Sensient Technologies Corporation

2024 Second Quarter Conference Call

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CORPORATE PARTICIPANTS

Tobin Tornehl – *Vice President and Chief Financial Officer*

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

PRESENTATION

Operator
Good morning and welcome to the Sentient Technologies Corporation 2024 Second 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. Tobin Tornehl.

Tobin Tornehl
Good morning. Welcome to Sensient's Earnings Call for the Second Quarter of 2024. I'm Tobin Tornehl, 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 have released our 2024 second quarter results. A copy of the earnings release and the slides we'll be using during today's call are available on the Investor Relations section of our website at sensient.com. For those of you that joined us by webcast today, you will note that this quarter we are introduction this slide deck with our presentation. If you joined our conference call by telephone and would like to follow along, you can find a copy of the prepared slides on our website.

During our call today, we will reference certain non-GAAP financial measures, which remove the impact of currency movements, cost of the company's Portfolio Optimization Plans 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 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 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 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, Tobin. Good morning and good afternoon. During our call today, we will be introducing a new slide deck that we will reference throughout today's discussion. The slide deck is available on our website. We hope that you find the deck a helpful addition to our presentation.

Starting on Slide 5, Sensient's local currency revenue increased by more than 8% in the second quarter.

This revenue increase was mostly volume-driven with price contributing about 1%. As expected, the positive customer order trends from the first quarter continued to build into the second quarter. Each of our groups contributed to the volume growth and improved operating profit. The volume improvement is due to our strong new sales wins across each of our groups, our focus on our sales execution and more stable market dynamics post-destocking.

Our sales pipelines remain robust in each of our regions. Each group is focused on expanding new sales win rates and working with our customers to support their development needs and new product launches.

Our consolidated local currency adjusted EBITDA was up 2% for the second quarter of 2024 and is up 2% through June 30th. As mentioned during our last few calls, with the resumption of volume growth, we expect operating profit improvement to accelerate in the back half of the year. We are also focused on maintaining and improving our cost structure.

Now turning to Slide 6. Flavors & Extracts Group had another solid quarter delivering 11% local currency revenue growth and more than 7% local currency operating profit growth. For the first 6 months of 2024, the Flavors Group local currency revenue is up 9% and local currency operating profit is up approximately 7%. The group continues to benefit from its strong new sales win rate, its innovative product offerings and its focus on sales execution and customer service.

Similar to the first quarter, the group benefited from particularly strong volume growth in its natural ingredients product line. The natural ingredients product line continues to be impacted by elevated costs in certain agricultural ingredients and raw materials. These elevated costs have impacted our operating leverage for the Flavors Group in the first half of the year, but as these costs moderate, we expect improved operating leverage.

I'm now raising our guidance for the Flavors & Extracts Group and expect the group to deliver mid to high single-digit local currency revenue growth for the year. I previously expected the group to deliver at least mid-single-digit local currency revenue growth in 2024.

Turning to Slide 7. The Color Group delivered 5% local currency revenue growth and 9% local currency operating profit growth in the second quarter. As expected, customer order patterns improved during the quarter and we expect continued improvement in the back half of the year. We saw volume growth in all product lines. The group is benefiting from its strong new sales wins, innovative products and exceptional customer service. I expect this volume growth will continue to improve throughout 2024. The Color Group's operating income improved during the quarter and I expect this trend to accelerate as the year progresses.

I'm now raising our guidance for the Color Group and expect the group to deliver mid to high single-digit local currency revenue growth in 2024. I previously expected the group to deliver mid-single-digit local currency revenue growth in 2024.

Turning to Slide 8. The Asia Pacific Group reported 11% local currency revenue growth and 9% local currency operating profit growth in the second quarter. The group continues to experience solid growth in most regions and an increase in new sales wins. Customer order patterns continue to normalize and the group is well positioned for growth.

I'm now raising our guidance for the Asia Pacific Group and I expect it to deliver high single-digit local currency revenue growth in 2024. I previously expected the group to deliver mid-single-digit revenue growth in 2024.

Turning to Slide 9. The Portfolio Optimization Plan that we initiated in the fourth quarter of 2023 is progressing as expected. Once fully implemented by the end of 2025, we expect to generate annual cost savings of $8 million to $10 million. We are carefully managing this process to ensure we meet our customers' needs and to minimize the disruption to the business.

On the capital allocation front, we continue to focus on strategically managing our inventory positions. We have reduced our inventory balance by approximately $45 million in the first half of the year and we will work to continually improve our inventory position. We'll use any excess cash to reduce our debt in an effort to alleviate the higher interest rate headwinds.

