatically. And so much of what we see is or our belief, my belief is that, yes, there was a big impact in Q4, bigger than at any other point during 2022. As we look at our business, our customers, and our product lines, I believe Q1 is the peak of the destocking.

So you're going to see that continue again in SNI. You're going to see that impact again in Cosmetics or Personal Care. So there will be a little bit of a drag on the Flavors & Extracts Group in Q1, but I think that's going to largely subside come Q2. As you look at Color and you look at Asia, I think we will effectively weather through those destocking actions by our customers in Q1. But I think that will also improve sequentially as we get into Q2 and Q3. And I can speak to very specific instances where customers have already declared, hey, we're not going to buy this in Q1, and we see their orders for Q2.

So again, I think we have enough wins trailing in from 2022. We have enough wins that we're already generating in '23. We've been very effective with our pricing once again here in Q1. So

all those things come together that I think we'll be off for another good year, but we'll start off with a little bit of slowdown again in SNI and that's going to have an impact in Flavors & Extracts on the top and bottom line, but I think we'll largely overcome those factors in Color and Asia even in Q1 and then, of course continuing through the year.

Ghansham Panjabi
Okay. And on that, maybe you can just touch on your specific inventory levels as well, just given what you just said in terms of what customers are doing. And then also, is that starting to impact your cost basket as well, just given previous inflation, et cetera?

Paul Manning
Yes. So inventory was up right around $150 million in 2022. About a third of that was just inflation related to the cost side of that. But these are very specific directed actions to ensure that we were well positioned. We've been able to win business on account of having product and being able to deliver it consistently and reliably. So in my estimation, it was a very good investment.

Now we have a much higher proportion of raw materials than we ordinarily have historically. So if you look back at the company, we had a much higher percentage of finished goods inventory versus raw materials. But this time around, we were very, very specific about the types of inventory we wanted to invest in. And again, it was largely disproportionately raw material based.

So the positive about that is I think we can manage the absorption, the balance sheet activity as the market settles in as maybe we have destocking in certain areas; I don't think there's going to be an economic impact, financial impact of Sensient as we start taking down our inventory. But I would say this is more of a dimmer switch for us than an actual on or off switch, so we will manage that down.

There's still a lot of opportunity in the market where there's bad service, and there's bad availability of raw materials. So this idea that companies can just drop their inventory back to normal levels I'm not quite there yet. You know we've had some crop yield issues over the years of SNI.

And quite frankly, I'm a little bit tired of talking about that. And I know you folks are tired of hearing about that. And so to remediate that once and for all and forever ideally, we have made a big investment in our inventory in SNI. And so I think having inventory in that business is a really good thing. It's a good investment. We have very limited risk of obsolescence, and I think that's going to play out in our favor.

So I feel good about our ability to bring inventory down, but I would not expect for you to be hearing about 20% reductions and 25% reductions. It will be more of a slow, steady progress consistent with maintaining good supply to our customers.

Operator
And the next question is from Heidi Vesterinen from BNP Paribas.

Heidi Vesterinen
Good morning, everyone. I've got three questions. I'll go one by one. First question, I wondered what you're assuming for pricing and inflation this year. And are you assuming any deflation in your guidance, please?

Paul Manning
Okay. So I think it's interesting. I think yes, there's still inflation. And yes, there more than likely could be a need to take additional pricing. I think versus 2022 you could probably expect that the

pricing in 2023 will be a bit more surgical, a bit more directed at certain raw materials. I think factors like sea freight and energy we see some stabilizing in those costs. And in some cases, again, on something like sea freight or air freight, those costs have actually come down.

We do have some commodities that are moving in the right direction from our standpoint, from a price or cost inflation. But there are still pockets of inflation that continue. I wouldn't say unabated, but they are continuing, and we need to be very cognizant of the need to price that accordingly throughout the year.

But I do think inflation seems to have stabilized overall in the business for at least in the collection of raw materials and energy inputs that we use. So pricing less necessary than it was in 2022 would probably be the short answer I would have for that one.

Heidi Vesterinen
So is the mid-single-digit top-line guidance, both volume and price?

Stephen Rolfs
Yes. The mid-single-digit revenue guidance includes volume and price.

