

Sensient Technologies Corporation  
2024 Fourth 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 Sensient Technologies Corporation 2024 Fourth Quarter and Year-End 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. Please go ahead, sir.

### **Tobin Tornehl**

Good morning. Welcome to Sensient's earnings call for the fourth quarter and full year 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 released our 2024 fourth quarter and full year 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](https://sensient.com).

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 plan, 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 improve 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 on our press release and slides. We encourage investors to review these reconciliations in connection with the comments we make today.

I'd 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 keep these factors in mind when you analyze our comments today.

The slide deck that will be referenced throughout today's call is available on our website. We'll start on slide 5.

Now we'll hear from Paul.

### **Paul Manning**

Thanks, Tobin. Good morning and good afternoon. Earlier today, we reported our fourth quarter and full year 2024 results. I'm very pleased to report that we finished the year with a strong fourth quarter, delivering 8.9% local currency revenue growth, 18.8% local currency adjusted EBITDA growth, and 29.4% local currency adjusted EPS growth.

For the full year of 2024, we reported 7.4% local currency revenue growth and 8.3% local currency adjusted EBITDA growth. Each of our groups had outstanding local currency revenue and local currency operating profit growth in 2024. Since 2019, we have shown strong operational and financial growth. Our performance is a direct result of our continued focus on sales execution, customer service, and commercialization of new technologies.

We have proven to our customers that we are a reliable supplier, and our innovative product portfolio has a wide variety of natural flavors and natural colors along with personal care products. The volume improvement we experienced throughout '24 is due to our record level of new sales wins across each of our groups and the stabilization of end customer demand in North America and Europe. Despite an overall decline in new product launches in the market in 2024, we were able to capitalize on strong launch activity with local and regional customers and our ongoing expansion to new market segments and geographies.

We continue to focus on optimizing our cost structure and reducing our inventory. Our portfolio optimization plan is on track to be completed by the end of 2025, and we believe we will achieve our targeted savings of approximately \$8 million to \$10 million annually. While we do not anticipate any further portfolio optimization plans, we are relentlessly focused on managing our fixed costs and SG&A. We will also continue to focus on reducing our inventory over the next year.

Now turning to slide 6. The Color Group finished 2024 with excellent fourth quarter results, delivering 14% local currency revenue growth and 27.4% local currency operating profit growth. For the full year of 2024, the Color Group delivered 7.3% local currency revenue growth and 14.2% local currency operating profit growth. The group's full year 2024 adjusted EBITDA margin improved to 22.1%, an increase of 110 basis points versus the prior year. In the fourth quarter, the group saw outstanding volume growth in all product lines plus low single-digit pricing. The group is benefiting from its strong new sales wins, particularly in natural colors. The Color Group had an excellent 2024 and I expect continued success in 2025 and beyond.

Turning to slide 7. The Flavors and Extracts Group had a solid quarter, delivering 3.4% local currency revenue growth and 18.4% local currency operating profit growth. For the full year of 2024, the Flavors and Extracts Group delivered 7.1% local currency revenue growth and 10.8% local currency operating profit growth. The group's full year adjusted EBITDA margin was 16.1%, up 30 basis points versus the prior year. The group continued to benefit from its strong new sales wins, particularly with its local and regional customer base. Flavors, Extracts, and Flavor Ingredient product lines reported solid volume growth in the quarter, which contributed to the group's operating leverage improvement. The Flavors and Extracts Group had a solid 2024, and I expect another good year in 2025.

Now turning to slide 8. The Asia Pacific Group had an exceptional fourth quarter, delivering 25.2% local currency revenue growth and 41.7% local currency operating profit growth. For the full year of 2024, the Asia Pacific Group reported 13% local currency revenue growth and 14.1% local currency operating profit growth. The group's full year adjusted EBITDA margin was 22.7%, which is in line with the prior year. The group continues to experience exceptional growth in almost all regions and continues to have a high level of new sales wins. I expect the Asia Pacific Group to have another strong year in 2025.

Turning to slide 9. I'm very pleased with Sensient's performance in 2024 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. Sensient's 2024 performance puts us on track with our long-term

goals of mid-single-digit local currency revenue growth. Over the last five years, Sensient's local currency adjusted revenue cumulative annual growth rate is more than 6%. Our positive financial performance over the last five years is a direct result of executing on our strategy with a focus on novel technologies and underserved customer segments.

