Sensient Technologies Corporation

2025 Second Quarter Conference Call

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CORPORATE PARTICIPANTS

Paul Manning – *President and Chief Executive Officer*
Tobin Tornehl – *Vice President & Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to the Sensient Technologies Corporation 2025 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. Please go ahead, sir.

Tobin Tornehl
Good morning. Welcome to Sensient's earnings call for the second quarter of 2025. 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 2025 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. During our call today, we will reference certain non-GAAP financial measures, which removed 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 in 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, 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. 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 second quarter results. I'm pleased that we continue to build on our strong first quarter results and delivered 14% local currency adjusted EBITDA growth and 21% local currency adjusted EPS growth. Local currency revenue grew low single digits during the quarter. We had particularly strong revenue performance from the Color Group, delivering 6.6% local currency growth.

The Asia Pacific Group delivered 7.6% local currency revenue growth, and the flavors, extracts and flavor ingredient product lines within our Flavors & Extracts Group delivered 4.6% local currency revenue growth. These results align with our expectations and position us to deliver on our full year local currency adjusted revenue guidance for revenue, EBITDA and EPS. Our emphasis on sales execution, customer service and commercialization of new technologies continue to drive our performance. We're seeing significant activity at customers as they prepare for the conversion of synthetic colors to natural colors in

the United States.

As I've said before, the U.S. conversion to natural colors is the single largest revenue opportunity in Sensient's history. We made a strategic shift in natural colors more than 15 years ago, investing internally and through acquisitions in technologies, production capabilities and supply chain. We believe that the conversion to natural colors was inevitable given the broader market conversion to more natural food products.

We have invested heavily in capital for natural colors, building and expanding production facilities around the world, and we will continue to invest in our facilities in the immediate future and for years to come. We have invested considerably in research and development for natural colors, and we will continue to emphasize this for the foreseeable future to ensure we continue to optimize our portfolio.

We have also worked to build a resilient supply chain to provide the botanicals necessary to produce natural colors. Currently, our commercial, technical, engineering and supply chain teams are busier than ever, preparing and supporting our customers for these conversions. During the second quarter, we continued to generate strong new sales wins across each of our groups and our sales pipelines remain robust in each of our regions. These sales wins are a result of our innovative product portfolio across our food, personal care and pharmaceutical product lines. Each of our groups remain focused on collaborating with our customers to support their development requirements. And our customer service levels remain strong. In short, we're well-positioned to capitalize on the market trends we see across our portfolio.

As I mentioned on our last call, the current trade and tariff landscape has introduced additional complexity and uncertainty to our businesses. This situation continues to fluctuate and based on current information; we expect the annual impact of tariffs to be slightly less than the $10 million we communicated previously. We've already taken price to offset the impact of the initial wave of tariffs. We will continue to position our supply chain organization to minimize any disruptions to our customers and to optimize the flow of goods. Also, as we turn to the second half of the year, our portfolio optimization plan continues to remain on track for an end of the year completion.

Turning to Slide 6 and our group results. Color Group had excellent second quarter results, delivering 6.6% local currency revenue growth and 22.1% local currency operating profit growth. The group's second quarter adjusted EBITDA margin improved to 25.1% from 22.2%, an increase of 290 basis points versus the prior year. In the second quarter, the group saw strong new sales wins, particularly in natural colors. I should note these wins are not yet the result of any significant natural color conversions. I will touch on our estimated timing of these conversions later in our discussion. Color Group is progressing nicely, and I'm very excited about the future ahead of us.

Turning to Slide 7. The Flavors & Extracts Group saw local currency revenue declined in the second quarter by 3.2%, but increased local currency operating profit by 8.6%. The group's adjusted EBITDA margin was 17.8%, up 160 basis points versus the prior year's comparable quarter. Flavors, extracts and flavor ingredient product lines reported 4.6% local currency revenue growth and significant local currency operating profit growth. The growth in these product lines is a result of our innovative flavor technologies and our focus on new and defensible flavor wins across North America, Europe, Latin America and Asia Pacific.

As discussed during our last quarterly call, our natural ingredients business, which consists of dehydrated onion, garlic, capsicums and other vegetables, continues to be impacted by lower sales volumes and higher costs, which we anticipate to persist until the end of this year. On a positive note, currently, we anticipate the crop that is being harvested this year and that will be sold mainly next year, will be at an

improved cost position compared to the current year. Despite these dynamics in the Natural Ingredients business, I still expect the Flavors & Extracts Group to deliver solid results for the year.

