# Sensient Technologies Corp.

## 2023 First Quarter Earnings Conference Call

## April 28, 2023 at 9:30 a.m. Eastern

**CORPORATE PARTICIPANTS**

**Stephen Rolfs** - *SVP & CFO*

**Paul Manning** - *Chairman, CEO & President*

**PRESENTATION**

**Operator**
Good morning and welcome to the Sensient Technologies Corporation 2023 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 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.

**Stephen Rolfs**
Good morning. Welcome to Sensient's earnings call for the first quarter of 2023. 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 2023 first quarter results. A copy of the release and our investor presentation is available on our website at sensient.com.

During our call today, we will reference certain non-GAAP financial measures which remove the impact of currency movements and other items as noted in the company's filings. 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.

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 today.

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 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 forthcoming 10-Q for a description of additional factors that could potentially impact our financial results. Please keep 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.

Sensient's local currency revenue increased by 5% during the first quarter. We saw good top-line growth across most of our businesses with strong sales wins and effective pricing implementation. We are on track to deliver against our full-year guidance.

As expected and as we discussed last quarter, we continue to see destocking across the company. The impact was most pronounced in the Flavors and Extracts Group and in the North American market. Additionally, we began to experience a decrease in customer order lead times as customers reverted back to pre-pandemic order timing and inventory levels.

While our customers are going through a temporary effort to normalize their inventory levels, we are still seeing strong product development activity. We are maintaining our strong new sales wins and our sales pipeline remains robust. We expect good product launch activity for the balance of the year and this is a good development given last year's low product launch activity in the market.

As destocking moderates in the back half of the year, we expect incremental revenue improvement. Our new sales win rates continue to remain high across all three groups. In 2022, we had one of our best years in terms of new sales wins, despite a decline in new product market launches in many parts of the world. In the first quarter of 2023, our new win rate continued to be at this very high level. We continue to win new business based on our focus on sales execution, our outstanding customer service and our broad product portfolio. We continue to achieve these new sales wins across all product lines and throughout most of our geographic regions.

Also during the first quarter of this year, we have continued to implement pricing in an effort to overcome the ongoing inflation. While supply chains and the raw material cost outlook may be improving in some areas, overall, we continue to experience elevated energy and commodity costs in certain geographic regions. As we discussed last quarter, the timing of our pricing actions versus the timing of cost inflation may distort our quarterly year-over-year performance and as a result, we believe our full-year results will be the best indication of our performance.

Now, turning to the Groups. The Color Group had a strong first quarter, delivering 10% local currency revenue growth, and more than 6% local currency operating profit growth. The Group's revenue growth benefited from a low-double digit price increase, which was partially offset by an approximately mid-single digit revenue headwind due to destocking.

The Food and Pharmaceutical product line delivered 16% local currency revenue growth with solid volume growth. The Food and Pharmaceutical product lines are delivering a high level of new sales wins as a result of our innovative natural color portfolio and strong customer service. The magnitude of these wins has more than offset any customer destocking.

The Personal Care product line revenue was down low-single digits in the first quarter, primarily due to customer destocking mainly in North America and tough prior year comparisons. We expect Personal Care growth rates to resume in the back half of the year.

I continue to expect the Color Group to deliver mid-single-digit revenue growth and mid to high-single-digit local currency operating profit growth. We believe Food and Pharmaceutical Colors will have solid growth throughout 2023 and beyond. Personal Care will continue to struggle in the second quarter, but will have improved results in the second half of the year.

The Flavors and Extracts Group was down approximately 1% in local currency revenue during the quarter. The Group's strong win rate and pricing were offset by customer destocking, and ongoing market downturn in most product categories in North America. As mentioned during our last call, destocking largely began in the fourth quarter of 2022. Within this first quarter 2023, we continue to experience destocking, most notably in natural ingredients and our traditional flavor categories. In some cases, these destocking activities were quite dramatic in the quarter. We believe that once our customers' inventory levels and order patterns begin to normalize, the Flavors and Extracts Group should resume its mid-single digit growth profile in the back half of 2023. For the year, I now expect the Flavors and Extracts Group to deliver mid-single digit revenue growth, and low-single digit operating profit growth.