Now turning to 2025. I expect consolidated annual local currency revenue to grow at a mid-single-digit rate with low single-digit pricing and low to mid-single-digit volume growth. I expect this volume and revenue growth to deliver mid to high single-digit local currency adjusted EBITDA growth, which should result in high single-digit to double-digit local currency adjusted EPS growth for 2025.

For the groups, I expect both the Color Group and Flavors and Extracts to deliver mid-single-digit local currency revenue growth. I expect the Asia Pacific Group to deliver high single-digit local currency revenue growth. I expect the Flavors and Extracts Group to continue to deliver an improved EBITDA margin, and I expect both the Asia Pacific Group and the Color Group to maintain their healthy EBITDA margins.

Over the last year, our capital allocation plan has focused on paying down debt and reducing our interest expense burden. We successfully lowered our leverage ratio to 2.3 at the end of 2024, from 2.6 at the end of 2023. We spent approximately \$60 million in capital expenditures in 2024. We have very good internal investment opportunities that should drive future growth, and I expect our capital expenditures to be between \$70 million and \$80 million in 2025.

In 2025, we expect to use any excess cash to buy back stock or to pay down debt while continuing to evaluate sensible acquisition opportunities. We recently acquired Biolie, a small French startup with an innovative process to extract natural color products. This technology will initially benefit our personal care product line, but may in time benefit our food colors product line as well. The acquisition is an example of our strategy to focus on technologies or supply chain capabilities that can improve and further diversify our portfolio. We continue to take a sensible approach to acquisitions by paying reasonable multiples and ensuring alignment to our strategy.

Before I turn the call over to Tobin, I'd like to discuss the recent news concerning synthetic colors and tariffs. Turning to slide 10, currently in the US there is a great deal of discussion around synthetic food colors. With the focus from the new administration, the FDA's recent ban on Red 3 and certain state bans or restrictions of synthetic colors, the focus on natural colors is now getting more attention in the United States and Latin America. Consumer demand for natural colors and clean labels continued to gain traction in other parts of the world as well. In Europe, natural colors are already the norm.

While this shift in the US reduces the demand for synthetic colors in new launches, overall, the shift to natural colors is an outstanding opportunity for Sensient. Colors from natural sources are less highly concentrated than synthetic colors, and as a result natural color sales volumes can be up to 10x more than synthetic color sales volumes. This conversion will significantly increase revenue while maintaining a similar profit portfolio for the Color Group.

Turning to slide 11. Currently, natural colors represent approximately 60% of the food and pharmaceutical revenue of the Color Group. As we just mentioned, the FDA has banned Red 3, with an effective date of January 15, 2027. Sensient sells approximately \$6 million globally of Red 3, which is less than 0.5% of total company revenue. Sensient has for years maintained a portfolio of replacement colors available for our customers to support the required conversion from Red 3 to a natural color. Relatively speaking, this is a fairly straightforward conversion for Sensient.

Turning to slide 12, Sensient anticipated the potential shift from synthetic colors to natural colors more

than 15 years ago. Since then, we have made significant R&D, capital, supply chain, and quality control investments. These investments allow us to deliver leading color technologies through a global network of R&D centers and production sites, as critically we have invested in sourcing and agronomy programs to ensure continuity of supply for our customers as we lead the market in these conversions.

In addition, we have deployed a food safety program called Certasure to ensure the natural colors we sell are safe for consumption. As a company, we take pride in offering the most comprehensive natural and synthetic color portfolio in the world and providing safe products to our customers. Most of the market's best known brands in the Americas continue to use synthetic colors that have been approved by the FDA for more than 50 years.

It bears repeating what many of you have already heard me say: synthetic colors are among the most highly regulated food ingredients in the world. For example, every single production batch of synthetic color is inspected and certified by the FDA. A market shift to natural colors must consider that there is currently no equivalent inspection and certification program. There are also significant supply chain challenges, enhanced product storage requirements and complex product applications, as well as other regulatory hurdles such as the Color Additive Petition Process, a program which regulates new natural color introductions in the United States. All that said, Sensient is the largest food color company in the world, and these are the challenges we have embraced and overcome through significant investments in R&D.

We have a very broad natural color portfolio and sophisticated production capabilities to support our customers' transition to natural colors. If you'd like more information on natural color technologies, please take a look at our website.

