

Sensient Technologies Corporation
2025 Third 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 2025 Third 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 remarks, 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.

Tobin Tornehl

Good morning. Welcome to Sensient's earnings call for the third 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 third quarter results. A copy of the earnings release and the slides we will be using during today's call are available on the Investor Relations section of our website at [sensient.com](https://www.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 improves the comparability of results between reporting periods. This also reflects how management reviews and evaluates the company's operations and performance. Non-GAAP financial results should not be considered in isolation from, or a substitute for, financial information calculated in accordance with GAAP. A reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measures is available in our press release 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 Manning.

Paul Manning

Thanks, Tobin. Good morning and good afternoon. Earlier today, we reported our third quarter results. I'm pleased that we continue to build on our strong first half of the year, and delivered 14% local currency adjusted EBITDA growth and 18% local currency adjusted EPS growth. Local currency revenue grew 3.5% during the quarter.

We continue to have particularly strong results from the Color Group, delivering 8% local currency revenue growth and 24% local currency operating profit growth. Flavors, extracts and flavor ingredients product lines within our Flavors & Extracts Group also had a nice quarter, delivering 4.5% local currency revenue growth and significantly contributing to the group's local currency adjusted operating profit growth of 7.8%. These results align with our expectations and position us for a strong finish to the year. We are also increasing several elements of our full year guidance for 2025. Previously, we indicated local

currency adjusted growth of high single digits for EBITDA and high single digit to double digit for EPS. We now expect double-digit local currency adjusted growth for both EBITDA and EPS.

The major storyline for Sensient and the industry continues to be the conversion of synthetic colors to natural colors in the US. This activity remains at the forefront of our current strategic focus and continues to accelerate as we work with our customers to prepare them for this change. As I said before, the US conversion to natural colors is the single largest opportunity in the company's history. Over the years, we have invested significantly around the world to increase our production capacity and to optimize our product portfolio. We're also working to build a resilient supply chain to provide the botanicals necessary to produce natural colors. Aside from our work to support these anticipated conversions, our emphasis on sales execution, customer service and commercialization of new technology continues to drive our current performance.

During the third quarter, we continued to generate strong new sales wins across each of our groups. These sales wins are a result of our innovative product portfolio across our food and pharmaceutical and personal care product lines. These new sales wins and our pricing discipline are not only driving our revenue growth, but are also the main reasons for the margin strength we are seeing across each group. We remain focused on collaborating with our customers to support their development requirements and our sales pipelines remain robust in each of our regions.

We continue to win new business across the company despite a flat overall consumer market. Growth in the North American and European food and beverage sector has been stagnant for the last several years. New product launch activity continues to be down across many categories in the Americas and Europe, and Q3 was a continuation of this trend.

Also, as I mentioned during our last several calls, the current trade and tariff landscape has introduced additional complexity and uncertainty to our businesses. While we have already taken price to offset the impacts of the initial wave of tariffs, and we'll continue to take these pricing actions into next year, we have witnessed some demand and volume disruptions in some areas of our business due to this uncertainty, particularly in Asia Pacific. We will continue to position our supply chain organization to minimize any disruptions to our customers and to optimize the flow of goods.

Now turning to slide 6 and our group results. Color Group had excellent third quarter results, delivering 7.9% local currency revenue growth and 23.8% local currency operating profit growth. The group's third quarter adjusted EBITDA margin improved to 24.7% from 22.2%, an increase of 250 basis points versus the prior year. This margin improvement is a testament to our efforts to sell technically differentiated products, control costs, execute on our pricing strategy and deliver quality new wins.

In the third quarter, the group saw strong new sales wins. While these wins were particularly impressive in natural colors, let me clarify that the wins recognized in the third quarter are not yet the result of any significant conversions of existing products in the US. The Color Group remains on a great trajectory, and I couldn't be more excited about the future ahead of us.