We expect improved financial results in 2024, including growth in sales volume, local currency revenue and local currency adjusted EBITDA. Based on the volume growth for the first 6 months of 2024, we are raising our guidance for 2024 and now expect to deliver on a consolidated basis mid to high single-digit local currency revenue growth and mid to high single-digit local currency adjusted EBITDA growth. We previously expected mid-single-digit local currency growth in both revenue and adjusted EBITDA.

We are also raising our local currency adjusted EPS. We now expect our local currency adjusted EPS to grow at a mid-single-digit rate in 2024. Our previous guidance called for a low to mid-single-digit growth rate in 2024.

The growth we are experiencing is a direct result of our strategy and the markets we have chosen to operate in. We will continue to invest in our innovative product offerings as we focus on sales execution and growing our business. I am excited about the growth opportunities within each of the groups and I remain optimistic about 2024 and the future of our business.

Turning to Slide 10, before turning the call over to Tobin, I would like to highlight some of our more innovative product offerings. Currently, the market faces a number of regulatory challenges in many parts of the world. One example we have discussed in our previous call is the changing regulatory environment around titanium dioxide and Red 3.

Titanium dioxide is a widely available, cost-effective ingredient that works well in many applications and has been used by our customers for decades. It is extremely challenging to swap out of a product, requires customized applications to achieve the same degree of effectiveness. Red 3 is a synthetic color dye commonly used in candy and beverages. It too has been used for many food applications for decades. Both are facing bans in the US market.

Due to our proactive innovation efforts, we are well positioned to offer a range of high-performing alternatives for both to our customers. Innovation will continue to be a strong emphasis across our company, and we will continue to build our product portfolio in advance of any future regulatory changes.

Tobin will now provide you with additional details on the second quarter results.

Tobin Tornehl
Thank you, Paul. In my comments this morning, I will be explaining the differences between our GAAP results and our non-GAAP or adjusted results. The adjusted results for 2024 remove the cost of the Portfolio Optimization Plan. We believe that the removal of these costs produces a clearer picture of the company's performance for investors. This also reflects how management reviews the company's operations and performance.

Now, turning to Slide 12. Sensient's revenue was $403.5 million in the second quarter of 2024 compared to $374.3 million in last year's second quarter. Operating income was $49.7 million in the second quarter

of 2024 compared to $51.6 million of income in the comparable period last year. Operating income in the second quarter of 2024 includes $1.8 million of Portfolio Optimization Plan costs, which is approximately $0.04 per share. In 2023, we incurred $28 million of Portfolio Optimization Planning costs. So far this year, we have incurred approximately $4.6 million of additional costs.

Excluding the cost of the Portfolio Optimization Plan, adjusted operating income was $51.4 million in the second quarter of 2024 compared to $51.6 million in the prior year period. A significant impact for this year's operating income was an increase in performance-based compensation compared to the low value recorded in 2023.

The company's consolidated adjusted tax rate was 25.8% in the second quarter of 2024 compared to 24.8% in the comparable period of 2023. Local currency adjusted EBITDA was up 2.3% in the second quarter of 2024 and up 2.2% for the first six months of 2024. Foreign currency translation reduced EPS by approximately $0.02 in the second quarter of 2024.

Now, turning to Slide 13. Cash flow from operations was $59 million for the first 6 months of 2024, up 14% compared to last year's comparable period. Capital expenditures were $23 million for the first 6 months of 2024. We expect our capital expenditures to be between $65 million and $70 million for the year.

Our net debt to credit adjusted EBITDA is 2.6x. With the continued high interest rate environment, we are focused on reducing our debt levels and our interest expense. Overall, our balance sheet remains well positioned for future investments.

Turning to Slide 14, regarding our 2024 guidance, we are raising our guidance and now expect our 2024 local currency revenue and local currency adjusted EBITDA to be up mid- to high-single-digits. This is an increase from our previous guidance, which had called for a mid-single-digit growth rate in 2024 for both local currency revenue and local currency adjusted EBITDA growth.

We continue to expect our interest expense to increase this year compared to our 2023 full year interest expense and we expect our 2024 full year adjusted tax rate to be around 25%. We are also raising our guidance for local currency adjusted EPS to grow at a mid-single-digit rate in 2024. Our previous guidance called for a low to mid-single-digit growth rate in 2024.

