

Sensient Technologies Corporation

Second Quarter Earnings Conference Call

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CORPORATE PARTICIPANTS

Stephen Rolfs – *Senior Vice President and Chief Financial Officer*

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

PRESENTATION

Operator

Good morning and welcome to the Sensient Technologies Corporation 2023 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 "*" key, followed by "0".

After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press "*", then "1" on your touchtone phone. To withdraw your question, please press "*", then "2". Please note, this event is being recorded.

I would now like to turn the conference over to Mr. Steve Rolfs. Please go ahead, sir.

Stephen Rolfs

Good morning. Welcome to Sensient's earnings call for the second quarter of 2023. I'm Steve Rolfs, Senior Vice President and Chief Financial Officer of Sensient Technologies Corporation.

I am joined today by Paul Manning, Sensient's Chairman, President and Chief Executive Officer. Earlier today, we released our 2023 second quarter results. A copy of the release and our investor presentation is available on our website at sensient.com.

During our call today, we will reference certain non-GAAP financial measures which remove the impact of currency movements and other items, as noted in the company's filings. We believe the removal of these items provides investors with additional information to evaluate the company's performance and improves the comparability of results between reporting periods. This also reflects how management reviews and evaluates the company's operations and performance.

Non-GAAP financial results should not be considered in isolation from or as a substitute for financial information calculated in accordance with GAAP. A reconciliation of non-GAAP financial measures to the most directly comparable GAAP financial measures is available in our press release. We encourage investors to review these reconciliations in connection with the comments we make today.

I would also like to remind everyone that comments made during this call, including responses to your questions, may include forward-looking statements. Our actual results may differ materially from those that may be expressed or implied due to a wide range of factors, including those set forth in our SEC filings.

We urge you to read Sensient's previous SEC filings, including our 10-K and our forthcoming 10-Q, for a description of additional factors that could potentially impact our financial results. Please keep these factors in mind when you analyze our comments today.

Now, we'll hear from Paul Manning.

Paul Manning

Thanks, Steve. Good morning and good afternoon.

Sensient's local currency revenue this quarter was in line with last year's second quarter revenue. Our adjusted local currency EBITDA and operating income are each down about 7%, largely due to the continued impacts of destocking globally and declines in volumes on many consumer product categories, primarily in North America and Latin America.

As we have been discussing, we anticipated the volume declines due to destocking to continue, throughout the second quarter.

In general, we saw the impact from our customers destocking activities broaden across additional product lines in the second quarter and to a greater degree than we had anticipated. Destocking will obviously not last forever, but when it will end for different products and geographies is becoming more difficult to predict.

In parts of our business we have seen improving order patterns but in others, we have yet to see order patterns returned to normal. Despite destocking, we're beginning to see an increase in promotional activity in certain North America food product categories, and new product launch activity remains healthy.

Furthermore, we continue to experience strong sales wins, effective pricing implementation and an overall low attrition rate. We're focusing on the areas of our business we can control. Sales execution, customer service and avoiding attrition on our existing sales.

Our new sales wins continue to be at a high level across all three groups and our sales pipelines across all of our businesses remain robust. These new sales have been across all our product lines and throughout most of our geographic regions.

These wins remain at a historically high rate for the company, which bodes well for a post-destocking world. We still continue to see positive momentum in new product launch activity, and we expect this activity continue into next year.

We are monitoring cost inflation and continue to implement pricing actions, as needed. We have begun to see supply chain and raw material cost improvement in some areas. However, we also continue to experience overall elevated energy, growing costs and commodity costs in certain geographic regions.

As we have communicated over our last couple of calls, the timing of our pricing actions versus the timing of cost inflation may distort our quarterly year-over-year comparisons.

Destocking continues to be the main headwind throughout many of our businesses. While destocking initially had a more profound impact in our Flavors and Extracts group, we did experience an increased level of destocking in both our Color and Asia Pacific groups during the second quarter compared to the first quarter. The magnitude and timing of this destocking was somewhat unexpected.

In addition to destocking, retail data for many of our customers indicates they are seeing negative volume trends for the last 24 months. We are starting to see improvement in certain businesses and geographies, and we anticipate the volume declines due to destocking to continue to moderate, throughout the back half of this year.

This volume decline, as well as the overall CPG volume declines in many food and personal care product categories, has had an outsized negative impact on our operating profit, this year. Our outstanding performance and strong volume growth in 2022 has also made for an exceedingly difficult comparison, plus our own efforts to reduce our inventory have impacted our margins.

