Sensient Technologies Corporation

2026 Second Quarter Earnings Conference Call

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CORPORATE PARTICIPANTS

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

Tobin Tornehl – *Vice President and Chief Financial Officer*

PRESENTATION

Operator
Good morning, and welcome to the Sensient Technologies Corporation 2026 Second Quarter Earnings Conference Call. All participants will be in a 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 that today's event is being recorded.

I would now like to turn the conference over to Mr. Tobin Tornehl, Vice President and Chief Financial Officer. Please go ahead, sir.

Tobin Tornehl
Good morning. Welcome to Sensient's earnings call for the second quarter of 2026. 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 2026 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 remove the impact of currency movements, cost of the company's portfolio optimization plan from our 2025 results 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 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 of our deck.

Now, we'll hear from Paul.

Paul Manning
Thanks, Tobin. Good morning, good afternoon.

Earlier today, we reported our second quarter results. We delivered 10% local currency revenue growth, 21% local currency adjusted EBITDA growth and 26% local currency adjusted EPS growth in the second quarter. These results continue to build on our strong first quarter results and are well above our earlier projections for the year. We continue to have outstanding results from the Color Group, which delivered 17.6% local currency revenue growth and 36.8% local currency operating profit growth. The commercial activity around natural color conversions continues to be very strong, and the momentum is building as customers approach their launch dates.

Flavors & Extracts Group also had a solid quarter, delivering 3.8% local currency revenue growth and local currency operating profit growth of 6.1%. The Asia Pacific Group contributed strongly with local currency revenue growth of 12.3% and local currency operating profit growth of 23.7%. Each of our groups has delivered strong results for the first half, and we expect even stronger results in the second half of the year.

During the second quarter, we continued to generate strong new sales wins across each of our groups, and our sales pipelines continue to grow to support our revenue expectations. Our emphasis on sales execution, delivering exceptional customer service and constant innovation continues to drive our performance. We're delivering very high win rates in natural colors, specifically natural color conversions. Our long-term strategy and preparations have positioned us to support our customers throughout this conversion process and achieve our $1 billion sales target.

Aside from natural colors, our robust and innovative product portfolios across our other food, personal care and pharmaceutical product lines are enabling us to win across the globe. As I've stated before, despite a choppy macroeconomic environment and sluggish overall food market, we believe we are well positioned to continue our sales momentum.

As I've mentioned on previous calls, we made a strategic shift over 15 years ago in anticipation of the conversion of synthetic colors to natural colors in the US and beyond. We're seeing strong conversion activity and newly converted natural color products are already hitting the shelves in the US, Canada and Mexico. I will reaffirm what I've said previously. The US conversion to natural colors is the single largest opportunity in Sensient's history. We are aggressively pursuing the commercial opportunities while also executing on our considerable investments in our production capacity, supply chains and product innovation to support us for our $1 billion sales goal.

Turning to Slide 6 and our group results. The Color Group had excellent second quarter results, delivering 17.6% local currency revenue growth and 36.8% local currency operating profit growth. The Group's second quarter adjusted EBITDA margin was 28.3%, up 320 basis points compared to prior year. This included approximately $4.3 million from onetime tariff refunds, which contributed 200 basis points to the Group's adjusted EBITDA margin. Excluding the tariff refund, the Group's adjusted EBITDA margin would have been 26.3%. Without the tariff refund, the Group still had an outstanding quarter and continued our increased investments in support of the natural color conversion opportunity.

The Group continues to sell technically differentiated products, control its costs, execute pricing and most importantly, deliver quality new wins. We are seeing acceleration in customer orders for conversions of the synthetically colored products in the US. Alongside these conversions, the vast majority of new product launches throughout the world continue to utilize natural colors. I can reaffirm that the pipeline to our $1 billion sales goal looks very promising. As we approach the second half of the year, I now expect the Color Group to deliver local currency revenue growth in the high-teens for 2026, with natural color conversion sales building as the year progresses.