Heidi Vesterinen
Okay. And then maybe if we move to Natural Ingredients. So I think last year, you had talked about supply challenges. The idea was that would ease over time. I know that there's the short-term destocking issues. What are you seeing in terms of supply of raw materials?

Paul Manning
So SNI, you're right. We discussed that throughout 2022. I think as we look ahead to 2023, we'll know more definitively as the year progresses as to what the crop bears. But I think we've taken some steps, as I referenced to the earlier question, to make sure that we are well-supplied as we go throughout 2023 and into 2024.

So nothing dramatic to report at this point. Again, I did note the destocking phenomenon. In each of our businesses, in each of our product lines, we're servicing different types of customers. And so, certain businesses may have higher exposure to certain types of customers. And I think it's safe to say that SNI, the composition of its customers, is a bit different from the rest of Flavors & Extracts. And so that's, to some degree, why we felt the destocking impact more profoundly with them than we did with the balance of that portfolio.

But I think that as the year goes on in 2023, we will do fine there. And as you look back at 2022, yes, we did have these issues in SNI, but Flavors was still able to deliver our mid-single-digit revenue and our double-digit profit growth. So we've done a very nice job of managing despite some of those points of friction in the portfolio. And so and I think we did that in 2021 and 2020 as well.

So I think we've got a good program in place, but again, I think we can still make some improvements there so that this business, this product line, could be more additive to the overall Flavors & Extracts Group.

Heidi Vesterinen
And then a final one is on innovation. Could you talk about innovation rates among your customers? Has anything changed, given the challenging environment? And additionally, what are some Sensient innovations that you're excited about?

Paul Manning
Okay. So first, on the innovations, I'll describe that in terms of the launches that we see. So I'll profile Europe and the U.S. and according to our data and our experience, or our observations. In Europe, in the first half of 2022, launches were down double digits--like 14%, 15%. In the second half, that moderated to like about flat to like a minus 1% reduction in launches. So that's a nice improvement. And I think that bodes really well for 2023.

Similarly, in the U.S., for the whole year, launches were down about 5% to 6%, which is an improvement from 2021 when they were down like more like about 10%. But just like Europe, in Q4, launch activity in the U.S. is actually up slightly.

So those really, I think, are important factors to consider. So when you think about our guidance, why do I feel confident about our revenue and our profit and the leverage we will get there? To some degree, this launch inflection point, as I'd call it, bodes really, really well for us. So the nature of the launches has changed a little bit. Here, again, I'll profile one of our regions to give you a little sense of things.

So if you look at Europe, of the launches that we measured last year in the food and beverage world, 40% of those launches were line extensions about a third, about 30% were actual new product, and then maybe about 25% was really just a modification of packaging. So not necessarily a new launch in the way we would traditionally think about it.

So how that would compare to years past, it's certainly much higher weighted towards new packaging, a little bit more towards line extensions. But nevertheless, a launch is a launch at some level, and those are super positive and impactful for Sensient.

Now with respect to products that we have been launching and that we're very excited about, we've got several in our Natural Color portfolio that are really quite exciting, and the idea there being how do we continue to improve the performance and the economics of natural colors to make it more enticing for customers to take an interest in converting products and launching products with those.

So that will be an ongoing program that I think we'll be very happy with. You heard me talk about the Food Color, really strong results. A lot of that is coming from our innovations there. We have a number of innovations in our Personal Care business. As I always like to say, this is a business where technology matters and performance matters even more. So we have a number of different launches with respect to natural color and natural ingredient-based makeup products. So these are very, very exciting. And I think we'll see a lot of growth long term in that segment.

We have a number of new launches within the Flavors & Extracts part of our portfolio, not only extracts, new and sort of novel extracts that we have sourced and are able to manufacture internally. These provide a more complex enhanced taste profile in a lot of product applications. So those are very exciting.

And then, of course, in our Bionutrients business, not one that we talk about that much. We have a number of interesting launches in our plant nutrition part of our portfolio to potentially enhance crop growth rates and yields in a way that could be super compelling to any number of growers around the world.