Now turning to Slide 8. The Asia Pacific Group had a solid second quarter, delivering 7.6% local currency revenue growth and 8% local currency operating profit growth. The group's adjusted EBITDA margin was 22.3%, up 30 basis points versus the prior year's second quarter. The group continues to achieve growth in almost all regions, primarily driven by new sales wins in flavors and natural colors. The Asia Pacific Group continues on its multiyear success and we expect more of the same in the future.

Turning to Slide 9. We remain committed to our guidance for the year. As we previously communicated, we expect consolidated annual local currency revenue to grow at a mid-single-digit rate. We originally communicated a mid to high single-digit local currency adjusted EBITDA growth expectation, but we are now raising our guidance to high single-digit local currency adjusted EBITDA growth. This should result in high single-digit to double-digit local currency adjusted EPS growth for the year.

On the capital allocation front, while we increased our capital expenditure guidance last quarter to be between $80 million and $90 million, we now feel as a result of the accelerated natural color conversion activity, in preparation for expanding our production capacity, we can expand further and achieve around $100 million or slightly more for the year. This is a very positive development that will help us to more readily win new natural color projects and to help accelerate our customers' conversions. The increased investments we are making in natural colors is a great use of our cash, and we anticipate our capital expenditures will remain above $100 million next year, as we continue to invest in our natural color capabilities as well as across our Flavors & Extracts Group and Asia Pacific Group. Beyond capital expenditures, we will continue to evaluate sensible acquisition opportunities, but we do not anticipate any share buybacks at this time.

Now, before I turn the call over to Tobin, I'd like to provide more information on the current state of the synthetic color regulation and natural color conversion activity. Turning to Slide 10. The regulatory environment continues to evolve almost weekly. More than half the states in the United States have some form of legislative activity for synthetic colors and food products. West Virginia became the first and thus far, the only state to pass legislation that prohibits the sale of food products that contain synthetic colors. That law goes into effect in January 2028. Additionally, Texas has passed legislation requiring food manufacturers to place warning labels on packaged food products that contain certain ingredients, including synthetic colors and titanium dioxide with an effectiveness in 2027. The main effect of these state actions is the conversion to natural colors at the national level.

Turning to Slide 11. So far this year, we've seen a total of 112 color-related bills introduced across U.S. state legislatures. A significant number of leading branded food companies have recently announced plans to transition from synthetic to natural colors, with many publicly targeting the end of 2027 as a deadline. While we continue to believe in the safety of all synthetic food colors, Sensient is engaged with a substantial number of brands to support their transition to natural colors. It's clear to us that the majority of consumers want natural colors in their foods and beverages.

Turning to Slide 12. I would now like to take a moment to highlight two key technologies that are enabling our customers to successfully move from synthetic to natural colors without sacrificing the vibrancy and stability that the customers expect. As we have discussed and as experience in the market has shown, converting to vibrant natural colors is critical for brands conducting the transition of their products. Choosing less vibrant colors or eliminating color altogether has repeatedly led to poor outcomes in the market. More often than not, consumers' flavor perception changes as a result of modifying a product’s synthetic vibrancy. Whether it's an iconic soft drink or a breakfast cereal, using inferior natural colors has caused such launches to fall flat in the market. It is our goal to help our customers succeed and build

their brands through this transition.

The first technology I want to highlight is our Microfine range, which is arguably the single most successful natural color technology we have ever launched. Microfines are natural colors used extensively in salty snacks to impart bright reds, yellows and other colors. Salty snacks are a very large category and the popularity of spicy varieties has increased demand for our microfine substantially over the last few years. Now with the full transition to naturals, we are uniquely positioned to help our customers maintain the color performance essential to their products. Microfines are also used extensively in bakery and confectionery applications. They have a significant performance advantage over most standard natural color options in the market.

Second, I want to highlight Sensient's Butterfly Pea Flower Extract, which was first approved by the FDA in 2021 in beverages and many other product categories. More recently, FDA approval was extended to include cereals, crackers and snack categories. This expansion allows our customers to achieve vibrant blue and green colors in a wide array of products. Butterfly Pea Flower Extract also provides bold but brilliant purple shades for many beverages. Sensient not only discovered the novel color source, but stabilized the color in application and created a reliable supply chain that makes it an appealing option for customers today. As I said, the key to a successful natural color transition for food and beverage brands is to maintain the color vibrancy and variety that consumers are used to seeing in synthetic colors. Our R&D efforts are dedicated to removing any gaps that exist between synthetic and natural color performance. If you'd like more information on natural color technologies, please visit our website.