During the second quarter, the Color Group invoiced approximately $25 million of natural color conversion revenue. This $25 million is in addition to the $20 million of revenue that we cumulatively invoiced through the end of Q1. I also expect that the EBITDA margin for the Color Group in Q3 will be similar to prior year's Q3 EBITDA margin of 24.7%. Overall, the Color Group is progressing very nicely in 2026 and remains on a great sales trajectory.

Turning to Slide 7. Flavors & Extracts Group saw local currency revenue growth in the second quarter of 3.8% and increased local currency operating profit by 6.1%. The Agricultural Ingredients business, in particular, had nice volume growth in the quarter. The Group's adjusted EBITDA margin was 18.1%, up 30 basis points versus the prior year's comparable quarter. The results align with our expectations for the second quarter. The Group continues to optimize its costs and focus on new and defensible flavor wins, and these factors have fueled the favorable profit leverage. Overall, for the Flavors & Extracts Group, we expect local currency revenue growth of mid-single digits for the year.

Now turning to Slide 8. The Asia Pacific Group had a very strong quarter, delivering 12.3% local currency revenue growth and 23.7% local currency operating profit growth. The Group's adjusted EBITDA margin was 24.4%, up 210 basis points versus the prior year’s second quarter. Overall, the Asia Pacific Group got off to a substantially faster start than we anticipated in the first half and is set up nicely for the rest of the year. The Asia Pacific Group continues to generate strong new sales wins across all geographies, expect the Group to deliver high single-digit revenue growth for the full year.

Turning to Slide 9. Regarding our full year guidance, we expect our local currency revenue to be up high single to low double digits. Based on our strong start to the year, we now expect local currency adjusted EBITDA and EPS growth in the mid- to high teens for the year. Our previous guidance called for high single- to double-digit growth rates.

On the capital allocation front, we previously communicated expectations for consolidated capital expenditures in 2026 of between $150 million to $170 million to ensure that we are prepared for the forthcoming natural color conversion activity. I would anticipate we still land within that range, but trending toward the top end. We continue to expect to spend around $250 million for natural color capital over the next few years.

We also continue to anticipate an increase in our natural color working capital requirements. We are full steam ahead on this multiyear plan to add the necessary capacity and allow for future growth in the future. Beyond capital expenditures, we will evaluate sensible acquisition opportunities, but we do not anticipate any share buybacks in the near term.

Now before I turn the call over to Tobin, I'd like to provide some information on two of our more innovative natural color technology platforms shown on Slide 10. To provide a little background, Mexico, like the US, recently announced an official ban on Red 3. Brands will have until mid-2028 to replace Red 3 with alternative solutions. As we have discussed, the US ban goes into effect in January of 2027 for food, beverage and pet products with a slightly later date of January 2028 for pharmaceuticals. Our technical teams have been working with our customers to convert their products, and this slide depicts some of our most successful technologies to enable this conversion.

First, UberBeet is our stable and concentrated beet platform designed for pink bakery items that undergo heat processing. This technology offers benefits to mitigate taste impact and potential bakery rise issues. Secondly, our Microfine technology excels in pink icings, fat-based coatings and frostings, which mitigates the bleeding of color into the baked good item. Lastly, Watermelon Rose is an ultra-high temperature stable vegetable-based technology that delivers vivid pink shades that work well in the harsh temperatures used to make strawberry milks and high acid juices.

Marine Blue Azure is a natural color innovation, which solves many heat stability challenges with standard spirulina-based blue solutions. This technology is especially effective in confection applications such as gummies, hard boiled candy and fruit snacks along with gelatin. As I've said before, the key to a successful natural color conversion for food and beverage brands is to maintain the variety and vibrancy in colors that consumers are used to seeing in their favorite products.