Turning to tariffs. The discussion about tariffs is very dynamic. We continue to monitor these developments and potential impact to Sensient. There are certain aspects of the proposed tariffs that could be beneficial to Sensient, while in other cases the tariffs could be negative. That said, we have navigated previous tariffs, and I do expect we'll be able to navigate any potential future tariffs, mainly by increasing prices.

Overall, I'm very happy with our financial performance in 2024. I'm excited about the growth opportunities within each of our groups. The growth we're experiencing is a direct result of the implementation of our strategy and the opportunities in the markets we have prioritized. I'm optimistic about 2025 and the future of our business.

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

### **Tobin Tornehl**

Thank you, Paul. In my comments this morning I'll be explaining the differences between our GAAP results and our non-GAAP or adjusted results. The adjusted results for 2024 and 2023 remove the cost of the Portfolio Optimization Plan. We believe 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.

Turning to slide 13. Sensient's revenue was \$376.4 million in the fourth quarter of 2024, compared to \$349.3 million in last year's fourth quarter. Operating income was \$42 million in the fourth quarter of 2024, compared to \$8.1 million of income in the comparable period last year. Operating income in the fourth quarter of 2024 includes \$0.9 million of Portfolio Optimization Plan costs. Operating income in the fourth quarter of 2023 included \$27.8 million, approximately \$0.65 per share of Portfolio Optimization Plan costs. Excluding the cost of the Portfolio Optimization Plan, adjusted operating income was \$42.9 million

in the fourth quarter of 2024, compared to \$35.9 million in the prior year period, an increase of 20.8% in local currency.

Interest expense was \$6.4 million in the fourth quarter of 2024, compared to \$6.5 million in the fourth quarter of 2023. The company's consolidated adjusted tax rate was 24.9% in the fourth quarter of 2024, compared to 26.5% in the comparable period of 2023. Local currency adjusted EBITDA was up 18.8% in the fourth quarter of 2024, and up 8.3% for the full year of 2024. Foreign currency translation reduced EPS by approximately \$0.01 in the fourth quarter of 2024.

On slide 14, cash flow from operations was \$157 million in 2024, compared to \$170 million in 2023. Capital expenditures were \$59 million in 2024, compared to \$88 million in 2023. Free cash flow was \$98 million in 2024, compared to \$82 million in 2023, an increase of 19.7%. Total debt was \$633 million as of December 31, 2024. Our net debt to credit adjusted EBITDA is 2.3x as of December 31, 2024. Overall, our balance sheet remains well-positioned to support our capital expenditures, sensible acquisition opportunities, and our long-standing dividends. And any excess cash will be used to buy back stock or pay down debt. At this time, we expect our 2025 capital expenditures to be between \$70 million and \$80 million.

Turning to slide 15. Regarding our 2025 guidance, we expect our 2025 local currency revenue to be up mid-single digits. We expect our local currency adjusted EBITDA to be up mid-to-high single digits, and our local currency adjusted EPS to be up high-to-double digits in 2025.

We expect our interest expense to be slightly above the \$28.8 million of interest expense recorded in 2024, and we expect our adjusted tax rate to be approximately 25.5%. Both our interest expense and our tax rate will fluctuate quarter-to-quarter, and as a result, we continue to believe our local currency adjusted EBITDA growth is an important measure of performance.

Based on current exchange rates, we expect currency to be a headwind of approximately \$0.10 to \$0.15 in 2025. Considering our GAAP earnings per share in 2025, we expect approximately \$0.13 of portfolio optimization plan costs. We expect our GAAP EPS in 2025 to be between \$3.05 to \$3.15 per share, compared to our 2024 GAAP EPS of \$2.94.

Thank you for participating in the call today. After the questions today, we will have some closing comments before the end of the call. We will now open the call up to questions.

## **QUESTIONS AND ANSWERS**

### **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.

The first question comes from Ghansham Panjabi with Baird. Please go ahead.

### **Ghansham Panjabi**

Thank you, operator. Good morning, everybody. I just want to go back to your comments on natural. I think you said it was about 20% of your sales base and it's growing faster than the mid-single-digit growth rate for the company that you've targeted. Can you just give us more specifics on exactly where you're seeing that increase in activity and business wins for Sensient? Also, for Flavors and Extracts, what activity are you seeing specific to the natural dynamic? You were actually down a little bit in that vertical in Flavors and Extracts. Thanks.