Overall, I'm pleased with our financial performance in the second quarter. We're on track to deliver on our full-year guidance. I'm excited about the growth opportunities within each of our groups. Given the synthetic and natural color regulatory timeline I just outlined, we anticipate Sensient's natural color revenue to increase more significantly beginning in 2027 to ensure our customers' synthetic color products are off store shelves starting January 2028. The growth we're experiencing is a direct result of the execution of our strategy and seizing the opportunities in our markets. I remain optimistic about 2025 and the future of our business.

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

Tobin Tornehl
Thank you, Paul. In my comments this morning, I'll be explaining the difference between our GAAP results and our non-GAAP or adjusted results. The adjusted results for 2025 and 2024 removed the cost of the portfolio optimization plan. We believe the removal of these costs produce 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 14. Sensient's revenue was $414.2 million in the second quarter of 2025 compared to $403.5 million in last year's second quarter. Operating income was $57.7 million in the second quarter of 2025 compared to $49.7 million of income in the comparable period last year. Operating income in the second quarter of 2025 includes $3.3 million, approximately $0.06 per share of portfolio optimization plan costs. Operating income in the second quarter of 2024 included $1.8 million, approximately $0.04 per share of portfolio optimization plan costs. Excluding these costs of the portfolio optimization plan, adjusted operating income was $61 million in the second quarter of 2025 compared to $51.4 million in the prior year period, an increase of 16.9% in local currency.

Interest expense was $7.4 million in the second quarter of 2025, down from $7.7 million in the second quarter of 2024. The company's consolidated adjusted tax rate was 25.2% in the second quarter of 2025 compared to 25.8% in the comparable period of 2024. Local currency adjusted EBITDA was up 14% in

the second quarter of 2025. Foreign currency translation had minimal impact in the second quarter of 2025.

Turning to Slide 15. Cash flow from operations was $48 million in the second quarter of 2025, up 10.2% compared to last year's comparable period. This improvement is primarily due to improved earnings and working capital management. Capital expenditures were $21 million in the second quarter of 2025. And as Paul indicated, we now anticipate our capital expenditures to be around $100 million for the full year. Our net debt to credit adjusted EBITDA is 2.4x as of June 30, 2025. Overall, our balance sheet remains well-positioned to support our capital expenditures, sensible acquisition opportunities and our longstanding dividend. As Paul indicated, we'll continue to invest in our natural color capabilities. These investments will increase in the next few years, which we expect to drive favorable volume and profit growth in years to come, and we believe will be beneficial to our return on invested capital.

Turning to Slide 16. Revisiting our 2025 guidance. We continue to expect our consolidated 2025 local currency revenue to be up mid-single digits. We have now raised our local currency adjusted EBITDA to high single digits. Previously, our range was mid to high single digits. We expect our local currency adjusted EPS to be up high to double digits in '25. We still expect our interest expense to be slightly higher than the $28.8 million of interest expense recorded in 2024, and we expect our adjusted tax rate to be approximately 25%. Both our interest expense and 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 our performance. For the third quarter, we expect our interest expense to be approximately $7.7 million and a third quarter tax rate to be around 24%.

Based on current exchange rates, we now expect the impact of currency on the EPS to be a slight tailwind for the year. As a reminder, we guided both GAAP and local currency for EPS. This is important to understand as our reported GAAP results include the translational impact of foreign exchange rates, which has generally been unfavorable as a result of the strong U.S. dollar in recent years.

Considering our GAAP earnings per share in 2025, we expect approximately $0.20 of portfolio optimization plan costs. We expect our GAAP EPS in 2025 to be between $3.13 and $3.23 per share compared to our 2024 GAAP EPS of $2.94. As you have all seen daily, the tariff situation remains dynamic. As Paul mentioned, we are mitigating the impacts of tariffs with price. When and if any tariff changes come into effect, we'll report on that effect after the fact. 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. And your first question comes from Larry Solow with CJS Securities.

Larry Solow
First question would be just, Paul, lots of moving parts and positive things on the color side. And as you mentioned, we've seen a lot of positive headlines. The larger CPGs committed to switching within the next couple of years. Just curious in the background, what's going on, it's only been a few months, obviously, but supply chain, things like that, advancement, planning, just logistics and stuff like that because obviously, it's going to be somewhat of an effort to make that transition. So any color or just lay of the land you can give us on that side of the equation?