The Asia-Pacific Group continued the strong performance achieved over the last several years. In the first quarter, the Group delivered 15% local currency revenue growth and 18% local currency operating profit growth. The Group is not experiencing the destocking impact that the Color Group and the Flavors and Extract Groups are experiencing.

The Asia-Pacific Group continues to benefit from strong new wins across, almost all regions. The Group's focus on sales execution and customer service, as well as the investments we have made in the region, are fueling the Group's current growth and we believe position the Group nicely for continued growth.

Asia Pacific is a good example of our ability to shift our sales mix to higher margin specialty products and to deliver higher quality defensible sales wins. I continue to 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.

As we communicated during our fourth quarter call, we anticipated that destocking would continue into the first part of this year and that our quarterly performance would at times be distorted due to the inflationary environment. Overall, we have proven that our strategy supports solid growth across each of our businesses and our product portfolio is robust. We are focused on the levers we can control to grow our business. These include: our focus on sales execution, our strong customer service, our broad product portfolio, and our strategic pricing initiatives.

Overall, I'm excited about our opportunities within each of our businesses and remain optimistic about 2023 and the future of our business. Steve will now provide you with additional details on the first quarter results.

**Stephen Rolfs**
Thank you, Paul. Sensient's revenue was $369 million in the quarter, compared to $355.5 million in last year's first quarter. Operating income was $50.8 million, compared to $52.8

million in the comparable period last year. Foreign currency reduced revenue by approximately 1% and operating income by approximately 2% in the quarter.

Interest expense was $6 million in this year's first quarter, compared to $3 million in last year's first quarter. The company's consolidated tax rate was 24.9% in this year's first quarter compared to 25.6% in last year's first quarter.

Diluted earnings per share were $0.80 in this year's first quarter, compared to $0.88 in last year's first quarter. Foreign currency translation reduced EPS by approximately $0.02.

As discussed, we have begun to normalize our inventory levels. We have seen a decline in our March inventory level, and we plan to continue to manage our inventories down over the course of the year and should see improving cash flow as a result.

Capital expenditures were $22 million in the first quarter of 2023. We expect our capital expenditures to be around $95 million for the year. Our net debt-to-credit adjusted EBITDA is now 2.7. Our balance sheet remains well positioned to support our capital expenditures, sensible M&A and our longstanding dividend, and any excess cash will be used to pay down debt.

Regarding our 2023 guidance, we continue to expect our 2023 local currency revenue to be up mid-single digits, compared to our 2022 revenue and we continue to expect our local currency adjusted EBITDA to grow at a mid to high-single digit rate in 2023.

We also continue to expect our 2023 local currency EPS to be flat to up low-single digits, compared to our 2022 adjusted EPS of $3.29. As we have discussed in 2023, our EPS will be impacted by higher interest expense and a higher tax rate. 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 modestly favorable for the full year.

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 Robert W. Baird. Please go ahead.

**Ghansham Panjabi**
Thanks and good morning everyone.

**Paul Manning**
Good morning, Ghansham.

**Ghansham Panjabi**
Morning. I guess, first off on the Color segment, the outperformance in Food and Pharmaceutical, can you give us a sense as to whether the destocking dynamics that seemed so pervasive across the rest of the portfolio in the supply chain, has that not had any sort of impact of significance for the Food and Pharma? And if so, why do you think that is?

**Paul Manning**
So I would say destocking, we saw it pretty much across the portfolio, whether you're talking Colors or Flavors. It was obviously more pronounced, substantially more pronounced in Flavors. If you look at the overall Colors, though, we had about a mid-single digit headwind on destocking.