Now turning to the groups. The Color Group reported 2% local currency revenue growth in the second quarter. Local currency operating profit was down approximately 8% in the quarter. The group's revenue growth benefited from a high single-digit price increase, which was partially offset by an almost double-digit revenue headwind, due to destocking.

For the year-to-date period, the Color Group has reported 6% local currency revenue growth. The food and pharmaceutical product lines delivered 4% local currency revenue growth during the second quarter.

Food and pharmaceutical product lines continued to benefit from new sales wins, particularly in the natural colors portfolio. But even these product lines have experienced an increased level of customer destocking in the second quarter.

Revenue in the personal care product line was down mid-single digits in the second quarter, primarily due to customer destocking, especially in North America. Based upon these developments, I now expect the Color group's local currency revenue to grow at a low to mid-single digit rate and local currency operating profit to decline at a low to mid-single digit rate in 2023.

The lower revenue and operating profit decline in the Color group are a direct result of the more than expected volume declines due to destocking and the continued volume declines in the CPG food and personal care product categories.

These volume declines have an outsized impact on operating profit and are especially stark in comparison to the outstanding results reported by the Color group in 2022. Because I believe destocking will not last forever, I continue to expect the Color group to deliver mid-single digit revenue growth and mid to high single-digit operating profit growth in the long-term.

The Flavors and Extracts Group was down approximately 2% in local currency revenue in the quarter. The group's strong win rate and pricing were offset by ongoing customer destocking and ongoing CPG volume declines in the food product categories, especially in North America and Latin America.

The volume declines due to destocking that began in the fourth quarter of 2022 have continued throughout the first half of this year and have had an outsized impact on our operating profit. This impact is especially stark when you compare our current results to the outstanding results reported by the group in the first half of 2022.

The Flavors and Extracts Group is well positioned for growth, once the relatively short-term impacts of destocking subside. Our focus over the years on our product portfolio, sales execution and customer service are the foundation that will support growth, over the long-term.

I continue to expect the Flavors and Extracts Group to deliver incremental improvements throughout the remainder of the year. For the year, I now expect the Flavors and Extracts Group to deliver low to mid-single digit local currency revenue growth, and I expect local currency operating profit to be down mid to high single digits.

Local currency revenue growth in the Asia Pacific Group was down approximately 1% in the second quarter. Year-to-date, local currency revenue was up 7% in this group. Similar to the Color Group, customer destocking in the region broadened and was greater than expected, compared to the first quarter of this year.

Despite this headwind, the Asia Pacific Group continues to benefit from strong new sales wins, across almost all regions. The group's focused on sales execution, customer service, as well as the investments we have made positioned the group nicely for growth in the future. I continue to expect Asia Pacific Group to deliver mid to high-single digit local currency revenue growth and mid to high-single digit local currency operating profit growth in 2023.

My long-term growth expectations for each of our groups has not changed. I continue to expect the Flavors and Extracts Group to deliver mid-single digit local currency revenue growth with mid to high-single digit local currency operating income growth.

I continue to expect the Color Group to deliver mid-single digit local currency revenue growth and a mid to high-single digit operating income growth. And I continue to expect the Asia Pacific Group to deliver mid to high-single digit local currency revenue growth and operating profit growth of high-single digit to double-digit local currency growth.

For 2023, I expect our local currency revenue to be up mid-single digits. But as a result of the volume declines due to destocking and the volume declines in the global food and personal care markets, I now expect our 2023 adjusted local currency EBITDA to be down mid-single digits and our local currency EPS to be down high-single digits.

As I said, we're focused on the areas we can control, sales execution, customer service and our product portfolio. This focus has fueled the exceptional growth we've experienced over the last few years. Our customers, like many other businesses, are currently focused on right sizing their inventory positions.

Overall, destocking is a short-term activity that we believe should improve later this year and into 2024. That is a bit longer than I predicted 90 days ago, which speaks to the volatility and uncertainty in the market.

2023 has proven to be a transitional year as we move from supply chain inflationary burdens of the last two years to a more normal environment.

Recently, we have seen an increase in promotional activity across many product categories. Our new development activity with customers is healthy and remains a key part to why we continue to win new business. Overall, our strategy is sound and we are well positioned for future growth.

While I'm not thrilled about the current market environment, I am excited about our opportunities within each of our businesses and remain optimistic about the future of our business.

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

Stephen Rolfs

Thank you, Paul. Sensient's revenue was \$374.3 million in the quarter, compared to \$371.7 million in last year's second quarter. Operating income was \$51.6 million, compared to \$55.2 million in the comparable period last year. Foreign currency increased revenue and operating income by approximately 1% in the quarter.