So that's just a high level of a few of the more recent launches, but yes, we track very closely what percentage of our revenue is being driven by new launches. And so that's an important factor, I think, in our future growth and, certainly, for the growth we expect in 2023.

Operator
And the next question is from Mitra Ramgopal from Sidoti.

Mitra Ramgopal
Just a couple for me. Paul, in terms of the guidance for 2023 and the volume growth you're expecting, how should we think about it as it relates to just continue to expand your services to the existing customers versus maybe new customer wins?

Paul Manning
Yes, I'll start with this. The guidance, the mid-single-digit guidance, would be to Steve's earlier answer, inclusive of price and volume. I'd like to think that, that mid-single-digit growth expectation is a number that you folks can take to the bank. Could there be some upside? Sure, there could be some upside.

If you look at 2022, there was a lot of questions. There was questions about destocking and price givebacks. And so I think we were able to successfully navigate through that year, and that culminated in a 10% growth for the company. And you heard some of the volume metrics that I read off. So we had really, really nice volume growth in many of our businesses and product lines. So the guidance, I think, maybe it's a bit conservative. But again, I wanted you to have a very reliable set of top-line expectations that you can think about throughout the year. And again, maybe there could be some upside on either volume and/or price.

To the question about, are these really the revenues that are going to come from essentially expanding at existing company customers or new customers? I think in as much as we focus a lot of our attention on these local and regional customers, the B and Cs, as I may call them. We do that a lot in Flavors & Extracts, so I think that's going to be a continued part of the Flavors & Extracts success, is going to be coming from a lot of new customers.

But what's also interesting is in our Color Group, where we have very strong access to a wide range of customers, we still generate a lot of new customer-related revenue in that group. So I don't have a percentage breakdown for you. You could certainly look by region and by product line and conclude that it's more efficient, and you may be commercially more successful by simply selling more to existing customers.

But in other cases, you may have some customers who maybe have more modest growth and more modest launch expectations, in which case, you're turning more to a new customer revenue-generating model. So it's a mixed bag. And again, I don't have a percentage for you, but it's certainly within our thinking across each of our businesses would be probably the best answer I could give you there.

Mitra Ramgopal
No, that's very helpful. And then switching gears a little; obviously, interest expense is going to be significant headwind in terms of EPS for this year. Just curious if it's causing you to maybe revisit your capital allocation priorities, maybe looking to be more aggressive in terms of debt reduction or still focusing on M&A and dividend share repurchase, if maybe we can get a sense how you're thinking about that?

Stephen Rolfs
Yes, Mitra, I would say our leverage is still at a very reasonable rate. So 2.4 debt-to-EBITDA. We have plenty of flexibility to do what we need to do. We have a lot of good investment opportunities in the business. So we are going to continue to step up our capital expenditures, and we're going to continue to look at small bolt-on acquisitions. So I think from that point of view, there's not really

any change, but anything we do have remaining after those priorities, we will look to pay down debt. I think that's accurate.

Mitra Ramgopal
Okay. And then, just following up with it on the CapEx, I know if you look at '22 versus maybe a couple of years ago, obviously, significant increases, and you mentioned step-ups. Just curious in terms of any major investments you feel you need to do at this point. And should we expect the elevated CapEx to continue for the foreseeable future?

Paul Manning
So I would say we've got a lot of ROI projects that we've invested in over the last couple of years, we got a lot projected for 2023. And so I really like our chances in a lot of those. They're very much related to the core product lines that we have. So as you think longer-term to the question about, well, is this $80 (million) to $90 (million) or $95 (million), is that here to stay? I would say the baseline would be what is our existing depreciation and amortization. And that runs right around I want to say it's about $50 million. So how much we are above, I can't imagine us being below that.

What would render us substantially higher than that would really be how many ROI projects can we meaningfully complete in the course of the year. So you look at our business, the size of our business, the number of locations, you do have some structural limitations to how much capital you can reasonably expect to implement in the course of a year, right? These things can be potentially disruptive when you're shutting down parts of a plant to add something or take something out.

So yes, historically, $80 million is somewhat elevated. But I think we're going to be very, very happy as we move forward with our ability to maintain and even accelerate some of our growth in a lot of our businesses, it's going to come on the heels of these CapEx implementations.