Turning to slide 7. The Flavors & Extracts Group saw local currency revenue decline in the third quarter by 1.2%, but increased local currency operating profit by 7.8%. The group's adjusted EBITDA margin was 17.7%, up 130 basis points versus the prior year's comparable quarter. The flavors, extracts and flavor Ingredients product lines reported 4.5% 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 and Latin America.

Turning to our Natural Ingredients business. We have renamed that business to Sensient Agricultural

Ingredients. Agricultural Ingredients consists of dehydrated onion, garlic, capsicums and other vegetables. To this point in the year, the business has been impacted by lower sales volumes and significantly higher crop costs. We expect improvements to begin in Q4 2025. Despite these dynamics in the Agricultural 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 saw volume headwinds in the third quarter, delivering flat local currency revenue and local currency operating profit. The group's adjusted EBITDA margin was 24.2%, up 40 basis points versus the prior year's third quarter. The flat revenue is a result of lower volumes within certain selling regions that we expect to persist through the end of this year. The Asia Pacific Group is equipped with strong leadership and operations and the group's new sales wins momentum sets it up nicely for 2026 in the future.

Turning to slide 9. Regarding our full year guidance, we now expect our local currency adjusted EBITDA and EPS to grow at a double-digit rate. Our previous guidance called for high single-digit local currency adjusted EBITDA growth and high single-digit to double-digit local currency adjusted EPS growth. We are maintaining our consolidated full year local currency revenue guidance of mid-single-digit growth.

On the capital allocation front, last quarter we increased our capital expenditure guidance to be around \$100 million to ensure that we are prepared for the forthcoming natural color conversion activity. The increased investments we are making in natural colors is a great use of our cash. And over the next couple of years, we anticipate elevated capital expenditures. We will give more guidance on our 2026 capital estimate in February. However, as of now, we anticipate our total capital expenditures in 2026 to be at least \$150 million as we continue to invest in our natural color capabilities as well as across our Flavors & Extracts and Asia Pacific groups. Beyond capital expenditures, we will continually evaluate sensible acquisition opportunities, but we do not anticipate any share buybacks at this time.

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, along with a few of our innovative technologies.

Turning to slide 10. The regulatory environment and effective legislation has not seen much change since the last time we spoke. West Virginia became the first, and still the only state, to pass legislation that prohibits the sale of food products that contain synthetic colors. There has been no change on timing and 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, effective 2027. As I've stated, the main effect of these state actions is the conversion to natural colors at the national level. Across the country, companies are stepping up and committing to converting their existing products and setting conversion timelines to meet that January 2028 deadline.

Today, we have approximately \$100 million of synthetic color revenue that has the potential to be converted to natural colors. Previously, we had valued this opportunity at about \$110 million. However, it appears less likely that we will see wholesale conversions in the pet food and over-the-counter pharmaceutical spaces. As I said previously, the conversion to natural colors results in revenue multiples of approximately 10 to 1 on average.

Turning to slide 11. The FDA is now maintaining a master tracking list on their website of commitments within the industry and progress made towards those commitments. Under the parent companies currently recognized as of today, more than 50 brands have pledged replacement of FD&C synthetic colors. These include some very well-known and highly colored products. We have also recently seen

Walmart announce that it will eliminate synthetic dyes in all of its private label products by the beginning of 2027. This change was noted by Walmart to be a direct response to end consumer demand.

Turning to slide 12. I'd now like to take a moment to highlight Certasure, our product safety program for natural colors. This internal standard has been in place for years and guarantees customers a high level of product safety and quality. Raw materials go through rigorous screening for pesticides, heavy metals, microbiological adulteration and unauthorized solvents. We hope this program will become the market standard for all suppliers, and are working with the FDA to support the development of a national testing protocol as we enter a more natural world of color.