I think what happened in Food and Pharma is they just won a lot of new business. And this is a continuing trend within the Food and Pharma segment for us. We got a lot of successful efforts with respect to selling natural colors, but we also had a lot of success in continuing to sell synthetic colors. So the short answer is, sure, there was destocking about mid-single digits, but the win rate with was very, very robust. They also very effectively managed price consistent with the need to maintain and perhaps even improve gross margins. So, they fundamentally just did a really great job at overcoming that destocking phenomenon.

**Ghansham Panjabi**
Okay. Great. And then, I think you'd called out good productivity expected for the year, just maybe expand on that in context of what seems obvious, which is just the directional weakness in the global consumer spending. And then, related to that, I think you talked about destocking activities being quite dramatic in some categories. Just give us more color as to where exactly you saw that.

**Paul Manning**
Okay. So on the product launch activity, this is a great thing to see. We saw it most notably in Europe. Europe, the new product launch activity was up about 10% in Q1 versus prior year. You may recall the first half at 2022, Europe's new product launches were down like mid-teens, like 14%, 15%. It got better in the second half, so left us with a slight decline in 2022. So the year started up very promising, particularly in the European market. But we're also seeing that trend of improving product launches in North America. So that is a very, very positive factor.

Now, the composition of the new launches, this is something that we talked about I think it was the last call, folks are kind of interested in what are you seeing? So, in Europe, of those launches, if you were to break that down, by our estimates we see that as being about 40% of those launches are line extensions; about a third of them would be truly new products and formulations; and then the balance, which I guess would be about 25%, that's kind of more just a packaging change, which according to how these metrics are measured is also included in the realm of new launches. So that's a great, great sign there. And so, I would like to say we

should expect continued movement and improvement in that launched activity as the balance of the year unfolds.

To your question about destocking, so I said in Flavors it was rather dramatic. So in Colors, that sort of mid-single digit headwind 5% or 6%; in Flavors it was about twice that. And, I think the easiest way to talk about destocking, because it can obviously just be very confusing for folks on what do you mean destocking? Where is it happening? What are the themes? So, the themes that we see, I look at it in a couple different ways. I look at it by geography, I look at it by types of customers and I look at it in terms of our business units.

So with respect to geography, destocking was most pronounced in the U.S. followed by LatAm, I would say kind of a distant third would be Europe. And there was really none in Asia-Pacific; Asia-Pacific was up, the market was up from an organic standpoint. So that's one consideration for destocking.

When you think about the types of customers where we saw destocking, broad-based, so B's and C's, locals, regionals, you saw it kind of in most parts, particularly the US market, but most categories, most types of customers, but some of the larger multinationals. We can certainly see the popular press to see some of the announcements these companies made about reduction in inventory. In some cases, these multinationals reduce their order patterns by 30% to 40%. And so, as you could imagine, that could be a rather dramatic change in the order pattern.

And then, as you think about our business units, we saw this phenomenon SNI, big impact there. Our Bio-Nutrients Group, which sells principally into the probiotics market, big reduction there. Traditional flavors, particularly in beverage categories, big pull back there, in other words, big reduction in stock. And then, certainly, we saw that activity in our Personal Care, our Cosmetics division, there was a fair amount of destocking, mid to maybe even mid-to-high in certain regions. So that's kind of the magnitude.

Now, I think we're going to see this destocking continue in Q2. But when your movements are that dramatic in some circles, you can imagine the positive there is that they get through the destocking rather rapidly, which is good. Some of it may linger in language for the balance of the year. But I think what you'll see in Q2, we will still have some of these destocking headwinds, perhaps about the magnitudes that you see here in Q1, but I think as you get to Q3, as we project in Q3, as we talk to our customers and canvas them, and that's really what you need to do here. Mr. Customer, you are destocking, okay. How much and for how long? And we literally canvas an enormous cross-section of customers and we've concluded with a fair degree of confidence that we think by Q3 the destocking phenomena, I'll be talking about it a heck of a lot less and in some cases not at all for certain regions and types of customers. So, I think that should largely get at your question there on the destocking.