**Paul Manning**

On the natural front, in the quarter we were up double digits on revenue and volume on that part of our food colors business. So a couple of things. Number one, there is an ongoing conversion towards natural colors, such that today, on average around the globe, approximately 80% of all new product launches contain natural colors. So that's been a strong underlying current for a number of years for us, taking advantage of new-to-the-world launches.

The other piece that will come from time to time, and I referenced this in my prepared remarks, when you have an existing brand on the market that's been using synthetic colors and they elected to convert to natural colors. What you've been seeing, some of the more outsized growth we've seen more recently, is a handful of these have converted. That, of course, has been very favorable to the top line and the bottom line for the group. I would fully expect that 80% rate to continue. That has been the rate for a number of years now, so I don't see that abating anytime soon.

To the extent some of the legislative commentary and state actions may initiate faster conversions with some of the other brands, again, very, very high positives for Sensient. The conversion to natural colors, that is the biggest opportunity in the history of Sensient Corporation, and it is probably the one I've been the most excited about in the 15-plus years I've been at this company. So we've been very, very strongly focused on how do we position ourselves to win the lion's share of these market conversions, given all the technical complexities, the supply chain QC, those complexities I mentioned earlier in the prepared remarks.

So I feel exceedingly good about our chances there, not only throughout 2024 we showed that, but I think in 2025 you'll continue to see really, really strong top-line growth coming out of the food colors as part of the organization.

Now, on flavors, this notion of a natural flavor conversion, that has largely taken place. If you were to look at our flavors portfolio, I don't have the number in front of me, but if I was forced to guess, it's either 97% or 98% of our flavors are already natural flavors. So that conversion, to the extent there was, has largely taken place, such that today in the market you don't see not nearly as many synthetic flavors as you would synthetic colors. And in our portfolio, you see very, very few synthetic flavors really in any part of the world.

Now, on the cosmetic side, this Biolie acquisition that I referenced, maybe further down the line compared to the food industry is the conversion of personal care products, color most notably, converting from synthetic offerings to natural offerings. It's much more technically complex than the food industry, but certainly no shortage of end consumer demand towards more natural products, natural colors, natural solubilizers, natural surface-treated pigments. All products that we sell, all products that we are advancing R&D to help us have more stronger performing natural ingredients in those product offerings. So that's another one to keep your eye on as a future opportunity within the company.

**Ghansham Panjabi**

Okay, very helpful. And then going back, once again on the natural components specific to color, what is the margin differential? How should we think about that between natural versus synthetic specific to color? And I guess I'm asking because your comments about the 10x sort of volume differential, just given the nature of the molecules, et cetera, it just seems like an enormous increase in cost for your customer as well.

**Paul Manning**

Yes. Well, first of all, the raw material impact of a synthetic color on a typical packaged product is exceedingly low. For most CPG companies, the expense is in the marketing, the distribution, the

packaging. Raw materials are a very, very small part of that cost picture. And within those raw materials, synthetic colors, it's an even more substantially lower impact to that finished product. So it's nothing to blink at to have 10x that potential cost rise. But nevertheless, it still pales in comparison to other raw materials that CPG companies may be spending their money on.

So that said, as you think about our profile financially, yes, you will see an increase in revenue, an increase of volume that Sensient would sell to match that synthetic color. So you may see a little bit of erosion on the gross margin for that product sale compared to a synthetic color sale. But on a relatively fixed SG&A base, you would see consistency at the operating profit margin line. So in conclusion, revenue would be up, gross margin could be eroded a bit, but operating profit margin would be stable. And so that's a little bit more background on my comment.

But a very, very important question and a very, very important consideration. And so this is why I say things like, this is a great opportunity for Sensient because it's a really technically strong challenge. There's a lot of supply chain and regulatory, all sorts of different, and this is not just, hey, your raw material costs X and his costs Y, so I'm going to buy his. That's a real basic part of the natural color market. We don't really play in that area. We play in the more innovative, engineered products within the market, customers looking for the exact match. And so we can drive a lot of technology and really build that moat, so to speak, in our commercial interactions in the market.