As we have done for the last several quarters, I would now like to highlight some of our innovative technologies. Currently shown on the slide is some information about one of our most successful natural color products, Pure-S Orange. This novel paprika-based solution is a clear testament to the efficacy of the Certasure program. Paprika is a widely popular source of color solutions, with usage across a variety of categories, but it is also a high-risk raw material. Around 60% of paprika raw material lots fail Sensient Certasure screening. These failures are often due to exceeding levels of pesticides and adulteration. While our Certasure program prevents the use of contaminated raw materials, it appears that other companies may not have such stringent standards as Sensient, as we frequently see our failed lots of Paprika go back into the open market for others to procure. Only batches that pass our Certasure process are used to make innovative color technologies like Pure-S Orange.

Pure-S Orange leverages a clean purification technology to achieve the industry's brightest and clearest natural orange. While there are other great natural orange options like annatto, beta-carotene, and carrot juice, none of them compares to Pure-S's stability and clear vivid orange in beverages. 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. It is our goal to help our customers succeed and to preserve their brands through this transition.

Turning to slide 13. Next, I want to highlight some exciting technologies from our Flavors & Extracts Group that can play an important role as companies open up formulas and perform some of the necessary reformulation work that will support the conversion to natural colors. First is BioSymphony, a signature innovation that elevates the flavor profile for a number of different product categories. BioSymphony gives developers the flexibility to elevate the taste perception of their products and to enhance the overall taste experience.

Second is PureMask technology, which includes a range of products that are ideal for balancing taste and neutralizing off notes that could originate from various ingredients in a customer's product. This portfolio is effective in addressing a wide variety of taste issues, from bitterness relating to high-protein ingredients or potential off notes from the incorporation of natural colors.

In summary, our R&D and supply chain efforts are centered around providing safe and consistent products. If you'd like more information on our natural color or taste modulation technologies, please visit our website.

Overall, I'm pleased with our financial performance in the third quarter. We are on track to deliver a strong performance for 2025. I'm excited about the growth opportunities within each of our groups. Our pipeline for natural color conversions continues to build. Customers continue to refine their launch timelines, so we can provide more definitive guidance on revenue timing going forward.

Looking ahead to 2026, we will give more detailed guidance during our conference call this coming February. However, we continue to expect our long-term consolidated local currency revenue to grow at

a mid-single-digit rate. We would expect any potential acceleration in natural color conversions to be incremental to this growth rate. As I mentioned earlier, we anticipate our capital expenditures to be north of \$150 million in 2026 to support our natural color conversion preparation activities. The growth we're experiencing is a direct result of the execution of our strategy and seizing the opportunities in the markets in which we operate. I remain optimistic about 2025 and the future of our business.

Tobin will now provide you with additional details on the third 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 2025 and 2024 remove the cost of the portfolio optimization plan. We believe that the removal of these costs produces a clearer picture of the company's performance for investors. This also reflects how management reviews the company's operations and performance.

Turning to slide 15. Sensient's revenue was \$412.1 million in the third quarter of 2025 compared to \$392.6 million in last year's third quarter. Operating income was \$57.7 million in the third quarter of 2025, compared to \$50.5 million of income in the comparable period last year. Operating income in the third quarter of 2025 includes \$3.3 million, approximately \$0.09 per share of portfolio optimization plan costs. Operating income in the third quarter of 2024 included \$1.2 million, approximately \$0.03 per share of portfolio optimization plan costs. Excluding the cost of the portfolio optimization plan, adjusted operating income was \$61 million in the third quarter of 2025 compared to \$51.7 million in the prior year period, an increase of 15.7% in local currency.

Interest expense was \$7.3 million in the third quarter of 2025, down from \$7.7 million in the third quarter of 2024. The company's consolidated adjusted tax rate was 23.8% in the third quarter of 2025 compared to 23.1% in the comparable period of '24. Local currency adjusted EBITDA was up 14.3% in the third quarter of 2025. Foreign currency translation had a minimal impact on the third quarter of 2025.

Turning to slide 16. Cash flow from operations was \$44 million in the third quarter of 2025. Capital expenditures were \$20 million in the third quarter of 2025. And as Paul indicated, we still anticipate our capital expenditures to be around \$100 million for the full year of '25. Our net debt to credit adjusted EBITDA is 2.3x as of September 30, 2025. Overall, our balance sheet remains well positioned to support our capital expenditures, sensible acquisition opportunities and our long-standing dividend. As Paul indicated, we'll continue to invest in our natural color production capabilities and capacity. These investments will remain elevated for the next few years, and we expect to drive favorable volume and profit growth for the years to come.