Interest expense was \$6.4 million in this year's second quarter, compared to 3.1 million in last year's second quarter. The company's consolidated tax rate was 24.8% in this year's second

quarter, compared to 25.9% in last year's second quarter. Diluted earnings per share were \$0.81 in this year's second quarter, compared to \$0.92 in last year's second quarter.

Foreign currency translation did not have a material impact on EPS in the quarter. As we have discussed during our last couple of calls, we continue to focus on our inventory position.

While we are strategically investing in the inventory for our Natural Ingredients business, we continue to be focused on decreasing our inventory, across the remainder of our businesses. As a result we are seeing an improving cash flow trend.

Capital expenditures were \$22.9 million in the second quarter of 2023. We have reduced our estimates for capital expenditures this year and now expect our capital expenditures to be between \$80 (million) and \$85 million for the year.

Our net debt to credit adjusted EBITDA is 2.7. Our balance sheet remains well positioned to support our capital expenditures, sensible M&A and our longstanding dividends. And any excess cash will be used to pay down debt.

Regarding our 2023 guidance, we continue to expect our 2023 local currency revenue to be up mid-single digits, compared to our 2022 revenue. As Paul mentioned earlier, we now expect our local currency adjusted EBITDA to be down mid-single digits in 2023.

We also now expect our 2023 local currency EPS to be down high-single digits, compared to our 2022 adjusted EPS of \$3.29. Our previous guidance called for our adjusted EBITDA to grow at a mid- to high-single digit rate in 2023 and our local currency EPS to be flat to up low-single digits in 2023.

As we have discussed in 2023, our EPS will be impacted by higher interest expense, approximately \$0.22, or \$12 million and a higher tax rate. On a quarter-to-quarter basis, our tax rate will fluctuate and, therefore, we continue to believe our local currency adjusted EBITDA growth is an important measure of our performance. Based on current exchange rates, we expect currency to be modestly favorable for the full year.

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

QUESTION AND ANSWER

Operator

We will now begin the question and answer session. To ask a question, you may press “*”, then “1” on your touchtone phone. To withdraw your question, please press “*”, then “2”. At this time, we will pause momentarily to assemble our roster.

And our first question will come from Ghansham Panjabi of Baird. Please go ahead.

Ghansham Panjabi

Thank you. Good morning, everybody. Paul, going back to your comments on destocking, and clearly that dynamic will not last forever. But it does look like volumes out of the CPG space of the companies that are reported thus far, they're still down mid- to high-single digits. So, are we at a point where destocking is intersecting with just flat out just weaker consumption at the end market level? And how do you see that dynamic playing out?

Paul Manning

Yeah, so I agree with your comment that that they're on their businesses, the decline is there plus their destocking, both factors for them. I think one of the key things that we're starting to see, particularly in North America, is promotional activity.

So, for much of the Nielsen data we've been looking at, you've seen this decline in the overall market for many categories. In fact, most categories, as consumers are destocking, transitioning how they purchase. Instead of stocking up on certain products, they're only buying one and they're shopping more frequently. These are all very real dynamics, which have impacted many CPG companies who have noted these declining volumes.

So, you add to that they, in general, most branded companies and generic companies stocked up on inventory over the last couple of years. And I think given the level of strength in the supply chain, the reliability improvements, there was almost a concerted effort across the board for everybody to start bringing inventory down.

And so yeah, they both initiated at the same time, which has exacerbated this problem and measurably for us, that's part of the overall volume, the two of the big factors that bring down volume.

So, I tend to think of what we're seeing right now is we're betting that the promotional activity signals a flattening of the pricing in the market. So brands and generics and others will start promoting more products. Buy one get one free, things of that nature, which obviously preserves the price of the product, but offers consumers a discounted version, the Buy One Get One Free scenario.

So we think that that will expand and expand to more markets and across more product lines. That will, hopefully, promote the volume in the market, hopefully then accelerate the end of the destocking, which is very much a mix game. I'll come back to that in a second.

So, I think the promotional activity is a big one. I think the increase in new product launches, which we're seeing in North America, Europe, and throughout most of Asia. In fact, it's up everywhere except Latin America, new product launches. That's another very good indication that there is a need to move volume in this market and get consumers trying new products. I think these factors are picking up all very positive. And again, I think I said in the beginning prices and flattening out.