As Paul mentioned, we are experiencing solid volume growth in certain businesses and expect this to broaden and strengthen in the second half of the year. The volume growth will precede our operating profit growth and we expect improved operating leverage into the second half of the year.

Considering our GAAP earnings per share in 2024, we now expect approximately $0.18 of Portfolio Optimization Plan costs. We previously expected approximately $0.15 of costs. We still expect our overall cost for the Portfolio Optimization Plan to be approximately $40 million. We now expect our GAAP EPS to be between $2.77 and $2.87 compared to our 2023 GAAP EPS of $2.21. We previously expected our GAAP EPS to be approximately $2.80 to $2.90.

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

QUESTION AND ANSWER

Operator
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.

Our first question will come from Ghansham Panjabi with Baird.

Matt Krueger
This is Matt Krueger on for Ghansham. Paul and Tobin, I just wanted to touch on some of the new business wins across the portfolio. Can you provide some added detail on where you're winning business, along with a characterization of the customer promotional activity or innovation activity that might play into some of these business wins?

Just for some added detail, if volumes grew in the high single-digit range on an overall basis, what did the new business wins contribute volumetrically during the quarter versus just a normal rebound from prior destocking or normal business growth?

Paul Manning
Okay. I am just noting your questions here. The first one on new wins, the new wins are very much broad-based. So, at the macro level, very strong win rates in each of the groups— Flavors, Colors and Asia Pacific.

Breaking that down by product segments, we had a particularly strong growth in natural colors, not only organically but from the standpoint of new wins. Vast majority of products being launched throughout the world contain natural colors and we have a very, very broad-based commercial enterprise there that enables us to capture lots of those. So we had really, really good new wins in natural colors.

We had very good new wins in personal care. A lot of good trends coming out of COVID. You recall as we went into COVID, there was a lot of reduction in the makeup category, but there's been a real resurgence in makeup in the last few years so that we are above the levels that we experienced going into COVID. So, we had very good wins in personal care, a lot of that derived from natural ingredients that we've utilized there, but a lot of high-performing products kicking in the makeup category, but as well in hair and skin but principally in makeup, were a lot of the new wins there.

We had very good new wins in the natural ingredients business, as you've heard me note in the prepared comments. A lot of that's being driven by the availability. We invested very heavily in having a larger crop so that we could have product available and I think that's paying dividends for us. Then, of course, traditional flavors, we continue to generate very good wins in a number of categories, most notably, for the first half of the year would be in beverage and sweet areas, bakery and beverage in a number of the subcategories of beverage.

So the wins are very, very broad-based. They're across a whole range of different customers, too, from start-ups to locals and regionals where, of course, as you know, we spend a lot of our commercial time, but we also were able to generate very good wins at large multinationals and branded customers, as well.

So we feel very, very good about the win rate. Again, as we discuss internally and we talk externally, no matter what's going on in the world, are there a lot of new launches or not? Is the economy down or not? You got to continue to win new projects. You can always win new projects. There's always things being launched. There's always disruptions in the market and there's always new customers coming online. So, it's a matter of really focusing the organization on that metric around winning new business, existing customers and new customers. So, I feel very, very good there.

With respect to your second question on promotions and kind of overall business activity, you see

promotions in brands, you see it at the retailer level, you see it in a lot of different places. So certainly, that may be driving a portion of the volume. I will note for you that we went for about a 2, 2.5-year period where in the US, the market volume was effectively down over about 8 to 10 quarters. Europe, it was close to that, maybe up about a percentage point. So what we experienced in Q2 and Q1 was actually a flat market from a volume standpoint in both Europe and North America, where we have fairly good data to support that.

So the promotions are, in fact, correcting some of the underlining volume in the market and that's a positive. I think as I said once before, the market doesn't necessarily have to be growing. If it could just not be down, that would be a very nice boost to the business.

Now, your third question about how much of the volume— since the volume was quite significant, particularly in Flavors, how much of that was driven by new wins, in Flavors, I would say the vast majority of it. I don't have that specific calculation for you. We can get that for you, but directionally, in Flavors, the majority of those new wins drove the volume.

In Color, we had probably a little bit more of a combination of the new wins and plus some correction in underlining growth in the markets. We had very good growth coming out of a number of our customers again, at this local and regional type level.

So, yes, we'd have to get back to you about a specific figure, but if you say that in Color about 4% was volume. If I had to guess, so I'll guess, I would say probably half to three quarters was generated from new wins. The other was a continuation of growth from wins we achieved in the previous year or just the underlying growth of that customer.