So I think this year, $85 (million) to $95 (million), I think there's a lot of really good stuff in there. And I think as I think ahead to 2024, there's still a lot of really good projects. So that's the super positive thing here for the company. Those are the highest earning opportunities, as I see it when it comes to capital allocation.

So we're guiding in this realm in 2023. I would expect us to probably be close to this in 2024. But as we get to 2025, we'll see; we want to probably harvest some of the investments we've been making. But again, use that $50 (million) as your minimal, hey, we got to maintain these places too type metric.

Mitra Ramgopal
Okay. No, that's great. And then finally, just maybe circle back on the Personal Care business, a little in terms of what you're seeing, your expectations; obviously, things have settled down in terms of remote and back to office. I don't know if you still expect further bounce back or that has sort of played out a little for you.

Paul Manning
Well, I think Personal Care had a nice rebound in 2022, as we discussed in the call. We had, as I also mentioned, a little bit of a slowdown in Q4 and Q1; principally, I think destocking was part of the culprit there. But as we get into '23, yes, I think these are great markets, makeup, hair care, skincare, they're very resilient, certainly.

One of the super positives coming into '23 is the reopening of China. I mean, China is a nice market for us for personal care, and that's only going to help matters for us. Europe and North America, we've got some Q1 destocking continuing but I think our prospects for the business for the year are good, probably not as strong as, say, Food Colors and Pharma or Flavors & Extracts, for that matter.

But it's an ongoing--it's a great business, a very technically driven business. Our program around diversifying into these segments continues, and we've made some super nice progress there; very happy about that. But there's a lot of NPD activity there, and I think a lot of opportunities for us to continue to generate some good growth out of personal care. And yes, having folks out and about not wearing masks anymore that's super helpful as well.

Operator
Again, if you would like to ask a question please press “*” “1”.

The next question is from David Green from Boldhaven.

David Green
A couple of questions following up on some of the previous ones. In terms of the price and taking price this year, I appreciate it's very early on in the year but have you had any sort of color, or do you have any thoughts on the risk of pushback from customers, especially given the levels of inventory that they might have and the consumer demand backdrop?

Paul Manning
Yes. Well, I would tell you that probably one of the least favorite conversations a salesperson has is going to a customer with a price increase. So I don't think there's anything new on that front. Maybe they're a little bit more unhappy now than they were a year ago about price increases but listen, nobody likes a price increase, and that's never easy. And so you have to be very, very thoughtful about the timing of that and the magnitude of that. And you have to be sensitive to the customers' ability to build that into his economic model and still make money. So you got to find win-wins here in the market.

And so I'd like to think that inflation, as I mentioned earlier, has largely stabilized in some of the key markets and on the key inputs like energy, for example. But as we get into 2023, I don't think there's some like magic button that July 1, inflation stops, and everything is back to normal. I think this will be a process whereby there is some deflation in some of these key raw materials and other inputs. But when and how big is anybody's guess. In fact, that's what everybody is doing, is guessing about this.

So my guess would be inflation should stabilize on average; we'll still have pockets up. I think we're going to continue to have pockets downward and we work very, very closely with our customers to--we need to cover our costs, but they need to sell stuff. If they stop selling stuff, then you covering your cost wasn't much good. So you do need to find a win-win, but we were very effective in 2022, largely across the board. I have no reason to believe we will not be effective in 2023, at least in covering our costs.

David Green
Yes. And whether or not you can give any granularity on this, given it's a moving goalpost at the moment. I think cost inflation for this year is going to be running at 9% to 10%. I'm just thinking forward to this year; you touched on a few things in terms of some specific commodity prices have come down. You've got sea freight coming down. One thing you called out historically has been

energy costs in Europe, which have also gone down as well. So, more broadly speaking, what would be an expectation for cost inflation for '23? Or is it just too much of a guess at this point?

Paul Manning
Well, my short answer is I don't know. But whatever it is, I think we'll be able to cover that with pricing. Again, if you want me to guess, I don't think it's going to be as bad as 2022, is my guess, which I guess is no different from anybody else's guess. Just you find out if you're right as the year goes on.