#### **Ghansham Panjabi**

Okay. And just one final one for me, Paul, just to kind of put a bow on this. The 2025 guidance in terms of sales, mid-single digits, core sales growth, if you will, if natural color is 20% of your sales base and that's growing 10% plus, is that sort of two points that builds up to that mid-single digit growth? Is that the right way to think about it on a go-forward basis?

#### **Paul Manning**

Yes, natural color is a bit more than that. About 75% of our Color Group is food colors, and within that, about 60% is natural colors, so whatever that would be, 40% to 45%. So yes, that would be the contribution from natural colors, and I think you may not be too far in your expectation there. So yes, mid-single digit, we feel quite confident for the company, and of course for the Color Group as well, that that's a very achievable level.

Now, I don't control the pace of these conversions and I don't control the pace of customer launch activity, and so we talk about the year, there can be volatility in any given quarter. You may see a quarter where we're up 3% or 4%. You may see a quarter where we're up 7% or 8%. But I think we land this plane, as we have for each of the last five years on average mid-single digit range, I think is a very achievable level. But to your point, led significantly by the activity around natural colors. So I don't want to say it's a dramatic departure from the past. I think it's been fairly consistent that again, these launches and their timing of those could add considerably to the top line at any given point.

#### **Ghansham Panjabi**

Thanks for taking my questions.

#### **Paul Manning**

Okay. Thanks, Ghansham.

#### **Operator**

The next question comes from Nicola Tang with BNP Paribas Exane. Please go ahead.

**Nicola Tang**

I'll start on the same topic on colors and then I want to talk about a few other things as well. Thanks so much for the interesting information and the new slides around natural colors and product launches. I just wanted to ask a bit more about penetration and where you think we might be at in the US today, just to understand and size this big opportunity that you're talking about for Sensient. I think in an old slide from what was Christian Hansen, and now [indiscernible], from a couple of years ago they talked about a 25% natural colors conversion rate in food and bev versus something like 60% in Europe. I was wondering if you had an estimate of what the penetration might look like today in the US. That's the first one.

**Paul Manning**

Sure. There's no official database for this that one could easily reference. So what I would tell you is that the numbers that we use to describe the penetration rate, in Europe you're looking at, probably a good 80% plus of that market has converted away from synthetic colors to either natural colors or coloring foods. In the US it's probably more like about a third of the market has converted to natural colors. Customers in the US don't typically use that coloring foods designation, and so figure about a third of the US market has converted.

And then you go to places like in LATAM, you're a bit lower than that, somewhere between about 25% and 30%. And then in Asia Pacific, it's really going to vary considerably by country. For example in Japan, the majority of the market there would be natural colored, but in China the estimates would be probably closer to a US, perhaps even a little bit below the US in terms of penetration.

So in short, we're in the, if you like baseball analogies, folks seem to like that, we're in the early third inning, maybe top of the third or bottom of the third. Which is to say there's lots of runway ahead of us. A lot of opportunity to convert. It's a long runway. And again food is really kind of phase one. I see personal care as a phase two to this market as well. So a lot of good growth opportunities ahead of us.

**Nicola Tang**

Really interesting. And just on this topic you talked there about the higher barriers to entry in naturals and the complexity and the investments that you put in over time. And being a leader in colors generally, I wonder if you could talk a bit to the difference in competitive landscape in natural versus synthetic in colors.

**Paul Manning**

Yes. Well so we are arguably one of the only companies in the world that does it all: synthetic, natural and coloring foods. Some competitors may offer synthetic, for example, but they're not basic. They don't manufacture them. They're simply trading them. And so, yes, there's a group of competitors who really just do synthetic and that's what they do. And there's a group of competitors who do natural colors and that's what they do. So I think our advantage is by doing both we have largely established ourselves as the incumbent in a great many customers around the world, at the multinational level and at the local and regional level, and we've invested considerably in our sales force over the years. That is the most effective selling model for colors, particularly natural colors, which is a really challenging formulation problem for many customers. There's a lot of production and QC and all the other challenges that I described. So really having a direct sales person is a huge, huge advantage for Sensient.