Paul Manning

Well, supply chain is perhaps, well, arguably the single biggest factor here in this conversion. You've heard me say this publicly many times, and I'll say it again, if the United States wanted to convert tomorrow, they couldn't because there's simply not enough raw material available to fulfill the type of demand and need we're talking about here. So like any agricultural product, there's a lead time associated with that. And of course, naturally, a lot of planning goes into that process. And so that's point number one. I mean, point number two, I think one of the first things that as we embarked on this natural color strategy 15, 16 years ago was, it's about the supply chain, stupid, because if you don't have enough sources and a variety of those sources and you're not cultivating new ones and novel ones that's going to be the real limitation.

You could have great technology and great capacity and wonderful salespeople and a terrific website, but if you don't have botanicals, the train stops. And so I think very early on, we identified that is perhaps a single most critical factor in this whole conversion activity. And so, for us, this is kind of year 16, 17 or more working in earnest on the supply chain and how we can have enough, mitigate as much of the risk as possible through diversification and the identification of new sources, selected vertical integration. You've seen us buy a couple of businesses over the years, focused in this area. But no, I think you're hitting on a profoundly important point, and that is the supply chain. Yes, there's a lot of other factors, too. But yes, this is one that we have worked and continue to work very, very diligently to ensure that we have it when the time comes.

Larry Solow
Got you. And the outlook for them for 2027, it doesn't sound like you'll get some incremental in '26, but it sounds like '27 will be the year where we should kind of see maybe not an inflection point, but a lot greater increase on the natural color side?

Paul Manning
Yes, I think that's a fair assumption, with January 1, 2028. Now the regulation for West Virginia states that you will not have items on the shelves on January 1, 2028, that contain synthetic colors. So that one could rather easily assume then that natural colors need to start coming out in earnest at some point in 2027. So if for no other reason, the West Virginia law provides a bit of the guide rail there. Yes, I think you're about right on the 2027. And what's noteworthy about the colors continued success, as we mentioned in the comments there, those results, that great revenue growth, that great profit growth, there is no like major conversion or even minor conversion that I could speak to associated with those numbers. So it's -- that makes that result all the more impressive. And it also gives you a little sense of what is the real opportunity available here as these conversions begin in earnest. And when that may be, I don't want to say it's anybody's guess because there is a deadline here. But yes, I think 2027 in short, that's going to be the single biggest year, I think we could all agree in this timeframe.

Larry Solow
Got it. And if I could just squeeze one more for Tobin. Just the quarter, nice earnings growth, a little more modest sales growth, obviously, a nice margin improvement. And it looks like it was mostly gross margin or it is mostly all gross margin driven. Is that pricing? Is that mix? What's kind of driving that nice improvement in gross margin?

Tobin Tornehl
Yes. No, margins are up across the board, especially our EBITDA margins across all three groups. So we did see good movement there. Pricing is really immaterial for us, so low single digits. So volume growth, mix, which is a result of a lot of the new wins that we're experiencing across all three of our groups. So that's really what's driving it, as well as we've got our eye on our costs, making sure that we're maintaining our SG&A base and being able to leverage that. And I think you're seeing that in our margin performance.

Operator
And your next question comes from Ghansham Panjabi with Baird.

Ghansham Panjabi
Congrats on the progress. So I guess, first off, on the $110 million of synthetic colors that you currently have exposure towards, how would you have us think about the activity at this point in terms of converting to towards natural? I mean, obviously, it's a process with reformulations, qualifications, etc. And if you could break that out in terms of which specific categories within food and beverage are sort of seeing the highest initial momentum, that would be helpful as well.

Paul Manning
Yes. So I think the opportunity, as we see it, so that's the number, the $110 million, that's not only the U.S., but there's a component of that associated with Latin America. And so while this conversion is a U.S. conversion, there are certainly manufacturers outside the U.S. who would export to the U.S. who will also be subject to these requirements. And so therefore, it provides opportunities outside of the U.S. too, for our business. So I think that's really an important piece. In terms of which products and which customers, big or small, I would tell you that there's no real obvious and predictable set of behaviors. I think we've seen very, very small companies exceedingly eager, want to go, want to go first, want perfect matches. We've seen very large companies, customers who say, Hey, we want to go, we want to go first. We want to have great matches. And then you see, of course, everything in the middle. But as we look at this, there has always been work in natural colors.