But maybe stepping back here for a second, I think the thing for everybody to keep in mind is inflation, as it drives our costs up and necessitates pricing actions on our part, you know, our products typically do not constitute a significant input cost to our customers, right? So our customers may have substantially high cost, but ordinarily, it's not coming in a substantial way from food colors and flavors and things like that, which is a very--the wonderful thing about our businesses is that we can pass along pricing, we can still help our customers to be successful, owing to good products that we can sell them. But generally, I would say that we're not bringing customers to their knees on account of our inflation. I think it's going to be coming in other forms to our customers.

So that's the big picture here, which is to then say, tactically speaking, I think we can get the pricing that we need to get to cover our costs. and retain the business.

David Green
Okay. No, that's great. I don't think you're going to like me very much because I've got a quick question on SNI, which you didn't want to talk about that, anyway. I think you may have spoken about SNI being, give or take, a 5% drag on Flavors & Extracts for 2022. And on that basis, we'd expect a rebound to come through this year. I just wanted to maybe try and get a feel for how much of that might unwind this year and what kind of tailwind it could generate.

Paul Manning
Yes. So yes, SNI was a drag in 2022. I think SNI will rebound in 2023 for some of the reasons that I've already discussed. So yes, I think it's fundamentally a terrific business, and it's a tremendous benefit to have that business in Flavors & Extracts as it does broaden our portfolio at many of these related customers.

So yes, I would tell you that the rebound is not going to be in Q1. But I would tell you that the rebound will take place in 2023. And I think that's only going to add to the success of the Flavors and Extracts group.

David Green
Great. Just one final quick question. Just touching on the question earlier on product launches. And obviously, you talked about a higher mix of line extensions versus new products in 2022. Just wondering, on for 2023, if that sort of mix changes more towards new products. Is there a big difference in terms of revenue or profit contribution when you are dealing with a new product versus a line extension?

Paul Manning
Well, so the first part of your question, I would anticipate, just as I think about and look at our pipeline, that there would be more new-to-the-world style products this year. as opposed to a line extension. I wouldn't necessarily say there's a significant difference in the profit stemming from a line extension versus a new launch. The difference tends to be the magnitude. So the magnitude

of a new launch may be significantly greater than a line extension, but a new launch is a heck of a lot riskier than a line extension.

Think of a line extension of like a sequel, like Jaws 4. Not much of a risk. Jaws 1, 2, and 3 were pretty good. It lends itself to a pretty good idea to extend that line. But a new product on the other hand, you're launching a whole different category of movie potentially there to go along with this cinematic thriller metaphor I've got here.

So bigger impact potentially, but it can be a lot more risky. So the thing that launches in 6 months later goes away, that doesn't feel real good versus, say, a line extension, which you could have for several years. And it's the very nature of that risk profile that is why you see fewer launches when tightening starts or recessionary environment start.

So what gives me optimism about '23 was that comment I made earlier about how there's been an inflection point in new launches, regardless of their type that's a super positive. That demonstrates to me a customer's eagerness to really engage very thoroughly in the market and potentially even take some risks.

Operator
Ladies and gentlemen, there are no further questions at this time. I will turn the conference back to the company for any closing remarks.

CONCLUSION

Stephen Rolfs
Okay. Thank you. Since we are starting the new year in our prepared comments, we made some comments to help with modeling for 2023; just to reiterate that, I indicated we did expect interest expense to be up about $11 million over the level in 2022. I indicated our tax rate would be slightly higher. We're expecting a 25% tax rate.

One other comment on our corporate expense, our unallocated corporate expense that's a line item that has increased significantly the last couple of years because we've had to reset our performance-based compensation. I would say that that has now normalized. And I would expect a more normal inflationary increase of about 3% in our corporate expense. So I would look at that at about the level of $57 million for 2023.

And then the last comment I made was after a year of FX headwinds; we do expect one more quarter where FX will be a headwind. But then, in the second half of 2023, based on where rates are today, it should be a moderate tailwind for us.

So with those comments, we'll conclude our call. Thank you, everyone, for joining us this morning.

Operator
The conference has concluded. You may now disconnect your lines.