In Flavor, where we had about 9-10% volume growth, I would say, three quarters or better that was new win driven. Then in Asia, where we were also up quite substantially on revenue, 11%, that's probably more like Color, a mix of new wins and organic growth. A lot of the markets in Asia still have pretty good organic growth. People talk quite a bit about China and how somehow the end is near. Well, we don't quite see that and we continue to have pretty good results in the food and personal care business in China, but also, we see good volume growth in other parts of the region as well.

Matt Krueger
Then if I could sneak one more in about the cost side of things. So you talked about how higher agriculture— the agricultural and other costs are weighing on the operating leverage across the Flavors & Extracts segment, given the investments that have been made there. What should we expect from this segment as the year progresses from kind of an operating leverage perspective and a margin perspective? When do the higher agricultural costs kind of roll off and when can we get to a more normalized level there?

Paul Manning
Yes. Well, I think the crop that we're selling right now is, if it's not the most expensive in the history of the business, it's pretty close to it. So, since we're selling at increased volume at that peak cost position, that's clearly driving a lot of that impact you see here in Q1 and Q2.

So as new crops come in, in the back half of this year, we're optimistic that we can get some relief there. What that would spell is that in Q3, you'd have probably not too dissimilar from Q1 and Q2. You're not going to see that perfectly mathematically derived operating leverage that you would expect to see from good revenue growth, but I think as we turn the corner into Q4 and then certainly into next year, you'll see that more resounding operating leverage from this very good volume growth, very good new wins.

So Q3 will be— we would project fairly similar, maybe we're a little bit more even between revenue and profit. But I think as we get into Q4 and beyond, you'll see more of that traditional leverage that we would generate in the business.

Operator
Our next question will come from Nicola Tang with BNP Paribas Exane.

Nicola Tang
Sticking to the same topic on the natural ingredients side, it looks like for the division, Flavors & Extracts overall, the growth was really driven by natural ingredients. I think last quarter, you said that this was a little bit exceptional, but it seems to have continued again this quarter. So can you help us understand the dynamics and your expectations for the rest of the year around growth in natural ingredients?

Then I suppose on the other side of that, it looks like the kind of Flavors & Extracts business was still pretty slow in terms of organic growth. I know last quarter, I think I asked something similar and you said one quarter doesn't kind of give you an indication of exactly what's going on in the market. But could you help us to understand why you're still underperforming sort of larger flavor and fragrance peers on the Flavors side? Thanks. That's the first one, anyway.

Paul Manning
Sure. So you're absolutely right. Last quarter, I said SNI had a very, very large sales growth. And you're right, I said that would happen again here in Q2. So that's essentially what we saw as outside growth in SNI for the quarter. As we get into the back half and we start kind of lapping those highs, you'll see the revenue contribution from SNI be less than it has been here in the first half. So I think there'll be a little bit of math associated with that one.

With respect to Flavors, a lot of this is always timing of launches and seasonality of launches. As I look back, 2019, 2020, 2021, 2022 and into 2023, you could see that Sensient has actually exceeded the market and just about any competitor that I can name here from that 5 to 6-year time frame.

So yes, you're right. Certain pockets of Q1 or Q2, Flavors was— we were in sort of more of the low single-digit on traditional flavors, but I have no reason to be concerned with that. The wins continue to be good, and we would expect to see as we get into the remainder of this year a more balanced contribution between SNI and traditional flavors as we're describing that one.

Nicola Tang
Then the second one, just a more general question on operating leverage. Again, I think you've been quite clear that it's more kind of back half weighted story in terms of the lag, but I was just wondering why we didn't actually see any improvement sequentially in terms of margins in Q2 versus Q1. Just bearing in mind that volumes have improved. Do you have some of the costs or you have the portfolio profitability plan coming through as well?

Paul Manning
Yes. So I guess the simple answer would be inventory. The more— let me give you a little bit more perspective on that. So as you look at Flavors in the first half, you're seeing, yes, good revenue and operating profit that is not growing at that rate or in excess of that rate, what we would, as you're describing, we would describe as operating leverage. Again, that goes back to the agricultural costs that we are selling through. So that begins to naturally moderate with new crops as the year progresses, as we sell off that more expensive inventory.

So, the operating leverage doesn't speak to any sort of problem in terms of customer access or wins or

anything more than we have a very, very high agricultural input cost situation right now. And it's just a matter of selling through these and moving on to the next year's crop. So if we didn't have any inventory, I guess we'd already be there, but as we sell through that inventory, and as I noted to Matt before, you'll start to see more of that clean leverage.