Natural colors is by no means new to the U.S. or certainly any other part of the world. Our activity would suggest in the U.S. market prior to these announcements that 80% of new product launches that had a color, that color was a natural color. So it's something that our customers are familiar with. Now, it's a little bit less familiar in certain applications than others. So for example, natural color use became pretty widely used in beverages, not all beverages, but many beverages, which is an exceedingly difficult formulation environment oftentimes to add a natural color versus a synthetic color. Can you get the same vibrancy, can you avoid taste changes associated with a higher concentration of color in that formulation? And so beverage has always been a strong user, but it's also been very challenging to put natural colors in many of those products.

As you go through the other types of product segments, there are those that are far more challenging than others, processes that involve a lot of heat, like extrusion or baking. You can imagine that chair in your family room at home, right? If it's sitting in the sunlight for too long, the brown is no longer brown, it's like tan. And then like if it just keeps going, like the color entirely goes out of that. And so, you see a very similar phenomenon when you have even higher temperatures and exposure to light and colors. And so there's very, very challenging manufacturing environments that our customers produce their products in. And so, these are a lot of the things that we've been working on with our customers. But most of our customers, too, had some level of contingency over the years, maybe 10 years ago, like, hey, I might have to convert this one day. So I'd kind of like to have the answers to what that would be. And so there's been some of that work. But because our technologies have enhanced and improved substantially over that time period, in many cases, we're redoing a lot of that reformulation work. But I think the advice we give to our customers and all the data that we have observed around the world would suggest that if you're a customer using synthetic colors and you want natural colors, your goal should be to match that synthetic color. You might not get it exactly the synthetic color match, but you have to have a very vibrant, attractive color. Nature is vibrant and attractive. And so when folks get cute and they decide, well, it's natural, so it should look ugly and faded and pitted and, no, wrong answer. And I think that, that is probably the most important guiding principle and the one that we share with the majority of our customers. They want to get that match, they want their products to look attractive. They want natural

colors to be a source of opportunity in their category.

Many customers want to go first so that they can be the leader of their category and see natural colors as a mechanism to potentially grow their share in that category. And they believe that doing that with the right matches is going to be the most critical factor or certainly among the most critical factors. And so, yes, the momentum is very, very strong. I think our customers are very, very engaged in this. In fact, we even see somewhat of a reduction in launches at customers because of the focus and attention that they are providing to natural colors. They're taking folks from around their labs and having them work on this natural color reformulation has, in some cases, actually slowed launch activity in other parts of the market for them. So big effort, but very, very exciting and we feel really, really good that we've got a lot of great technology to share with the customers here.

Ghansham Panjabi
Okay. And then for the Color segment specific to Q2 and the incrementals were north of 60%. It was 40% in the first quarter. I know there's variability just depending on timing and so on and so forth. But was there anything unique that drove that sort of improvement in Q2 going back to the earlier question on margin expansion?

Tobin Tornehl
Yes. No. I mean, Ghansham, just Color Group reported really nice EBITDA margins north of 25%. So there was nothing real specific. I mean really, the new wins that Paul has alluded to, and we've been talking about for the last several years has really been driving that growth. And then our focus on costs over the years and making sure that our cost basis, especially in SG&A that we're able to leverage that it's been a focus not only in the Color Group, but Flavor and Asia and Corporate as well. So I think you're starting to see that not only in the Color Group, but Flavor and Asia as well.

Ghansham Panjabi
Okay. And then just last question, maybe a two-parter. So first off, on natural ingredients, what do you think is the realistic timeline for volumes to inflect higher? Obviously, Q2, it looks below our forecast. And then second, in terms of capex, I mean, it's rare for a company of your size to raise Capex so quickly during the course of the year, two quarters in a row and so on. What exactly are you spending on in terms of capacity? And then how should we think about Capex needs for 2026? I realize a lot’s going on and so on, but the opportunity set is big. So I'm just trying to get a sense as to how much of an uptick we should keep in the back of our minds for next year?

Paul Manning
Okay. So the timeline on Sensient Natural Ingredients, this is essentially, I think you'll see the inflection point late Q4. And the inflection point will be not only on revenue, but perhaps more importantly, on the cost profile of that product line. Right now, we're dealing with a very heavy cost crop stemming from a number of factors, not least of which was a downy mildew, I guess, you'd call it a polite last year in a number of our growing regions. And so I think you'll see a nice turnaround in SNI for 2026. But also, as you can see, we more than overcame whatever reductions in SNI we had to face from a headwind standpoint. And Flavors really delivered nice mid-single-digit top line growth and remarkably good leverage. And again, going back to Tobin's point, on the heels of really, really good product mix, really, really tight cost control, and let's not forget, we used to have a hell of a lot more plants in Flavors and now we don't. So we've got continued and substantially better optimization and utilization of our plants, which really, really feeds nicely into that leverage.