Turning to slide 17. Revisiting our 2025 guidance, we expect our consolidated full year local currency revenue growth to be mid-single digits. We have now raised our local currency adjusted EBITDA to double digits. Previously, our expectations was high single-digit growth. We now expect our local currency adjusted EPS to be up double digits in 2025. Last quarter, we guided high single to double-digit growth. We expect our fourth quarter interest expense to be around \$7.5 million, and we expect our fourth quarter adjusted tax rate to be around 24%. Based on current exchange rates, we still expect the impact of currency on EPS to be a slight tailwind for the year. Considering our GAAP EPS in '25, we now expect approximately \$0.28 of portfolio optimization plan costs. We expect our GAAP EPS in 2025 to be between \$3.13 and \$3.23 compared to our 2024 GAAP EPS of \$2.94.

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

QUESTIONS AND ANSWERS

Operator

We'll now begin the question and answer session. To ask a question, you may press star then one on your touchtone phone. If you're using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two.

Our first question comes from Ghansham Panjabi from Baird.

Ghansham Panjabi

Hi, guys. Good morning. Hope you're doing well.

Paul Manning

Hi, Ghansham.

Tobin Tornehl

Morning.

Ghansham Panjabi

I guess first off, it sounds like you've honed in on the \$100 million in sales as it relates to food and nutraceuticals and the potential with that conversion, etc. Can you give us a sense as to what portion of that is in the process of reformulation conversion? I mean, clearly, regulations are moving around, and there seems to be a sense of urgency with these public mandates and goals that a lot of these companies have announced, as you pointed out in your slide deck. But can you just quantify that in terms of backlog?

Paul Manning

Well, I think I get where you're going with this one, Ghansham. The \$100 million, I mean, it's a cross-section of really a whole range of customers. In fact, it's everything from candy to beverage to baked goods to processed foods, you name it. In fact, as I noted in the comment, really the only thing that you would probably exclude from this longer term maybe even is the pet food and the pharmaceutical OTC.

So that said, any customer that I've spoken with, or any of our sales folks or other leaders have spoken with, everybody is moving in this direction. The only real variable here, I think you go back a few months, I would tell you that there were probably three groups of customers. Group 1, "We're doing it. We're going there. We knew that we were going to have to do this, and we want to do this." There was another group, maybe Group 2 was a bit more, "We need to understand where this may make some sense, which products." And then there was a Group 3 that I must tell you was a bit more cautious, perhaps wondering if this is really going to happen, was there really going to be a requirement here.

In even just the last few months, I don't hear anything of a Group 3 anymore. And I would tell you that just about every company out there is either well down the path of this, working very, very diligently, or it's really the bucket 2 has probably evolved to "Yes, we're going to do it. We just need to figure out which ones go first and which ones go last in terms of how we prioritize."

So there is a strong expectation from customers that this deadline of January 1, 2028, is the deadline. There's really no playing around with that one. And so I think everyone that we're speaking with, every customer and every prospect, they're fully aware of the requirement and it's going to be either sometime in 2026 or 2027, but one way or the other I think everybody gets there in 2028, is certainly the goal that we observe.

Ghansham Panjabi

Sure. But it does take time for the reformulation and so on, and I assume your technical people are a big part of that process. So I guess that's what I'm referring to. Is the activity starting to match up with the customers' narrative as it relates to wanting to push towards natural at this point?

Paul Manning

Yes. Well, I think you said it perfectly. These are like new launches, and new launches are very, very complex and they can take some time. And beyond just the formulation challenges of trying to match a synthetic color, select the right color to include in that formulation, then there's stability testing. How well does that color do in that formulation? They may have never experimented with that particular beverage or that candy or that baked good. So there's a need to conduct stability testing. Will this color still look good? Will this formulation hold up six months down the line after it's been sitting in a warehouse or on a store shelf?