And so as we go out and compete we have some very good competitors for sure. They are also very strongly focused on natural colors. But I think the market tends to sort of divide itself into two camps. Camp one, which I would put Sensient in, as I described earlier, we really want to focus on those technically challenging natural color conversions. There's one lesson learned that every brand around the world I think has taken in by now, when you convert from synthetic to natural colors you have to have an exact match. No matter how you may try to outsmart it or outthink it or "Oh, it's the new this," it doesn't

work when you don't match the synthetic color. But in order to match the synthetic color, it's among the more significant technical challenges that you can associate to this market. And so those are the ones that we like. Those are the projects we like to work on. That's where we can really leverage our strong R&D spend over the last decade in this area, perhaps some of the advantages we have in terms of capitalizing our businesses and the ability to scale these really, really large conversions.

The other part of the market though can be a little bit more of the mundane, the basic stuff. It doesn't necessarily require a lot of formulation or applications work. Raw materials are more readily available. But a lot of those products, they suffer from stability problems, stabilization, shelf life that don't exactly match the synthetic color. So we'll play there from time-to-time, but that's not really the area that we see the biggest advantage to Sensient.

So fortunately, enough of the market is pursuing these exact big shade matches and they want really well formulated products. And so they understand the nature of that is a lot different than the more basic building block model that you may see from time-to-time in some of the markets.

### **Nicola Tang**

Thank you. Just to give some of the other divisions a bit of air time as well, especially given the notable strength in Asia Pacific in terms of local currency growth, I was wondering if you could explain a bit what was driving that. You just mentioned new salesmen, but could you be a bit more specific and then help us understand what's underpinning your outlook for high single digit local currency growth in the division as well.

### **Paul Manning**

In Asia Pacific, yes, they had an awesome year and an awesome fourth quarter. For years we've been investing and working on Asia, really trying to elevate their portfolio, their sales force, the technical applications groups over there. And so I think what you're seeing is really the culmination of a lot of years of work and effort on the strategy side of that business and the focus of the portfolio.

And so all these comments I'm making about natural colors and the pursuit of flavors, we've executed exceedingly well in Asia Pacific. We have a very strong leadership team there. The hustler mentality is alive and well among the sales force at Sensient, I can't speak to others there, but we really emphasize folks who like to win and they want to come to work and they want to succeed. And all others need not apply. So I think we've really elevated the performance of the folks in that region and that has really, really helped us execute on a new sales win, which was exceedingly high in the quarter as well.

So really three or four of those factors have really brought to bear the opportunities that we've had in Asia. We've had a lot of geographic expansion in Asia as well over the years, whether we're talking about China or India or Southeast Asia, we've really left no stone unturned. There's still a lot more we can go after. But our emphasis on expanding into new markets, new segments has been really, really, really helpful.

Now, Nicola, I didn't hear the second part about the high single digit. Did you catch that about the high single digit? Can you repeat that part, Nicola?

### **Nicola Tang**

It was just to ask about the guidance for 2025 for the division and what's underpinning your confidence in the high single digit?

### **Paul Manning**

Oh yes, okay. So yes, the high single digit for Asia, which would effectively be, well, it's a touch heavier

than color and flavor. Yes, I think it's more of what I've just described, a continuation of the strategy, a continuation of the emphasis on new wins, servicing customers, being fast, being local, and I think it's really more of the same. So we feel quite good about our chances in Asia for 2025.

**Nicola Tang**

Okay. And then, if you don't mind, just a final one and then I'll stop hogging the questions. I noticed that in the slides you reiterated the long-term revenue outlook but you didn't actually mention the long-term local currency EBITDA ambition of high single digit growth. So I just wanted to check that that target was still relevant.

**Paul Manning**

Yes. I think it is. As we look at 2025, we've got it mid on the revenue, mid to high on the EBITDA. Every year is a unique year. Every quarter can have some choppiness, most notably because certain customers delay launches or they conduct launches, things change, and in 90-day periods you can see a little bit of that volatility.

But as you look over the year, again, I think we land the plane in those ranges. Take 2025, for example. January was a very unusual month. There was a lot in the news about tariffs. There was a lot in the news about some reluctance of companies to launch products. Others wanted to launch. There was a keen focus on promotion activity. So we look at our January, January started off very, very slowly in most parts of the world. And then for whatever reason at the end of January a light switch went off and then the new wins started building up again and the organic orders started coming in again. And so then that sort of starts playing out a much better February and March.

And so you can have moments like that in the business. So I wouldn't be surprised if Q1 comes in 3% or 4%, maybe it's 5%, but I think for the year, last year we said mid-single and we delivered, as you saw, 7.5% across the board. So things like that can happen and I don't think folks should necessarily get particularly panicked about anything like that. Stable markets, consistent markets at the macro level in over a year, I think is a really good guide.