On the Capex front, yes, that's right. We raised Capex last quarter, and we're doing it again. And I would do it more if I could. But my constraint right now is how quickly I can get equipment and how quickly I can get little green lights to turn on in facilities around the world. So the faster we have Capex in place, this

equipment. And again, that $10 million raise essentially 100% of it, with respect to natural colors. We want to win, and we want to win substantially, and we're going to put our money towards our strategy as we have for the last 15-plus years. And so I only wish I could have added more to the guidance in 2025, quite frankly. So we're feeling good with where we are. We've got a lot of capacity, but we're going to want to have a lot more capacity as this conversion heats up. And we want to enable customers to go faster if they want with this conversion.

And having that supply chain squared away and having the capacity available are big in that discussion. And so we gave a little bit of a hint about 2026. It would be, I'll tell you right now, it's going to be north of $100 million. Depending on the timing and other factors, we'll refine that as we move forward. But I think we're going to be very, very happy that we did this, and it's going to enable us to really win a good share of these conversion opportunities.

Operator
And your next question comes from Nicola Tang with BNP Paribas.

Nicola Tang
First, I guess, a follow-up on the Capex point. You mentioned that you already have a lot of capacity that you want to enable customers to grow faster. Based on your current capacity, do you feel comfortable in terms of the conversion of the $110 million of existing synthetics revenues that we're referring to earlier, or does the Capex investment that we're talking about also help to, I suppose, fund or support the capacity for the conversion of existing customers as well? Just trying to understand how much sort of incremental growth opportunity there is on top of just the conversion of existing customers.

Paul Manning
So yes, so today's manufacturing footprint would be insufficient to convert that $110 million. Now, could it get us halfway there? I don't know. I haven't necessarily thought about that question, but it could certainly get us a fraction of the way there. And so this incremental spend is really essential to the longer-term opportunity.

Nicola Tang
Do you also see an opportunity to take more share to be on just converting the $110 million? Or that's really what you're thinking about in terms of this Capex step up for the next few years?

Paul Manning
Well, I always think about growing the business. And if I have something that somebody else doesn't have, good for us. And so yes, I think that this puts us in a very, very good position to capture our existing share of synthetic but you don't win every single opportunity. So we want to ensure the odds of that grow and grow and capital is one of those levers we have to ensure we capture our share and we're always going for more. But remember, too, there's slices of the natural color market that we're not particularly interested in. They're not as defensible, much more basic applications, stability, formulation, applications expertise are not really considerable factors in winning those types of products. So selling buckets of something or other to somebody who's going to buy it this year and give it to somebody else next year. We largely tend to stay away from that sort of transaction. And there's definitely an element of that in natural colors as there is with every market, I think.

Nicola Tang
Okay. And the second question was more around pricing or the relative pricing of naturals and synthetics and how this could develop over time. I think today, you talk about to exactly color match, you talked a lot about the importance of this, kind of average 1 to 10 conversion synthetics to naturals. I was wondering given what you said about the challenges around supply chain, around like physical availability of

products, but also the increase in technology or more complex technology that we're seeing, whether actually the price, the relative cost or the relative price point of naturals could actually be higher than the 10 to 1 going forward? Or do you think it will come down?

Paul Manning
Well, sort of the 10 to 1 or 8 to 10, depending on who you talk to, that's an average case. So if you just think of a normal distribution of data, that's probably kind of right down the middle. There are some applications that it might be 15 or 20x and then there are other applications of maybe 3 or 4x. So there's a lot of possibilities within that. So as this begins in earnest, this conversion, you can imagine that there will be a lot of folks who want to enter from a supply standpoint, the growing of these botanicals, the processing of these botanicals. And so I think that would be fundamentally a good long-term program. When you think about the FAC, fully absorbed cost of a natural color to be produced, the vast majority of that cost is raw materials, maybe even 60%, 70% in some cases. So every lever one could have to reduce that raw material cost, you really want to pull it. I mean it's certainly our expectation.

We want to optimize the economics for our customers as much as possible. We want them to be successful. We want them to be eager to do this. And so yes, finding those additional supplies and just having more supply available as we proceed, I think that's going to be a real positive for us and for the industry so that we can continue to bring that 10x down to 8x and 7x, and whatever that may be. And our continued efforts around R&D development of better solutions. You go back 15 years, it wasn't 10x, it was probably like 35x. And so over time, through technology, the development work we've done in this space and perhaps even others, I think, has really gone a long way to reducing it to where we are today. So I still think there's opportunities in the future to do that. But again, it's all in the interest of helping our customers to really be successful with their product categories in these spaces.