Many companies will do test marketing. How does the consumer perceive this product? Do they like it? Is it aligned very strongly with the taste expectations? And then there's 1,000 other elements that go into these launches, and the bigger the company, the bigger the risk. There's regulatory questions, there's repackaging, production scale up. So it is a massive, massive undertaking.

What has happened here is the biggest multinationals, who may have hundreds of products that they're reformulating, they are essentially doing hundreds of launches, relaunches within a fairly narrow window and time frame. And so, yes, it's a complicated game. It gets less complicated as you get to smaller customers who maybe have a handful of products that they're looking to launch. They still have to contend with all those factors that I just described.

But folks want to ask me, well, when is it going to happen and what percent by what month and what date? Well, that's a hard question to answer because most of our customers haven't necessarily definitively pointed out a specific timeline for all these hundreds and dozens of products that they may be reformulating. So yes, but your comment there really gets at what is the complexity of predicting precisely when somebody launches, and that's why I encourage folks to just remember, it's January 1, 2028, that's nine quarters from now. So there's not a whole heck of a lot of variability that would be associated with these outcomes, I would suggest right now.

Ghansham Panjabi

Okay. That's very clear. So on the food and pharma growth of almost 11% during 3Q, what exactly is that being driven by if you're saying that you're not really benefiting yet from the \$100 million converting, etc.? And how much of that 11% growth is being driven by maybe new wins in natural color? How would you think about that?

Paul Manning

The reason that business is growing so well is because we have a really good strategy. We're focused on really understanding why we win and why we're successful at customers. We are very selective about the types of projects and customers we want to work with. We tend to say no to business that doesn't align very closely with our strategy. So you're going to see us continue to avoid commoditized high volume, here today, gone tomorrow, let me send out a bid and win this by a penny type business. We stay away from that stuff. So we very much insist on having that differentiated defensible business model.

And so that means that the product starts with product performance. We have great, great products that we continue to use today, many have been developed over the years, and we continue to develop them. But I would tell you that's a considerable source of our success. We continue to have exceedingly robust service levels across the board. And this is on the basic blocking and tackling of the business, samples

and documents and salespeople showing up and being responsive. That is certainly a foundation for why we're successful there as well.

But the natural colors, I think we're generally regarded as a very good natural color company. And so we've got really great products. We have products that I would argue others do not have, and certainly do not have them to the same level of precision and consistency. And so I think our customers recognize this more and more and they see us as a tremendous resource, not just for providing color or flavor or cosmetic ingredient, but all the other components of making their launch and their business successful.

So I think it's really just a continuation of the ongoing strategy, nothing particularly new that I would comment we did during Q3. But what I would note is, I think I asked Tobin before this, hey, what was the final amount of conversion in Q3, products that were synthetic that converted to natural? And we've calculated it less than \$1 million. So that's not at all driving those results right now. So when those conversions start happening, it should be a real exciting time around here.

Ghansham Panjabi

Okay. I look forward to it. Thank you so much.

Paul Manning

Okay. Thanks, Ghansham.

Tobin Tornehl

Thank you.

Operator

The next question comes from Larry Solow from CJS Securities.

Larry Solow

Great. I appreciate it. That was some good color, Paul.

Paul Manning

Hi, Larry.

Larry Solow

Just a follow-up on that. Hi. How are you? On the \$100 million target, I guess, to change, that's obviously your existing customer base. Curious, outside of your current share on the on the synthetic side, I suppose there are lots of customers out there who are using synthetic colors today who will be switching to natural who are not a customer of yours today, at least on that synthetic piece, but I suppose are a target. So I'm just curious, outside of that, I know you focused on that initial \$100 million, but I suppose there's a much greater circle outside of that.