To that end, the vast majority of our customers are striving to match their existing synthetic shade through their development. At this point, we observed very few instances where customers are electing to remove color or use less color. Our R&D efforts continue to be focused on removing performance gaps that exist between synthetic and natural colors. If you'd like more information on the natural color technologies, please visit our website.

Overall, I'm pleased with our financial performance in the second quarter. I'm excited about the growth opportunities within each of our groups, and I'm looking forward to the continued progression towards our natural sales target. The growth we are experiencing is a result of our execution of our long-term strategy. Since 2019, the company's local currency adjusted revenue compounded annual growth rate is approximately 6%. Our growth this year is above this historical rate, and I remain optimistic about 2026 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 differences between our GAAP results and our non-GAAP or adjusted results. The adjusted results for 2025 remove the cost of the portfolio optimization plan. While we do not have any portfolio optimization plan costs in our 2026 second quarter results, we believe that the removal of these prior year’s costs produces a clear comparative picture of the company's performance for investors. This also reflects how management reviews the company's operation and performance.

Now turning to Slide 12. Sensient's revenue was $462.1 million in the second quarter of 2026, compared to $414.2 million in last year's second quarter. Operating income was $76.7 million in the second quarter of 2026, compared to $57.7 million in the comparable period last year. Operating income in the second quarter of 2025 included $3.3 million or approximately $0.06 per share of Portfolio Optimization Plan costs.

Excluding the cost of the Portfolio Optimization Plan in the prior year, adjusted operating income was 23.4% in local currency in the second quarter of 2026, compared to $61 million in the prior year period. Interest expense was $8.2 million in the second quarter of 2026, up from $7.4 million in the second quarter of 2025.

The company's consolidated adjusted tax rate was 25.1% in the second quarter of 2026, compared to 25.2% in the comparable period of 2025.

Local currency adjusted EBITDA was up 20.9% in the second quarter of 2026. Foreign currency translation increased EPS by approximately $0.02 in the second quarter of '26.

The company received approximately $5 million of tariff refunds in the second quarter, most of which was in the Color Group, as Paul mentioned. No additional refunds of any significance are expected in future periods. This refund resulted in approximately $0.09 benefit to EPS and improved Color Group and Flavor & Extracts Group operating profit by $4.3 million and $500,000, respectively.

Turning to Slide 13. Cash flow from operations was $48 million in the second quarter of 2026. Capital expenditures were $39 million in the second quarter of 2026. And as Paul indicated, we continue and anticipate our capital expenditures to be between $150 million and $170 million for the full year, likely closer to the $170 million.

Our net debt to credit adjusted EBITDA is 2.3x as of June 30, 2026. As we communicated last quarter, we also expect higher investments in inventory throughout the year to support the increased natural color conversion revenue. Debt is expected to increase further with our leverage ratio entering the mid to upper twos later in the year.

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 years to come. We maintain our goal of pushing our ROIC to the mid-teens over the next few years as we look ahead to peak natural color conversion activity. We will evaluate sensible acquisition opportunities and where there is a strategic advantage on the technology, supply chain or geography front.

As we stated last quarter, we are constantly monitoring the situation in the Middle East. And although we do not have any significant operations in this region, we are working to mitigate any potential supply chain risk that may result from the overall increase in fuel transportation and certain commodity prices. We have already adjusted prices where necessary to minimize our financial impact, and we'll continue to try to avoid any major disruptions to our customers.

Turning to Slide 14. Revisiting our 2026 guidance. We now expect our local currency revenue to be up high single to low double digits. Based on our strong results halfway through the year, we now expect local currency adjusted EBITDA and EPS to grow at a mid- to high-teen growth rates. Our previous guidance called for high single-digit to double-digit local currency adjusted growth.

We expect our third quarter interest expense to be approximately $9 million and our fourth quarter interest expense to be around $9.5 million. We expect our third and fourth quarter adjusted tax rates to be approximately 25%. Based on current exchange rates, we expect the impact of currency on EPS to be immaterial in both the third and fourth quarters.