Nicola Tang
Okay. Great. And then a final question, just on the Flavors & Extracts division. I mean, packaged food volumes from an industry perspective have been pretty lackluster for quite a long time. I was wondering if you could talk a little bit about your outlook, both in terms of the industry, but also what you're seeing in terms of new win activity and what's your outlook for growth here?

Paul Manning
So the market data I look at for Q2 would suggest that the volume of goods sold in the United States, food packaged goods, not the revenue, but the volume was actually down in Q2. Europe was up modestly. And again, those are averages. So there were some categories that did quite well, energy drinks. I contribute substantially to that market. But there are others that are sort of less interesting to folks. And so net-net, the volume was down in the U.S., up slightly in Europe. There are nice patches in Asia, as much as folks talk about China and oh, they're still up 4%, 5% in most of the markets that we're serving there.

With respect to launch activities, to me, it's a little bit more of the same, pretty flat, not a lot of movement from Q1. Yes, line extensions, yes, repackaging. And so I think continued sort of fewer to the world product new-to-the-world products. And I think that's on the heels of a lot of uncertainty with respect to interest rates, tariffs, and perhaps an unwillingness for certain brands to really take big bets on products that may not do so well in the marketplace. So we see kind of the continued maybe slow launch activity. But hey, listen, I mean natural colors is an enormous launch activity. So whereas, yes, maybe there's products over here that aren't generating a lot of launch activity and at the macro level, it's not, natural colors will certainly provide the enormous uptick that we would hope is going to help drive our business longer-term.

So I think the fact that we picked natural colors, that we've been very focused on natural colors, I think

we're going to be rewarded for that in the market launches and the growth opportunities that are there. So yes, the macro level is one thing, but the markets and the segments that we've really been emphasizing is another, and this is why you go back to 2019, our year-over-year average revenue growth rate is north of 6% in local currency. So I think we picked the right segments, and I think we're going to continue to execute pretty well on these.

Operator
Your next question comes from David Green with Boldhaven.

David Green
Yes, first quick question. You've raised the local currency adjusted EBITDA guide from mid to high single to high single, but you haven't changed the local currency adjusted from the high single digit to double digit. I just wondered what the moving parts were there?

Paul Manning
Well, you're right. We raised EBITDA and we maintained revenue. EPS is still high to double digit. And so I think you're probably doing the math and you're saying, well, if they got mid-single-digit revenue and high EBITDA, how the heck do they not get double-digit EPS. Well, we can. And I think that's certainly within the range. But EPS is oftentimes a rather imperfect metric. Most notably, since as you know, it doesn't account for local currency, and it doesn't take into account foreign exchange, which is why if you look back over the last 10 years, people will say Sensient's EPS is flat because it doesn't take into account local currency results. So it was an interesting metric in a time where folks only sold domestically. But in an international world, it's a little bit less relevant at times.

But I think on the basis of local currency, as we like to think about EPS, yes, high-digit single digit to double digit. Double digit is very much potentially in play, but I think we like to leave wiggle room in as much as tax could change, interest could change, the Fed can do things that we can't predict and nobody can. And so there are moving parts kind of below the EBITDA line that could impact that. But I think we just want to make sure, David, that we just never disappoint you.

David Green
Yes. And just maybe to Flavors and Extracts and to the cost headwinds in Sensient Natural Ingredients, is there any way you can kind of give us a feel for what kind of headwind to top line, those elevated costs from crop are having?

Paul Manning
Well, the top line is really a function of a number of things. So number one, we had a really good last year and maybe a little bit too good and maybe we won some business that now we don't have, so you can almost call that there was a little bit of culling there. But I think first of all, we had a really good Q2. So comparing that was rather challenging. And then there's a bit of culling. There's a lot of tariff distortion. Where we've seen the most distortion in our results stemming from tariffs is SNI. The market in the United States, while we grow domestically, there's a lot of imported products coming from Asia and many of the agents and customers and others stocked up on these products in the first half of the year. And as much as we have a strong share in a lot of these accounts and we expect to see a little bit of an improvement sequentially in the back half of the year, but these tariffs and the very long shelf life of these products kind of contributed to some of the headwinds that we're seeing right now.