**Ghansham Panjabi**
Yes, it did. Thanks so much.

**Paul Manning**
Okay. Sure. Thanks.

**Operator**
The next question will be from Heidi Vesterinen from BNP Paribas. Please go ahead.

**Heidi Vesterinen**
Morning. Following up—

**Paul Manning**
Hi, Heidi.

**Heidi Vesterinen**
Hi, how are you? Following up on the destocking point, do you have visibility on where the extra stock is? Is it at customer level? Or could it be further down the chain, say retailer level or even consumer level? And so, what are your thoughts on that and so therefore, what visibility do you have on when this will actually end for the various segments?

**Paul Manning**
It's a great question. I asked a similar question and here is the answer that we've come up with and from our analysis. So, if you think about some of those retailers, and let's just look at the US market for a moment, the retailer's you've heard of, the largest ones as we've looked at this largely have suggested that at the end of January they were in a happy place with respect to inventory. Whereas maybe they had run with 30 to 40 days pre-pandemic, they might have in some cases got up to 40 to 50 days, but as we looked at their public filings and listened to their conference calls, we concluded and we heard them say that in general, their inventory levels are kind of about where they want them to. So, to your question, we don't see the inventory piled up at the retailer level.

Now as this moves down the supply chain, customers, so, in some cases, we had customers adding 10, 20 days in the course of the pandemic. So, for example, they might have had 30 days of inventory, ice cream, that's a common category where customers, our types of customers would traditionally hold about 30 days. During the pandemic, lot of them went up to like 45 days on average. And so now they are in the program, this really kind of started in Q1, it will go into Q2, of taking out that three and in some cases four weeks of inventory.
And so, it's there right now. And then of course, as a result, we have that reduction in orders from our customers. So I think a lot of it is at our customer level, the types of multinationals and even local, regional brands that that you're familiar with.

At the end-consumer level, we think most of that destocking took place early in 2022. There's a finite amount of storage capacity. Maybe Steve stores a bunch of stuff in his garage, but just about everybody else kind of ran through their stocks in early part of 2022. So we don't really think there's a whole lot there. And so in short, it's at our customers in a substantial way in some cases, but that moderated quite a bit in Q1 given some of those dramatic drop-offs.

**Heidi Vesterinen**
And then the next question from the margin in Flavors and Extracts, could you talk more about the drivers of the margin movement year-on-year? Was it primarily to do with negative volume leverage or were there any sort of price cost mismatch issues there or any other factors? Thank you.

**Paul Manning**
It's volume. Last year, we had big volume. This year we had a lot less volume. And so, you can see how that plays out financially. There was no appreciable change in our fixed cost structure. There was no appreciable change in our product mix. In fact, our product mix, I would argue has improved even during Q1.

Pricing, I think we were very effective in getting our pricing. We took just north of kind of low 10%, 11% pricing on average. So I think we can continue to say that we've been very, very effective. We are certainly covering our input costs, perhaps a bit more than that on the road to maintaining gross margins. So, the short answer is volume. So, as destocking moderates as these market launches continue, as the market in general in these categories continues to improve, I think you should see a much more robust and then better volume output for the back half of the year really across the Sensient portfolio. So, I feel very, very good about pricing.

Folks talk about inflation moderating. Well, the overall inflation as we see it is moderating. So when you factor in things like energy, cars and construction, and that's correct. But when you look at food inflation, as we measure food inflation and as we look at the sources of folks who measure food inflation, IRI and a lot of other European firms, we see food inflation in the mid-teens still in the US and in Europe. So whereas energy may be coming down substantially and maybe it's 6% or 7%, food is still in this mid-teen inflation level. So, I can't predict and I've been trying not to predict when inflation moderates, because it's hard to say when it will, but we will continue to address those input costs with pricing as needed.

**Heidi Vesterinen**
Thanks. And I have one last one unrelated actually to the Q1. Natural food colors, so there was a recent discussion about Skittles being banned in California. Do you think we could see increased legislation-driven conversion from synthetic to natural colors? And would that sort of conversion be positive from a financial standpoint for Sensient?