As we explained, we do not expect any further benefit from the tariff refunds in the second half of the year. With that in mind, we expect EBITDA margins for the Color and Asia Pacific Group to be in the mid-20s and EBITDA margins for the Flavors & Extracts Group will be in the high teens.

We'll now open the call up for questions.

QUESTION AND ANSWER

Operator
Thank you. We will now begin the question-and-answer session. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two.

Today's first question comes from Ghansham Panjabi with Baird.

Ghansham Panjabi
Good morning, everybody. Congrats on all the progress. First off, on the conversion between synthetic to natural, it sounds like customers generally intend to maintain the same color aesthetic. If you can just give us some sense as to whether that's true across the various product categories that are converting based on what you're seeing now? And just given that natural color conversion has some technical challenges, including potentially influencing taste because you obviously use a lot more volume, etc., how are customers managing through that? And is your Flavors & Extract segment also participating in that reformulation activity?

Paul Manning
Yes. So, I would tell you, in general, customers are very, very keen to match the synthetic color in the food product. So, for example, you have a drink or a piece of candy, a snack, pretty well across the board, colors are utilized in a lot of different ways from a marketing standpoint to linking the consumer expectation to a flavor. And so, maintaining the color, I think, is pretty, you talk to any CPG, I think that's pretty evident to them that you have to really maintain your color. If you don't, then interestingly enough, you get a lot of complaints about your flavors, which obviously haven't changed, but because the color changed, the consumer believes the flavor has also changed. This is more of a psychological outcome than anything else. And then, of course, if you use a substandard looking color, that impacts the consumer's preference for your product as well.

So while some brands might have experimented with this years ago, perhaps Europe when they did their conversion 15-plus years ago, they were fewer technologies available to really get those kind of great matches, the technology has advanced so considerably even over the last 5 years that, by and large, we can get an exact match or a really, really excellent looking vibrant color in just about any application. Of course, there are always exceptions, but I would tell you that those are more at the margins than anything else.

I can't think of off the top of my head, any customer that you've heard of or anybody else has heard of that is specifically deciding to make their product use less color to save on money or to some other complexity. I genuinely would tell you that customers really want to match this and they want to match it really, really well.

So, to your second point about the technical challenges, yes, they are considerable. Light, heat, acid conditions, these are all things that impact color considerably. Shelf life can impact natural color considerably. But you raised a very good point: when you're using that much natural color, these colors can oftentimes react with other ingredients in the product, the finished products, and they could also create unusual tastes and smells in the finished products. And so, yes, we have a very strong link with our Flavors Group, where they pioneered a series of taste masking platforms specific to disguising natural color off notes. So, to my knowledge, I'm not aware of any other flavor company that emphasizes this and has built that into their portfolio in the same way that we have. Why would they? They don't have a color business like we do.

And so, yes, Flavors is becoming more and more a critical part of the formulation exercise with color and with our consumers to ensure that when they get these products, you don't notice anything except a great-looking color with a beautiful label and possibly a declaration on the front, something to the effect of not using synthetic colors anymore. So yes, it's really come together very, very nicely.

Ghansham Panjabi
Okay. And then relative to that $1 billion opportunity set, if you will, where did you exit 2Q? Because I think you said $25 million incremental relative to the cumulative $20 million. So, is it sort of mid-40s in terms of the exit run rate? And then how are you thinking about that buildup into the back half of the year because you have some large customers that are looking to convert early part of next year as well?

Paul Manning
So that's right, so your numbers are right. So, we were about $20 million cumulatively coming into this quarter. We invoiced another $25 million. So just for everybody's clarity, we distinguish between invoice and projections, so these are amounts we actually invoice. So, for example, in Q2, we invoiced $25 million. One could project from that a substantially higher amount of revenue derived from those activities.