So yes, I think on the cost, probably perhaps arguably the single biggest cost is the actual crop cost and the yield stemming from that and some of these matters I mentioned before with downy mildew, which contributes a lot to operational costs. So I think much of that has been resolved. Much of that is still to be resolved, but I think the crop that is coming in now, it actually looks really good, and it's going to be at

this point to predict that we think it's going to be really, really good for the duration of the harvest season, which would go for a few more months. So I think we'll be in a very nice position in 2026 on SNI, not only on revenue, but on profit. But I think you'll see some sequential improvements as we get into Q3 and Q4 of 2025 as well.

But not every product line is always hitting on all thrusters at the same time, but the big picture here is Flavors was still up almost 9% in EBITDA, and we feel really, really good about that. And I think that as we get SNI firing on all thrusters, I think we have really nice 2026 to follow up a really, really nice long run here in the Flavors group.

David Green
And just I know there's been a few questions around the really positive operating leverage in both Colors and Flavors and Extracts. And I think you had mentioned mix as one of the drivers. When you say mix within those respective businesses, what does that mean specifically?

Paul Manning
So mix in Flavors, for example, is selling more Flavors. In the universe of flavors, there are things flavors like you know I love grape flavor, for example, so that. But there's also components of flavor systems. We call those flavor ingredients. And so I think certain products in certain applications generate and command higher gross margins given the technical sophistication of those products. And I think our ability to execute on that in particular would be what I would argue as one of the single biggest components and mix that has contributed to the really positive outcomes there you see in Flavors. In Colors, similar dynamic. You've heard me talk about there are different parts of the natural color market. Colors that are very precise and they have to be synthetic color matches, much more technically-driven products versus what you might call a belly wash natural color. There's some really not all that interesting, not all that profitable, not all that defensive.

And so when you sell more of the former and less of the latter, you have a real nice uplift stemming from mix. So those are a couple of examples that I'd speak to explain the mix and the operating leverage.

David Green
Great. I guess one more final question. It's not necessarily a huge part of the business, but when I look at Personal Care, specifically within Colors, it still looks a bit soft. Is there anything driving that, or any expectations to when that might improve?

Paul Manning
No. Yes, it is a little bit soft. And really in Europe is the big one, soft in North America as well, quite nice growth in Asia Pacific and Latam. So yes, it was a little bit soft, but it's softly very profitable business for us. And so I think this is one industry where there's a lot of change afoot. Whoever have thought anybody was going to buy cosmetic products on e-commerce platforms? Whoever thought there was going to be such a push to selling certain products across different generational divides? And so there's been a lot of shift in the market. There's been a lot of movement towards third-party manufacturers, manufacturing products. So the world of going to a department store and buying from a household brand name, yes, there's still a lot of that. But there's also a lot of influencers, folks who don't have the ability to manufacture product, know how to develop the products, but they go to those who can manufacture for them and develop for them.

And it's the influence that we've seen through a lot of these start-up brands in Personal Care space that's really, really shaken that market substantially. And so a couple of years ago, it was all about skin. Now it's all about fragrance. And a couple of years from now, it's not going to be about either of those or maybe it will be about both or maybe it will be about makeup. And so our game here has been to continue to

diversify our platform, which historically has been color cosmetics, makeup principally, body care. And so I think the long-term prospects are going to be most promising as this segment begins to convert to natural colors. So as you look at Sensient for the next 10 to 15 years, you'd say, okay, lot of natural colors in food and beverage for the next, call it, 4 or 5 years. And then it will be very interesting to see how the technology evolves there for the next wave of natural colors.

And then I think alongside that, you're going to see, as technology improves, a much broader use of natural colors in personal care applications, and that will be an enormous opportunity for Sensient as well. So again, we play the long game around here, and that's another long game we're playing, and we would predict, as we did with food, there is an inevitable conversion to natural colors that you will see in personal care in the coming years. So hey, they might have had a little bit of a soft quarter. I'm okay with that. Because the long game, that's going to be even more profitable and successful business than it's already been for us.

CONCLUSION

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

Tobin Tornehl
Thank you, again, for your time today. Before we conclude, I'd just like to reiterate some of the comments on our estimates for Q3. Currently, we expect our interest expense to be about flat with prior year, around $7.7 million for the quarter. We expect our tax rate to be around 24% in Q3. And given the current exchange rates, we expect the overall impact in the quarter to be immaterial. That concludes our call today. If you have any follow-up questions, please contact the company. Thank you.

Operator
The conference has concluded. You may now disconnect.