And then I guess on the flip side, is there also a possibility that some of this \$100 million, yes, they have to get away from synthetic, but are there cases where there's not a 10 to 1 conversion or there may be not a great alternative for them to get to that exact color and maybe they don't get a match color and can go on a cheaper route, even like Pepsi has this Naked out there. So I'm just kind of throwing out, are there other alternatives to where you go natural, but not necessarily that color match and 10 to 1 revenue ratio? Thanks.

Paul Manning

All right. I see where you're going there. So the first one, the \$100 million, the simplest way to look at this is \$100 million at that 10 to 1 ratio. Now to your point, are we going to get all \$100 million of that? No. Do you know why? Because I don't necessarily want all \$100 million of that. Some of this stuff, there's a whole range of natural colors. There's a very strongly performance-driven, technically differentiated variety. And then there's the belly wash commodity variety, and it's a spectrum. And so our business has very strongly focused on the former and largely ignored or avoided the latter. And so in that \$100 million, yes, there may be some synthetic colors that lend themselves to less exciting natural color solutions. We may be less interested in some of those. But then again, there's some synthetic colors in the market out there not in that \$100 million that maybe weren't real interesting to us as a synthetic color, maybe we just never had that business, but you know what, when those convert to natural it's really technically challenging. It's really performance-driven stuff, and we'd be super excited to get it.

So it's all those puts and takes. Right now, we use 100 as a good benchmark. You're absolutely right, there's pluses or minuses within that. And we'll keep you folks posted, as we continue on this journey. But I like our chances. We've been putting in a heck of a lot of work, and there's a lot of folks bringing this thing together. But the nice thing, this is a culmination of 15-plus years in this company. So as I said before, this is very much the long game strategy in this company. And so I think we have a very good chance and very good opportunity here to win very, very nice-looking projects.

Now to the second part of your question, that 10 to 1, yes, that too is an average. So think of it this way. The brighter a product appears and the more harsh the manufacturing environment it took to bring it to you, the higher that ratio is going to be. So think about maybe something that got baked in an oven and it's got a natural color, that may be a higher ratio than 10 to 1. It still has that bright vivid, but it's being produced in a very, very tough, harsh environment. So heat, light, hot and low acid conditions like a low pH, these are all very, very damaging to color. I think I told you, if you look at that sofa in your room and it's by the sunlight, the chair is not as brown as it used to be. Well, that's what happens to color in food and beverages, too. So it's trying to find ways to retain that vibrancy despite those really tough situations. Those types of products lend themselves to a higher ratio.

Now on the other end of the spectrum, to your point, a guy is like, well, I just want this lightly colored or I've got an opaque package or I'm going to get really cute and try to take color out. Well, a couple of things on that. First of all, some of those would come in obviously at lower than a 10 to 1 ratio. But I think our guidance to our customers is you want to match, and you need to match, the synthetic color. All the data and all the cautionary tales in the market suggest that if you go with less than the synthetic color match, you're putting your brand at risk because consumers, the first complaint, more than any other it seems, they are upset that the flavor has changed. So the color is very strongly tied to the flavor expectation of a product, and when you modify that in a way that's off the standard, consumers will revolt in some cases. And then still, in other cases they may just simply not like it because the color doesn't look as good.

So those are the reasons that we guide our customers and advise them to go with the best match possible that gives you the best chance to be as successful as possible. But I'm not going to deny that. I'm sure there will be a handful of brands out there who, again, will attempt to use less color or no color or put it in an opaque package and try their luck with that. But I don't believe anybody has ever demonstrated that to work in any market that I'm familiar with.

Larry Solow

No, no, that all makes sense. Really helpful. One quick follow-up, Paul. You mentioned no real change in regulations or ongoing legislation things in the last few months. Just any thoughts on the potential change on the generally recognized as safe, I guess, the FDA may tighten regulations a little bit on that, where you actually are now required to file something, where I think previously or currently it's self-governed basically, right? Could that potentially have any effect on your business at all?