So, I would tell you that approximately $25 million, I feel really good about that. That's a nice step-up from

Q1. We're still by some accounts in sort of the earlier innings of this conversion program. I would fully expect that this continues to grow as we enter into Q3 and Q4. Many of our customers are driving towards a January 1, 2027 conversion deadline, whether that's stemming from the Walmart expectation of that date or a series of school lunch programs that are obligating products to be naturally colored in the school system by January 1, 2027. So those are two big factors.

But I would tell you, another big factor as the year progresses is there's plenty of companies that are working towards more of a January 1, 2028 deadline, but they're not waiting until Q4 of next year to launch all those. They have a very systematic launch plan where they're going to launch products each quarter between now and that January 1, 2028. So, I think all those things start coming together more and more as we get into the back half, so I would fully expect these invoiced values to rise in Q3 and to rise again in Q4 and then, of course, to continue as we get into 2028.

Operator
And our next question today comes from Josh Spector at UBS.

Josh Spector
Good morning, guys. If I can follow up on Ghansham's question actually, just specifically thinking about the second half, if I take away some of the stuff you just said there, it sounds like you expect the invoiced natural colors to increase through the second half. We pretty easily get to that natural colors organic probably up in like the low to maybe high 20s year-on-year in the second half, which kind of puts the segment easily 20% plus. You said high teens, which could mean that there's no acceleration. So, I just want to see if I'm thinking about the cadence there right and maybe the magnitude of second half growth or if there's anything else we should be considering.

Paul Manning
No. Listen, we give guidance to give folks a frame of reference. We never want to disappoint in that guidance, and I think you're seeing us raising once again this quarter. But no, I think the second half is going to be very, very strong for Colors on natural color conversions, number one. But remember, the base business of Colors is still growing. That $25 million of invoice is for natural color conversions, but there's actually also other natural color launches that continue, and we continue to have very strong win rates in that part of the market.

There are some customers in other parts of the world that are still buying synthetic colors. Obviously, large parts of LatAm and Asia Pacific are far less converted than certainly Europe and certainly where the US is going to be, so there is that business that's still growing. We still have PCSM growing very, very nicely this year as well. So, we're really doing well. And let me not exclude my pharma brothers and sisters out there, too. They're also having an outstanding quarter, and a lot of that's being driven by natural color conversions also.

So, yes, I think the message I'd like to give you is that the pace and the momentum continues to build on the natural color conversions, and it continues to be very, very strong in the balance of the business as well. So second half is going to be a really, really great half, and we feel quite good about that. If it's high teens, sure, it could be your figure. I just don't want to disappoint you, Josh.

Josh Spector
That's very well understood. I do want to keep this kind of medium-term focus, I suppose, and just thinking about margins. If I back out the tariff impact, you gave that number, you were 26% plus EBITDA margins. My math is that incremental is around 31%, 32%. It seems like your guide, you're going back to saying the incremental is more like 25%. So, is there a reason for that? Why was 2Q better? Why would 3Q see the incremental step down?

Paul Manning
It all comes down to mix. I think our guidance here on mid-20s, I think we feel very, very confident with that. Could there be a quarter where it's 26%, 27%? Sure. Could there be a quarter where it's 24%? Sure. And again, a lot of that is just driven by mix. And not necessarily mix stemming exclusively from natural color conversions or natural colors but it could be another segment of the business. But I would leave you with this thought; we feel very solidly committed to the mid-20s EBITDA margin. If Q3 comes in at 25%, I wouldn't see that as a disappointment. I would just see it as more of a function of mix than really anything else. So, I wouldn't get terribly concerned with that. I mean, could it come in at 26% again? Sure. But we want to give you a number you can really kind of take to the bank, so to speak.

Operator
And our next question today comes from Larry Solow with CJS Securities.

Larry Solow
Good morning. Just to ask the question another way, the $25 million invoiced this quarter, plus or minus, is it safe to say you're at about $100 million annual run rate?