So those come together. And I think everything works out of the system. It's the timing of when those things happen, right. So the destocking, we have some customers who are done destocking; they're ordering as they have always been ordering.

There are some who were supposed to be done with destocking, but now will need another quarter. It's hard for them to predict that the market would be down as it has been. So that's why some of those calculations were a bit off. And then of course, we have other customers who will be destocking, until the end of the year. So it's a very mixed bag.

But as you look at our groups, I think Flavors is closest to being out of the destocking. We see that largely coming to an end here in Q3, so that's a very good sign. Colors obviously took the brunt of their destocking impact there in Q2, and Q3 will be another tough destocking quarter for them.

And that was expected, like Flavors is a shorter shelf life in general, and a more expensive ingredient. So you can understand a company's desire to destock that type of product before they get to Color. So that was not unexpected Color lagging Flavors, but Colors will have a significant destocking impact in Q3. But we see that moderating, substantially, in Q4.

And then Asia Pacific was very much an anomaly in Q2. So we think that will be very short lived. And we expect to have a pretty good quarter here in Q3 for Asia. So complicated answer, I'm sorry to say, but it's the best explanation I could give for that one.

Ghansham Panjabi

No, no. That totally makes sense. And so, just as a follow up to that, so that \$0.30 or so EPS reduction for this year, for 2023 relative to your previous guidance, just based on high single digits and declines and so on versus what you said before, how does that break up in terms of what are the major constituents? I mean, obviously, volume is a big piece of that. But is it mostly destocking that underlies that \$0.30 reduction or is there something else?

Paul Manning

I would tell you that volume is the single biggest factor, we have the destocking is a big factor that you could take is a depending on the business unit, that's running high single digit headwind for us. You can look at the actual organic declines in the market, that's running mid-single overall, high-single to double-digit for Flavors, but mid-single digit, overall. So those are two of the biggest factors that are driving the volume piece. And then of course, you have the--but we already knew what our volume was, last year.

But what makes that more pronounced and these reports on EBITDA is the comparison to last year is rather pronounced. So now where that plays out is, I don't want to get too much into the accounting gobbledygook here. But when the revenue is down and the volume is down, that flows through the P&L over the next several months, in essence.

And so, that's a bit of why, given the more significant volume declines we experienced in Q2, that's why we see that impact will continue into Q3 and forward just as the accounting works on the--when we produce less to meet the reduction in customer demand.

Ghansham Panjabi

Okay, thanks so much.

Paul Manning

Okay, thanks, Ghansham.

Operator

The next question comes from Joan Lim of BNP Paribas. Please go ahead.

Joan Lim

Hello. Just a couple of questions for me. Just on the EPS guidance, sorry to ask a similar question, but so your revenue guidance remain unchanged. But you still expect EBIT and EPS to be worse. Can you just help me understand how this dynamic workout? That's my first question, then I will ask my second one, after.

Paul Manning

Yeah, so the simple answer is, we got more in price than we saw it and less in volume, which is the easiest sort of. The harder answer is, what I was just kind of discussing with Ghansham, how

the reduction in volume in this quarter, we experienced that even in the out quarters. So it has kind of a lagging effect.

I think on the range of mid-single digit anywhere between four and six, we could be at the lower end of that. And we were previously probably at the higher end of that, so there is somewhat of a downgrade, even within the definition of mid-single digits.

Again, we thought we might be six or seven. But now we're saying maybe we're four. That's still mid-single digits, so there's a little bit of that, as well. But I would say that the real easy answer here is, we got more price than we thought and less volume than we thought.

Joan Lem

Okay. That's helpful. Thank you. And then just on Natural Ingredients. I noticed that in Q2, it was down 7%. What's driving this, is the destock there as well?

Paul Manning

Yeah, sure. There's a fair amount of destocking in the Natural Ingredients business. The crop costs have been elevated for the last couple of crop cycles. This is pretty well publicized between water expense, labor, fertilizers, you name it, all the input costs have gone up. And so, that has again, caused some consumers to trade down in some cases. But yes, the bigger impact is, as I described.

Joan Lem

Okay. That's helpful. Thank you. And then maybe just a last question on destocking. Could you provide more color on no, pun intended, on which product categories and regions specifically are you seeing the destock?

Paul Manning

Okay. So specifically for Color you'd like to know?

Joan Lem

No, no. For across like, all the segments please.

Paul Manning

Okay. So the destocking, it's not unlike what I was describing last quarter, right. There's sort of a geographical dimension and then there's a product line dimension, as well. So, the most significant destocking that we see in the company is North America, period, full stop.