If you go over to the Color Group, where we didn't have the same set of input costs as we did in Flavors. I noted on the last call that Color would be kind of flat in Q1, but in Q2, you'd be getting to see that leverage and we did— 5% and 9%. Then we also hinted at this in the prepared script, as we get into the back half, you'll see that leverage become even better— and I'd like to think substantially better. So I think you'll see that play out very, very nicely in Color.

Then Asia continues to drive very, very good top line as well and very good profit. So we'll continue to see good things out of them.

But yes, I think the leverage is really a function of the input cost and the inventory position. It's just really the math associated with it is why you're seeing the sequential improvement but because of the SNI crop year and when we'd cut over to different types of input costs, that's why you're seeing that lag. So the lag was Q1 and Q2, as I had indicated that it would be. Q3, will have a little bit more of an evenly match revenue and profit growth rate. And then again, I think you'll see it as we get into Q4, you'll see an even better dynamic between revenue and profit.

Nicola Tang
Then maybe just a final one on APAC. It seems like you saw a pretty good growth in the quarter. I think in the last quarter, you were still talking about destocking, but is it fair to say that destocking is now done in APAC?

Paul Manning
Yes. I was a little bit concerned in Q2. So, I'll have to apologize that they did much better than I thought they were going to. But yes, the net-net is I think we could say that the destocking and the order timing dynamics that we were concerned with really didn't play out, and I have no reason to believe that they would in Q3 or Q4.

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

Our next question will come from David Green with Boldhaven.

David Green
I guess a few questions. Without sort of wanting to, I guess, labor the point in terms of operating leverage within Flavors and Extracts, we saw a sort of 500 basis point sequential improvement in constant currency revenue growth, but obviously, we only saw around 20 basis points improvement in margin. Even with that sort of input cost headwind, it just feels like a very, very large delta there. Is there anything else other than those input costs that is impacting the operating leverage?

Paul Manning
Short answer is no, but maybe Tobin can give a more complex answer here to that one. But I don't think there is one.

Tobin Tornehl
No, there's really not playing into it. I mean they're running at a higher rate from a performance-based compensation compared to last year, but other than that it's really the higher cost in our natural

ingredients product line.

David Green
I guess second question is, is it sort of fair to say now that we are pretty much through all of the destock headwinds across the different segments?

Paul Manning
Yes. One word answers are encouraged, David, and it ought to make for an easy transcript read.

David Green
There we go. I guess sort of separately, obviously, it feels like you're firing on all cylinders across most areas, but are there any other segments that are still growing more slowly or underperforming at the moment?

Paul Manning
Well, I think I noted some of the highlighted wins in the first set of questions around natural colors and personal care. We continue to feel very, very good about that. We certainly want to see an uptick in the Flavor numbers, which I already hinted, you will see that in the back half here as well. But no, I think the dynamics are good from the standpoint of our customers that we sell to and the types of projects we're working on. The pipelines look very, very good.

One of the big things that's going on right now is the amount of new product launches that are taking place and new product launches can be defined in a lot of different ways and they're all sort of under this umbrella of innovation. When we talk about new products, there are things like new packaging. There's more of the safe innovation, what we would call a line extension and then there's the kind of the new-to-the-world products.

One of the dynamics we've been seeing here in 2024 is quite a reduction in actual new product launches in food and beverage. In fact, in some cases, these are quite low for US, and for Europe. A lot of what's driving that, we think is just a return to normalcy in the supply chain customers, some of which are working quite extensively on reformulations and consolidations. The one metric that we pay very, very close attention to is what is the degree of new-to-the-world products being launched and are we getting the lion's share of those?

That would be a dynamic that we continue to focus very, very strongly on, to make sure that we are very closely aligned to those customers that are launching. Sure, the line extensions are good but those new-to-the-world products are also very, very important. Most of that activity is largely driven from these local regional, what we have traditionally call the B and C customers. Our commercial strategy of lining up with those customers very, very closely, I think, is definitely paying off. It's enabling us to weather this downturn in the Americas, in Europe, with respect to new-to-the-world product launches.

David Green
Paul, just to sort of understand in terms of within your sort of mix, how much would be new-to-the-world products versus sort of line extensions and repackaging?