Paul Manning
Yes, I think your math is probably not too far off. Typically, in a normal state of affairs, and maybe this would be helpful for folks to hear my perspective on this, when a customer, a CPG or otherwise, launches a product, let's just say they're going to launch a new drink and it's got color in it, natural color in it or synthetic, whatever, but natural, in a normal state of affairs, let's say we project that to be a $1 million opportunity for Sensient. We're going to be able to generate $1 million of annualized revenue. Typically, we would get anywhere between 20% and 30% of that in the first PO. So, let's just say he wants to launch January 1. He has this inkling that it's going to be a great launch, he wants to launch right on New Year's, get the thing ramped up for when the Jets are in the Super Bowl and get everybody excited. Yes, first PO, it may be $300,000 for that first PO. It could be $200,000. And so, then they may assess how is this doing? Am I loading my channels as I had expected and anticipated?

And then once you get past that first half, then you typically get to a state of affairs where it's more than likely about 25% per quarter. So, generally speaking, $25 million would typically represent about $100 million in projected revenue for these products, in normal cases.

Now the natural color conversion can add a little wrinkle here because the difference between the natural color conversion and then the new launch is the conversion is replacing products that are synthetically colored on the shelves today. So, he may not order 30% in his first PO. He may order 10% as he brings in the next batch of products, putting the naturally colored ones in the back, make sure the consumers buy all the synthetic ones first and then they eventually have a full shelf conversion, so to speak. So that's changing that ratio a little bit, which is to say the $25 million could be understating and it could be above that $100 million. It could be like $130 million or so. But I would tell you, it's not going to be less than like $100 million type projection would be how I would describe that.

So, it's this shifting on the shelves that is creating a little bit of noise and making the normal projections of a launch a little bit trickier to assess. This is why we like giving you folks the invoice figure. We'll keep giving you that each quarter, and I think that will give you a sense of the progression of the launches.

Larry Solow
I appreciate that granularity. So it's not like the customer is ordering more than a quarter's worth. So you're at least, let's just say, $100 million, but in theory, you're probably at a greater than $100 million run rate today. And you think this number by the end of '28 or early '29 could be $250 million a quarter,

right? That's basically what you're saying?

Paul Manning
Yes. To get to the $1 billion, that's about right. In a normal state of affairs, yes. Now of course, there's seasonality, there's more beverage in this part of the year and there's more ice cream in that part of the year. But yes, at the macro level, you're about right in your thinking there.

Larry Solow
Right. And just directionally on the margins, just excluding the tariffs impact, obviously, you had a nice significant jump up this quarter. Maybe some of that was timing or whatever. But I think when we started the year, we thought there was going to be for the first 2, 3 quarters compression in the Color segment because you're investing ahead of kind of revenue. The revenue has been a little bit better than expected, but not crazy better than expected, but your margin profile has been a lot better than we thought. Is there anything else? Is it perhaps timing of some of those expenses? Or you mentioned mix, but was the mix within Color even better? I'm just trying to parse out anything that drove that difference.

Paul Manning
Yes. The short answer, Larry, is we're actually doing a lot better on revenue and wins than I thought. So, for example, I'm looking at my Q2 performance sheet, Larry, you'd love to see this thing, we were up substantially in the US, and we were up substantially above our budget. And why is that? Because we got more wins earlier than we expected. We got really nice mix of new wins. And I think that is what has essentially made those incremental costs, those investments that you referred to there, more technical folks, commercial engineers, all these folks we've added ahead of this program. Yes, we were able to really overwhelm those costs with just new wins and revenue to a greater degree than we had anticipated.

Larry Solow
So, it's not really a timing thing. So, the drop back in Q3, again, ex the tariff benefit, it sounds like there's maybe a little bit of conservatism in there, but it's not that expenses are necessarily accelerating relative to Q2?