We see that first out of the gate was Flavors, again, because are believed higher priced item, raw material for a customer, kind of a longer, not as long of a shelf life as a Color. So that was kind of the first one, as a customer looks at his most expensive raw materials, Flavors would come on the list before Colors.

So continuing down that list, though, Colors would eventually be there. And so that's kind of a phase we're in now, but North America for food, North America for personal care has also been significant. Next step would be Latin America, principally food. Substantially less than that would be personal care. And then Europe, there's been destocking, but it's not to the same magnitude as the U.S. And in fact, in some product categories, we see a little bit of return to growth.

Asia Pacific, very, very limited. Destocking, there's been destocking, but it has been, I would tell you a smaller number of our customers but just more significant actions by those customers. So

in fact, they were so significant, as you could see that we'd like to think that some of those impacts will be much shorter lived than what you're seeing in Colors and Flavors.

And then, as you'd think--yes, and then beyond that, really just customer product categories. Things like dairy and ice cream, those destocking efforts are largely done because customers could only hold so much of that inventory anyway, so there wasn't a whole lot to destock.

But certain other categories, certain beverages or canned foods or savory products that have a very long shelf life, customers might have accumulated a fair amount of those types of products. Ditto for things like personal care, where there tends to be a lot of inventory in the system and customers may have a fair amount of that inventory, again, given the very long shelf lives on those products. So that's how, as our product categories play out, that's how we're seeing that play out on the market.

Joan Lem

Okay. That's very helpful. If I can squeeze in one more, just for Q3 and the rest of the--I think you've given a good summary of your expectations. But in terms of this destocking, what have you heard from customers so far, just year-to-date and your expectations for the year?

Paul Manning

Well, it's a mixed bag. Some customers are done destocking, they'll tell you that; they order normally. Very easy. Others will tell you, well, we're destocking and here's the date we're going to start resuming normal order patterns. And then there's a whole group of customers who have, it's a little bit harder for them to determine. And understandably, because it's harder for them to see what's happening in the market, in terms of end consumer activity.

So, no clear picture, I would tell you that many more personal care customers are closer to being out of destocking than say food customers are, in general. But it's a complicated picture and when a customer is ordering 700, 800 raw materials, they may not always have a precise set of calculations for your particular raw material to help you conclude when they will start ordering as normal.

So, complicated picture. But I think in general, as I said before, Flavors, I think we're pretty, pretty much should start to see substantial reduction in destocking here in Q3. We should become, I would like to think, completely out of that by Q4. Colors will be very much in the destocking frenzy here in Q3, but substantially improved in Q4 and beyond. And then, Asia Pacific, I would tell you that, right now, we're looking just fine for Q3.

Joan Lem

Okay, that's very helpful. Thanks very much, I'll pass it on.

Paul Manning

Okay, sure. Yeah, thank you.

Operator

Once again, if you would like to ask a question, please press "*", then "1"..

And our next question comes from David Green of Boldhaven. Please go ahead.

David Green

Hi Paul, hi Steven, how are you?

Paul Manning

Hello, David

Stephen Rolfs

Hello, David.

David Green

Hey there. Couple of questions. In terms of your assumptions around full year guidance, baked into that is an improvement coming through in the second half. Would be really helpful just to get a bit of color behind what's giving you the confidence there. And maybe specifically, you referenced, Paul, an improvement in F&E in Q3 from less of a headwind from destock. But what gives you the confidence in that, given the general ability to predict the destock is very difficult at the moment.

And then, obviously, why APAC Q2 was really a bit of an anomaly. And Colors, Q4, you said, you're expecting a strong rebound. Again, what gives you the visibility and confidence on that for 4Q.

Paul Manning

All right, let me write all those down. You had about four in there. Okay. So the first one, what gives me the confidence most simply would be that the level of new wins we're generating in the groups and the implementation of pricing. So across Color, Flavor in Asia, we continue to have really, really strong new win rates, we're still very active at customers, we're still very successfully selling our products.

And to me, that is the number one thing that we can control. And if we don't execute on that, then we are not running the business properly. But we are executing on that. And that is running very, very well. And that bodes very, very well for the future. So, that gives me a lot of confidence.

Number two, pricing. I think we've done very well on implementing pricing. We generate, it was about high-single digit benefit in Q2. And we've been able to maintain that pricing, in most cases. And so, we've been able to do that without adding a lot of attrition to the business, which is a very, very important factor. So those factors.