Paul Manning

Not really. The GRAS standard that you're referring to specific to colors, colors, I continue to argue, are the most regulated food product in the world, synthetic colors anyway, inasmuch as every manufacturing batch has to be approved by the FDA, certified by the FDA. But even to get the right to manufacture those products, you have to petition the FDA for use of that product in food. And so that involves an extensive set of testing, toxicological testing, quality control, all sorts of parameters. And so that is the case with a natural color. If you'd like to add one, there is no GRAS process for adding natural colors. One would have to actually file with the FDA, petition that and again, go through that rigorous process.

Now, there could be impacts on other components of the business, for example, flavors, which don't have that equivalent color additive petition, but that would not be applicable to the cosmetic business. So there could be, but that is a rather vast and extensive part of the food world today. So attempting to modify that, I'll be interested to see what that proposal could look like. But that may bring elements of the food industry to an absolute halt in terms of bringing in new products into the market and introducing new ingredients. And so I think that's an interesting conversation. Ultra processed foods is another one. And so I think a lot remains to be seen on those two fronts. But I think there's a lot of good discussions underway on both of those.

Larry Solow

Great. I appreciate all the color. Thank you.

Paul Manning

Okay. Thanks, Larry.

Tobin Tornehl

Thanks, Larry.

Paul Manning

Go Jets.

Operator

Again, if you have a question, please press star then one.

Our next question comes from Nicola Tang from BNP Paribas.

Nicola Tang

Hi, everyone.

Paul Manning

Hi, Nicola.

Tobin Tornehl

Hello.

Nicola Tang

Hi. I want to stick on the Colors topic, but then I do have some questions on other divisions as well. On Colors, you mentioned in the remarks that even Walmart is also committed to converting some of its products towards natural colors as well. Do you see other private label brands also following suit? How meaningful could this be from Walmart for a general private label point? And given these tend to be lower price point items, do you see any impact in terms of this conversion price to, I guess, Larry's earlier question around whether some of those customers might choose to compromise on vibrancy or something else? That would be the first question.

Paul Manning

Okay. So yes, I think Walmart, the largest retailer, certainly in the US market, their declaration that their private brands, Great Value being one of them, will convert to natural colors by January 1, 2027, was a big move in the right direction for the natural color market and this whole notion about conversion. Many folks have sort of wondered, is this really going to happen? Could these deadlines slip? Could this maybe just be all sorts of a facade and it's really not going to happen? I really don't think that's going to happen. And Walmart making this an expectation and moving up the timeline a year earlier than West Virginia, I think, is a very positive development because, again, consumers want natural colors.

So I suppose you could say, well, why don't we give consumers what they want? And certainly, that is what Walmart has said that they intend to do. They want to give consumers what they want. So they've deliberately made this edict, and they intend to do that by January 1, 2027. So that may move some of the other launches to the left, which again could be a positive. We certainly don't want everybody to attempt to convert their products in the fourth quarter of 2027 because that would be physically impossible. This move is important for that reason. And because of its size and its influence, it's very, very meaningful for other brands and private labels to follow suit to be competitive with those brands that are converting.

With respect to, does it generate lower price points? I don't think so. I think that when you look at a lot of products, raw materials are not necessarily, in fact, in general they're not the driving cost behind bringing a product to market. Synthetic colors represent almost nothing to the cost of a product on an individual SKU basis, but as you convert to naturals it certainly becomes more expensive. And in most applications, it becomes somewhat at the level of a flavor, which is to say still fairly small on the annals of raw materials, but substantially more than they would have been paying for a synthetic color.

So I don't necessarily anticipate that being dilutive in any way, certainly, by no means is that dilutive to the quality expectations of natural colors. These are fairly well-established brands and very, very strongly performing brands, so I think they have every expectation, I would assume, to have the highest performing colors in their products. So no, I don't think that there's any diminishment in quality or price or anything else between private label and brand on a product like a natural color.

Operator

It looks like her line has dropped.

Paul Manning

Hopefully, I didn't make her upset with my answer.

CONCLUSION**Operator**

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

Tobin Tornehl

Okay. Thank you for joining the call today. That concludes our prepared comments. If you have any follow-up questions, please reach out to the company. Have a great day.

Operator

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