So yes, I feel very good about the mid-single digit. That will lead to mid to high single digit EBITDA. Controlling our costs, good product mix will drive that for sure. And then of course as you know with the interest being a lot less of a headwind this year and tax being a lot less of a headwind this year, you should see a much more efficient translation to the EPS growth.

Now, I will mention once again because this bears repeating, FX \$0.10 to \$0.15 of headwind, that number can change. But based on how we're calculating that right now, that is \$0.10 to \$0.15 of EPS headwinds, which is to say if we didn't have that we'd have higher EPS to the tune of \$0.10 to \$0.15. And I think that sometimes being a US business, where we translate things back into dollars, and we're not European so we don't get the positive end of that, we've been getting the negative end of that for a good ten years now, not every year but for the most part ten years, and that creates a real headwind to EPS growth. So we will speak in terms of local EPS growth to help you really see what's happening in the business, absent these FX translational matters which we have no control over.

So I think that's how that should flow through the P&L here in 2025. And we haven't really talked about buybacks more specifically, but I think that could be certainly a bigger part of the picture, or a part of the picture here for sure in 2025.

**Nicola Tang**

All right, that was clear. Thank you so much.

**Paul Manning**

Thanks, Nicola.

**Operator**

Again, if you have a question, please press star then one. The next question comes from David Green with Boldhaven. Please go ahead.

**David Green**

I guess just a quick question around obviously the exit rate for Q4 at a group level, I think was 8.9%. And it's very clear that a large part of that has been driven by ongoing new wins. And those obviously take 12 months to annualize. And then at the same time you're winning new business as well. And so it was really just to get more color around that, and I know you've talked a little bit to the mid-single-digit guidance in terms of whether that feels conservative.

And if I could just link that with just a very simplistic observation. Your color guidance for 2025 is for mid-single-digit growth, flavors is mid-single-digit and APAC high-single-digit is obviously guiding that group level to mid-single-digit. I know it's fairly nuanced given the size of APAC. I'm just wondering if I should just again tie that into an element of conservatism.

**Tobin Tornehl**

Yes, David I can take that. But you're exactly right. When you look at Q4, our total local currency revenue was just about 9%. So we had really good new wins across all three of our groups. And those new wins that we talked about before, they benefit the quarter that we're in and then they also roll into next year. So we have a healthy program on our sales force and the new wins that we're realizing and we're realizing across all the different segments. So from that standpoint it's positive and it also helps us as we roll into the next year.

As Paul said, this year it started a little slow at the beginning of the year but now we're starting to see a little increases from that standpoint. Our guidance across each of the groups were mid-single-digits in flavor in color and then our Asia Pacific Group is slightly above from that standpoint. So overall for the full year looking at it, mid-single-digit growth on a consolidated basis feels good from that point. Paul kind of mentioned first quarter with how we started, 3% to 5% is probably right in the range where we'll probably be for the first quarter and then we'll see how the year progresses.

Did you have another question, David?

**Operator**

Hello, David, your line may be muted.

**David Green**

Oh, sorry about that. In terms of the natural colors conversion, apologies, I know you've talked a fair amount about this already, but just outside of Red 3, are there any other compounds, for want of a better word, being talked about that could be significant? And are you already starting to see some of the, it sounds like you are, conversion benefit come through and are you seeing that accelerate? Are you seeing more incoming with regard to the conversion?

**Paul Manning**

So in the annals of synthetic colors, Red 3 is quite small. I think it's like the second smallest. Green 3 may be technically the smallest but Red 3 is super small. The big ones are things like Red 40, Yellow 5, Yellow 6, and at this point the FDA has outlawed Red 3, with the sunset date in a couple of years here. Those other synthetic colors, some states have named them in their proposed legislation to either

regulate or ban. The first phase has largely been around school so foods and drinks that would be accessible to small kids who go to school. But in other states they're calling for the ban of all of them. So how this shakes out is anybody's guess. I think that the short answer to your question is all of them are being considered at some level, but at this point the FDA has only picked red 3.