Those are really the basis for my confidence, as I look to, even the Q3 and Q4, because these wins, and as I describe them, I mean, they start and then they'll run their cycles across food, across personal care, very high-quality wins, as well. I think that's another good factor.

To your point about Flavors, kind of starting to see some improvement. In Q3, yeah, I think Flavors will start seeing some improvement in Q3. Again, a customer can't destock, forever. And we're nearing the end for many. And in fact, we've already achieved the end for some, particularly say in our sweet flavor categories, where I noted earlier that there's only so much a customer could have held as inventory, given the perishability limitations of those products. So those are all positives.

So, I think you'll start to see some improvement in flavor in Q3. And then you had Asia Pacific for Q2. So yeah, I think we effectively had a number of our customers who accelerated destocking efforts in Q2, and they moved very, very purposefully, to do so and in a way that was very, very directed and short-term; let's get it done and let's get it done now. So that was completed, substantially, among those customers in Q2.

And then Color, to the last part of your question, what gives me confidence in Color, say, in Q4, and beyond. If there's one very, very strong foundation to our company, it's been certainly food colors. And our personal care business, I think, in general, Color is up until the start of Q2 has been running really, really high win rates, really, really high revenue.

And then, destocking came very, very dramatically here in Q2. We were still up 2% but we would call that fairly substantial destocking efforts, that was about a 9%, 10% headwind for Colors in Q2. So much higher than in Q1. We may have a rate that is at least that much in Q3, probably about that much in Q3. And then we think Flavors, unlike Color--sorry, Flavors lingered a little bit longer, we think Colors will be a little bit shorter but more dramatic.

So, but I don't know 100%. So I think that again, I look to the very, very solid win rate. Colors has the highest win rate in the company, right now. They have excellent pricing implementation, as well. And their attrition is very, very manageable. So, I think those are other factors that give me significant confidence in Colors. And then, again, with a new product launch activity, continue to improve, Colors is also very, very well positioned to capitalize with those new wins.

So I think I covered all your questions in there.

David Green

Yeah, no, that's perfect. And maybe just specifically on Colors. I don't know if there's more to flush out here or not, in terms of the demand versus destock dynamic. And whether really, that we should really be focused just on the destock in terms of the driver of the weakness for Q2 and, potentially, for Q3.

Paul Manning

Well, I would tell you this, as how we got to that 2% growth in Color, about 4% of that was a market decline. So, destocking was more than twice that. So, if destocking could go away, David, I'd be the happiest guy on the planet, right now.

David Green

Great. And then just another quick one on input costs that you've talked about. You just mentioned water, energy, labor. Just sort of wanting to get a more general sense of that. Is that something that sort of, you see as being quite persistent? And it's a little bit counterintuitive, I guess, on the energy side because I think, historically, you've said energy costs in Europe for a headwind, when energy prices was already high in Europe. Now energy prices in Europe have come down a long way. So, I'm just trying to understand the moving parts there.

Paul Manning

Yeah, I'll answer the first part of that. Then I'll have Steve answer, as well. So the main costs that, we still see elevated costs in many categories, certainly not as elevated, as they had been previous, you just mentioned one of them on the energy. For sure, energy is down in many of the regions, in fact, most.

Growing costs, though, has been a persistent factor. The issue is growing costs, as you grow a crop with elevated input costs, that crop doesn't come out of the ground, the next day. The crop comes out of the ground, like months later, and then you'd start selling it. So what you're selling now is a reflection of input costs from like, a year ago, or depending on what crop you're selling.

So, there is a lagging factor there. So, the first year when you saw those input costs go up, we still had the lower costed crop, so we benefited from that. But now you kind of--it's not so fun on this end of the equation, where you've got to deal with previously elevated costs that have impacted your inputs. But Steve, you want to add some additional color there?

Stephen Rolfs

Yeah, I think you hit on a lot of it. So this quarter, our costs are higher than they were in the second quarter of last year. We're certainly seeing improvement and relief in a lot of areas; energy would be one of them. But keep in mind that a lot of times we will have forward contracts for energy. And so it could have been that we were partially hedged last year, and now if we're hedged, we're hedged at a higher rate.

So there's a little bit of a delay in that respect. And then as Paul said, was some of the agricultural inputs that are harvested maybe just once a year, you can see a delayed impact because those were grown under an inflationary environment and are just coming out of the ground now.

David Green

Great, thanks again.

Paul Manning

Okay, thanks, David.

CONCLUSION

Operator

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

Stephen Rolfs

Okay. So thank you very much for joining us this morning. That will conclude our remarks, today. Thank you.

Operator

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