**Paul Manning**
So, I'm certainly aware of the potential change in California. In my opinion that would just simply be the next item that has been banned in the state of California. So will that have a profound impact on customer behavior? Possibly. I would tell you we are very well aligned with the who's who of the industry. So if there are to be conversions as a consequence of that change in legislation, I would tell you that we are right up there and competing at every single one of those opportunities as far as I would tell you.

Could legislations and maybe even broader than California, perhaps at the Federal level, could that lead to changes in the market and accelerate natural colors? Possibly. Certainly if the FDA

did that, it would, but I'd like to remind folks that in my opinion, Food Colors are the most regulated products in the entire world. Every batch of synthetic food colors has to be certified by the FDA. So, that would be a tough legislative change to make in the United States, in my opinion. Nevertheless, if it is, we're ready to meet the needs of our customers.

But I think this will continue to be a market-driven phenomenon. The brands that have converted to natural colors have enjoyed a lot of success. It's good, positive messaging in many cases. And in other cases, it gives them an ability to overhaul their portfolio and their product lines, and so we see a lot of customers successfully implementing this. Of course, they do it in a way that the natural colors match the synthetic color shades that you're able to achieve. Efforts that fall short of that they tend to not do as well.

But could that be more beneficial to the company? Well, sure it would be. We would be selling a lot more volume if the portfolio converted from synthetic to natural. But, we're interested in helping our customers be successful, and many customers have successfully launched products with synthetics. Others successfully launched products in natural. Our business is well above 50% natural color now. So we are standing by and prepared to deal with any potential outcome there. But that could certainly be helpful financially you could easily argue for us.

**Heidi Vesterinen**
Thank you.

**Paul Manning**
Okay. Thanks, Heidi.

**Operator**
Again, if you would like to ask a question, please press star then one.

The next question is from Mitra Ramgopal from Sidoti. Please go ahead.

**Mitra Ramgopal**
Yes. Hi. Good morning, and thanks for taking the questions.

**Paul Manning**
Hey, Mitra.

**Mitra Ramgopal**
Hi, Paul. If I listen to the tone here in terms of the outlook, things are lining up pretty nicely for you. I think the destocking, as you mentioned, will be less of an issue in the second half of the year. You're having great success in terms of dealing with the input costs and pricing actions. You've launched new products. So, a lot very favorable. I was just curious, what would you consider the potential headwind for you as we take a longer-term look on the company?

**Paul Manning**
Well, you've already cited the sort of shorter term headwind – destocking and inflation. I'd like to think that longer-term inflation will not be a headwind, but it could be. And right now, consumers largely appear to be accepting these price increases, although certainly there are signs that folks are trading down or were going to other options aside from some of the branded products.

But I think longer term, we think there's just continued great opportunities for the company with respect to natural colors, which we just talked about with Heidi. The conversion within the Personal Care portfolio to more natural ingredients, very, very long-term technology-driven changes there I think will be very favorable to the company. The continued evolution of the flavors market to more extracts, extract-related solutions and taste modulation, removing sugar, things of that nature, all really, really positive factors.

The headwinds, competition is always a headwind. We're not alone in these markets. We have to be better than our competitors. But I think we restructured this business, we sold off some businesses that my answer would be a lot different if we still had those businesses, if they were in cyclical decline, dated product portfolios, ultra-competitive markets, there were a heck of a lot of headwinds there. So we've released the company of many of these systemic headwinds.

But, listen, there's always competition. There's always potential changes in legislation, which could create disruption in the business. But by and large, I think we've really fine-tuned the portfolio to be in those categories, Food and Personal Care, where there is always an underlying need to have these products. I may not need to buy a car, but I need to eat. I may not need to buy a house, but I need to drink. And I think that type of market is really why Sensient is the right type of company to be invested in and to be looking at because those are the types of fundamentals that we have as a fixture of being in these markets.