Paul Manning
Well, it's funny. I was just reading this Mintel report just the other day. If you look at the first 5 months of 2024, new-to-the-world products is about— it's less than one-third of all launches in the Americas to 29%, if I could quote Mintel here, which is a rather low level. If you look at food specifically, because that 29% encapsulates food, beverage, personal care, beauty, health, etc. More specifically around food, it's more like about 26% of all market launches are new-to-the-world products.

I don't have that at my fingertips, what percentage of our wins would be derived from these new-to-the-world versus line extensions. Those can be a little bit tricky even for some of these marketing surveys to define but I wouldn't be surprised if our wins follow that same type of pattern, maybe a quarter of them represented new-to-the-world products and then the other three quarters were line extensions and other safe innovation-type moves.

David Green
Yes. And then just a couple quick ones, if that's okay. I think earnings season so far within your sort of end markets in terms of customers have been still pretty negative about the world. Certainly, there's been some pretty pervasive trends along sort of down trading. Just sort of interested the sort of the backdrop you're painting seems to be much more constructive or certainly more constructive and I just wanted to get a feel for why you think that might be.

Paul Manning
We've got a pretty diversified customer base all around the world and we've not been totally dependent on any one type of customer in any one of our markets. We employ a fairly large sales force to help us to do that. Some customers who are very focused on innovation, whereas others may be very focused on just let's hold the line and let's just secure what we already sell today and make sure it's on the shelves.

I think because we're so very well represented and we have very, very good access in the vast majority of our businesses that really allows us to focus on those bigger opportunities within that realm. So I think we have very high expectations for our salespeople. We have very high expectations for our general managers and you've got to find ways to grow your business and to grow your business profitably.

David Green
Yes, just I guess one final question for Tobin. The op ex came in quite a lot higher for the quarter. I think you said part of that was the stock-based compensation. I think that was about $4 million. I'm just trying to understand how that kind of phases for the rest of the year. Do we kind of get any of that back year-on-year as we go through the year?

The same question as well for the corporate and other line, which I think was around $6 million higher if you adjust for the optimization cost. So again, just to give us a bit of a feel for whether there's any kind of front-loading of corporate and other costs that might be lower going forward?

Paul Manning
That's a great question. It's a very important question and we want to make sure that everybody understands this. So you're getting at a very, very important element of the cost and the leverage piece that you see at the macro level for the company.

Number one, Sensient is a pay-for-performance business. So when you perform, you're paid. If you don't perform financially, you don't get paid. So we don't offer incentives. Tobin shows up on time every day for work. He does not get a bonus for that. If Tobin does some other highly subjective things that really doesn't necessarily translate into financial results, he doesn't get anything for that. He gets a pat on the back from me, but no additional financial incentives for that. For that reason, when you come into a year like 2023, where there's essentially a once-in-a-generation destocking effort in the food and personal care businesses, it has a tremendous impact such that people effectively get no annual incentive bonus out of that from me on down within the organization.

Now as you get into 2024, you have a step-up. We're back on track. We're back on track with good

revenue. As I've noted, operating leverage will continue to improve as the year goes on. But then that pay-for-performance becomes, in this case, a substantial headwind because it was effectively zero last year. So, that's the macro philosophical view of this one.

Now, Tobin can give you some of the details.

Tobin Tornehl
Yes, and just to touch on what Paul talked about. So last year, 2023 was a very low base for our annual incentive compensation in our three-year performance stock. The annual performance compensation is within our Flavor Group, Color Group and Asia Group from that standpoint. So, we're running much higher this year.

Within corporate and other, it's the same thing. We're running much, much higher from that standpoint. I would say for corporate and other, it's about $0.04 to $0.05 during the quarter impact. Now, as we kind of move forward through the rest of the year, we will be running higher than last year, but it'll be more evened out.

David Green
Okay. So less of a headwind than the $0.04 to $0.05 for the second half?

Tobin Tornehl
Yes, I would say it is still going to be elevated, so we're still going to have elevated costs from that standpoint, but I think Q2 is a little slightly more than what I would anticipate as we kind of roll forward through the remainder of the back end of the year.

David Green
And the stock-based comp in terms of what kind of headwind do you think that would have represented in terms of cent for this quarter?

Tobin Tornehl
What I quoted was altogether. So our annual incentive was the stock-based comp. I didn't split them apart.

CONCLUSION

Operator
There are no further questions at this time. This concludes our question and answer session. I would like to turn the conference back over to the company for any closing remarks.

Tobin Tornehl
That concludes our call today. Thank you, everyone, for joining. If you have any follow-up questions, please feel free to contact the company. Have a great day.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.