Now this is not the first time in the history of the world that the FDA has delisted a synthetic color, this has happened a number of times before, and so that's not necessarily an unusual fact. The question will ultimately come to the timing and whether or not the FDA takes action, or a state takes action, or whether both parties let the market decide and the market effectively drives the pace and which products this comes from. Time will tell, but yes, we're definitely seeing a continuation in some segments but an acceleration in others towards natural colors.

Customers fall in a number of different buckets. One of those buckets is we're just going to continue on pace with natural colors. Another bucket may be, "Hey, in light of this news we're going to do this. And whether it gets legislated or not, we're going to convert." And then you have various other constituents, buckets so to speak, that have maybe a little bit of a different mindset on the question. So yes, I think those first two, that's what's driving a lot of the wins right now. And certainly, as I noted, that could accelerate at any point.

### **David Green**

And just in terms of the reference to the buyback, in terms of thinking about quantum and where you're comfortable with the leverage, you'll probably be down to the low 2s fairly soon in '25. How should we think about magnitude of buybacks? Should we think about it in terms of the max leverage you want to take on is, or you don't want to be more than 2.5, or how would you be thinking about that?

### **Tobin Tornehl**

Yes, I'll take that one, David. Yes, we worked hard in '24 to really pay down our debt and lower that interest expense burden, and now our leverage ratio is about 2.3 from that standpoint. So rolling into this year in 2025, our dividend we feel good about. Our capital expenditures, you probably noticed we increased our range so we're about \$70 million to \$80 million this year. We got a lot of good ROI projects, especially in our Flavor Group from that standpoint, so we feel good from that standpoint. So excess cash we will use to buy back stock.

The first quarter is usually our lowest cash from ops, cash flow standpoint from a quarterly standpoint, just because of a number of different payments. So we'll probably start that program, reassess it starting in the second quarter, but staying around 2.3. Can you go up to 2.5, I think you mentioned, but we want to stay in the low twos, is where we're at, and we'll look at it as we enter the second quarter. So that's what we're thinking about right now.

### **Paul Manning**

Yes. I think, David, kind of slow and steady wins the day on that one. I don't anticipate we're going to announce some massive all at once buyback. I think slow and steady ultimately earns the best return. It's the most efficient use of cash for investors. And certainly many of our investors ask this question, and we want to be responsive to it. It is a tax efficient way to execute returns for shareholders. So very, very positive. But we think conceptually with respect to excess cash, which is to say it wouldn't have an appreciable increase on the debt to EBITDA ratio, but hey, sometimes this is opportunistic too. And so, yes, slow and steady with patches of opportunism built into that, could be a feature of the program.

But I'd just reiterate probably not a lot of activity in Q1, given those typical every single Q1 style of dynamics. But the big message here is, we have a lot of confidence in the future of the business between natural colors and a lot of other activities going on in the Flavor Group in Asia. We see a lot of upside

here. We have a lot of inventory we still want to take out, and that's going to be happening. So what are we going to do with all this cash? Well this is going to be part of the picture for sure.

**David Green**

I guess just one final question on the Portfolio Optimization Plan, which feels like it's just very much on track. Is there scope for any incremental savings there or are we pretty much just in line with expectations?

**Tobin Tornehl**

Yes, you're exactly right. We're in line with our original \$8 million to \$10 million. That plan is moving just as we laid out and started at the end of last year, and we're on track right now to be done this year, so within the cost that we identified of \$40 million and the savings of \$8 million to \$10 million. So moving along.

**David Green**

Fantastic. Many thanks.

**Tobin Tornehl**

Are there any further questions?

**CONCLUSION**

**Operator**

There are no further questions at this time. I will turn the conference back to the company for any closing remarks.

**Tobin Tornehl**

Okay. Before we conclude the call today, I'd just like to thank everyone for joining. I'd also like to summarize our expectations for the first quarter. We expect our first quarter local currency revenue growth to be between 3% and 5%. We also expect our adjusted EBITDA margin for the Flavors and Extracts Group to be around 16.5%, our adjusted EBITDA margin for the Color Group to be around 23% and Asia Pacific's adjusted EBITDA margin to be around 23.5%. We expect interest expense to be around \$7.5 million in the quarter and our adjusted tax rate to be around 25.5% for the quarter. We do not anticipate any significant share buybacks in the first quarter.

That concludes our call today. Thank you for joining. If you have any follow-up questions, please contact us directly at the company. Thank you.

**Operator**

The conference has concluded. You may now disconnect.