**Mitra Ramgopal**
Okay. That's very helpful. Just switching gears a little in terms of capital allocation. Obviously, given the debt level interest expense, certainly an issue this year. Just curious in terms of the focus on debt reduction versus maybe exploring additional potential opportunities like pandemics and how should we think about that?

**Stephen Rolfs**
Mitra, I think on capital allocation, our top priority is internal investment in the company right now. We've got some good projects, as Paul mentioned. We're very happy with our portfolio and we believe there's a lot of areas there to invest for growth and savings. That’s our first priority.

Beyond that, in terms of M&A, I would expect that we would continue to look at bolt-on M&A, so things like the acquisition that you mentioned. So, sort of smaller add-on deals that might bring a technology or supply chain advantage. And then, the excess at this time would go towards debt reduction because of the interest rate environment that you pointed out.

**Mitra Ramgopal**
Okay. That's it for me. Thanks for taking the questions.

**Paul Manning**
Okay. Thanks, Mitra.

**Operator**
And the next question is from David Green from Boldhaven. Please go ahead.

**David Green**
Hi Stephen, how are you doing?

**Paul Manning**
Hello David, I was wondering when you were going to show up.

**David Green**
I'm still here.

**Paul Manning**
All right.

**David Green**
Just a couple of questions from me. I guess, on Flavors and Extracts specifically you talked about a couple of dynamics. One, which is clearly destocking and the other one that you alluded to was end-market demand. So it would just be really helpful to get a little bit more color on what that is specifically?

And then, within F&E specifically, just any color you could give us in terms of momentum in terms of new wins and what the pipeline looks like there. And I'll just start off with those two, if that's okay.

**Paul Manning**
Okay, so end-market demand, let me grab my sheet so I can read a few things off to you here. Q1, again, as many of our customers are increasing prices, you can see that their volumes are down and this is where I think perhaps many of them are making the trade-offs between pricing and volume. And so, certainly that plays out for us when we're selling into some of those segments where customers may be trading down or whatnot. You see some temporary declines in a number of these categories. So, for example, soup was down quite a bit for the year-end, for the quarter. It's not unusual, given how much that had grown during the course of the pandemic.

But something like pet food, dog food, frozen and refrigerated, it's growing unabated for the year, for the quarter. We're seeing some nice improvement or shall I say recovery in the confectionery world. But then again, on the beverage side, energy drinks are way up, but a lot of the other categories of beverage are down a touch in the course of Q1. So, these are

temporary phenomenon owing to, again, a lot of the activity around pricing with many of the brands.

And so, I think the longer term prospects here are good as end customers sort out where they're going to spend their money and where prices settle out at. So that's harder to predict. But certainly you can see some of the hot categories during the pandemic are kind of coming back to earth and many of the traditional beverage categories that folks have expressed a lot of interest in over the last number of years are coming back to maybe some of the pre-pandemic levels.

And as you think about our business and to your question about momentum and pipeline, I spend a lot of time focusing on the things that I can control. I can control our new win rate, how much are we winning? Do we have enough salespeople to go get those wins? Are we servicing those customers to get those wins? Do we have enough customers to continue to generate those wins? And the new wins are very, very good. As I mentioned, last year we had a great year in new wins in Flavors and that trend is continuing. Very, very broad based, whether you're talking about dairy, or you're talking about beverage; lot of opportunities for us still ahead.

And so, to your question about the pipeline, there again for the pipeline we are very, very aggressive, and I'm very, very demanding that our salespeople are out there and they are generating new business and they're servicing the hell out of their customers. And so this is not a place for a salesperson to kind of come and hang out and sort of not get noticed. That doesn't happen here. And if it does, it doesn't happen for very long. So, a lot of this comes down to the effectiveness of managing a sales force and the demands that we place and then, of course, the rewards that we give for success.

We have a very high tolerance for success in this company and we award those folks I think very, very well, which speaks to retention of the very good people. And so, I think a lot of the momentum is brought to you by very, very good salespeople, very good, back office folks supporting them on the customer service metrics that are most meaningful. And again, that drives the pipeline.

And to my point earlier about the increase of new launches, that's a really awesome dynamic as we get into 2023.

**David Green**
On the increase in new launches, is that across Colors and F&E or more specific to either one of those?

**Paul Manning**
Well, I would tell you this, the new launches in Color are bigger. We had some natural color wins that were quite outsized. Of course, we also had some synthetic color wins that were quite outsized. As you know, the Color Group has a very broad range of customers from the biggest to the smallest that we sell to. And so, with this ongoing conversion to natural colors,

you can hit some pretty big wins when you have the right technology and the right service levels and all those other factors.

We also see really good wins in Flavors. And I would tell you, it's actually fairly broad based the wins, may be a little bit lighter in savory for the last few months, then say something like beverage or sweet flavors. But nevertheless, the wins are pretty well represented throughout the portfolio.

**David Green**
Great. And two more questions, if I can? One was just on Colors and margin specifically. What we've seen so far is that there's probably been a bit less operating leverage than we would have expected given the strength in top-line and your comments around that had been the raw material costs weren't fully covered by pricing. It feels like there was a little bit more operating leverage coming through this quarter. Are there any signs that that's normalizing now and we should see a bit more operating leverage going forward?

**Paul Manning**
So the answer is you should continue to see improvement in the operating leverage. As Steve noted, or maybe I noted in the prepared remarks, a lot of this has to do with the timing. When you get the input costs and when you successfully negotiate those pricing increases, there could be a lag. Now, if inflation was kind of a one and done or a one-time thing, you would see the operating leverage catch up much faster. But when inflation is an ongoing thing and you can be chasing cost in certain categories and with certain customers, you may see that delay. So what that improvement in the operating leverage that you noted speaks to, if nothing else inflation to at least staying at the elevated level and the slope is not ascending further, but it's certainly not in any broad sense decelerating, Color was hair splittingly close to 20%. So I feel really good about their profit levels. But as the year progresses and, again, if inflation holds here and potentially even recedes a little bit, you'll see an even nicer improvement in the operating leverage of the Color Group.

**David Green**
Great. And one final one for me on APAC. I think every time we ask you this question, you sort of reply in the same way, which is how long can this level of growth continue for? And I think you would say, look it's going to be really hard to carry on in this level and margin improvement associated. And yet, you're sort of still consistently delivering this sort of above double-digit kind of growth rate. How should we really be thinking about that business and then how do you think about the sort of growth and growth cadence going forward?

**Paul Manning**
Well, there's a lot of people in Asia. I notice that every time I go there, so I think it's a really big market with a lot of opportunities for us.  The regional companies, local companies, in many cases they are commanding the markets. They are not markets that are in all cases led by these large multinationals that you see, for example, in Europe and the US. So it's a little bit more of a broader customer base, and so I think that's been quite helpful. You don't necessarily have that constraint within the Flavors sales of core listings. Sure, multinationals are there and they have core listings, but a lot of the regional guys here, they don't have core

listings. They have people they deal with and they deal with the best producer, and they are perhaps not wedded to history as you may see in other parts of the world.

So, we got great people in Asia, we have great leadership in Asia and I think that counts for a lot. So we've got it mid to high on top-line. I'd like to think that is sustainable for a number of years into the future. We've been well above that and that's pretty awesome. But I think, hey, as I look at Q2 it looks pretty darn good as well and I think that the year is going to be great. But I think, mid-to-high is a good sort of long-range framework to think about as you're thinking about Asia-Pacific's top-line growth.

**David Green**
And for the 14.6, if we break it down into volume and price, what would that mix have been?

**Paul Manning**
Little bit better than 50% of that was volume.

**David Green**
Great. Thanks again.

**Paul Manning**
Okay, David. Take care.

**CONCLUSION**

**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.

**Stephen Rolfs**
Thank you, everyone, for tuning in today. That will conclude our call. Thank you.

**Operator**
The conference has concluded. You may now disconnect.