Paul Manning
No, I don't think so. And for 25 and 26, I guess I don't feel like it's as dramatic as it seems. If it was 26 going to 19, yes, there's something wrong here. But I think that, again, we want to be able to deliver on those figures and I don't necessarily know what the mix is, and, hey, maybe I'll have some better news than I thought in Q3.

Larry Solow
Got you. Just last question for you, Paul. Just on IFF, I know that they sold their food ingredients already earlier this year, and then they just announced that they're selling their functional and natural color stuff to SuanNutra, I guess. I'm just curious, does IFF compete with you at all in natural colors? And does maybe the change to SuanNutra, which hasn't happened yet, so maybe hard for you to say, but I don't know if you know of SuanNutra, but is that a potential future more of a competitor now on that Color side? And any thoughts on that?

Paul Manning
Well, I think that business that was sold, I don't think it was a particularly large natural color business.

Larry Solow
They say $170 million total revenue. So, I think it may be more functional stuff than natural colors. I don't know what it is.

Paul Manning
Yes. I believe the natural color was a smaller fraction of that. I don't think it was necessarily as broad of a range of products. I believe it was fairly heavy in things like carmine and annatto, which tend to be on a different part of the market that we traditionally play in. So, as you know, we've got a number of competitors in this space, so we take them all very seriously, but I want to beat them all very seriously. And so, yes, we look at all new competitors, and I think about how I'm going to outcompete with those new competitors, but I don't necessarily anticipate a substantial change under new ownership. A competitor is a competitor from my standpoint, and we will compete rigorously against them.

Larry Solow
The commentary from SuanNutra though was interesting. I guess the CEO, the Chairman came out with something saying that the industry is shifting more towards clinically supported ingredients versus generally regarded as safe. Does that mean he’s thinking that there'll be more regulation that maybe impact Colors? And is that sometimes more regulation in this case, could be a mixed bag. Any thoughts on that?

Paul Manning
Well, regulations tend to be really good for our business because it creates technical complexities and formulations for our customers. And so maybe the reference there was, okay, the US is moving in this direction through a combination of regulation and consumer demand. Europe was there principally through legislation, but I think the rest of the world is moving similar to the US with a combination of principally consumer demand in this area, but also a series of legislative actions that outlaw various synthetic colors. There have been countries in Southeast Asia, which attempted to outlaw certain synthetic colors like synthetic lakes, so these things can be really, really beneficial.

It would be great if the governments of Latin America and Asia all got together and outlawed synthetic colors. I would love nothing more, Larry, because then that will be the next wave of conversions for us. But I think in general, that is going to be the next wave of conversions for us as those countries and markets continue to replicate some of the products in Europe and the US, that's going to be a strong undercurrent. So, a lot of folks are looking at this US conversion and they think, well, after that, well, Sensient just goes back to mid-single digit. Yes, I don't think so. I think the next wave is going to be pet food in the US; I think you're going to see some movements in over-the-counter in the US; you're going to definitely see more activity in Latin America, which is maybe 1/3 naturally colored today, 2/3 synthetic, so a big market, highly colored food in LatAm in general. And then ditto for Southeast Asia, China, India, these are markets that still use a considerable amount of synthetic color, and these would be beautiful conversion opportunities.

And then, of course, as you've heard me say before, personal care is also another area of the market that can be a ripe ground for natural color conversions. A lot more technical challenges than on the food side of things. But there, again, another beautiful potential follow-on opportunity to stack on top of this US conversion for us. So, this is a good time to be in this company, Larry.

Operator
Thank you. As a reminder, if you would like to ask a question, please press star then one. Our next question comes from Nicola Tang at BNP Paribas.

Nicola Tang
Hi, everyone. I thought I'd actually follow up there where you left off in terms of talking about the global opportunity. I think I also saw that Nestle has extended their commitment to their global portfolio, not just US as well by the end of 2026, which seems, I guess, an ambitious target. I wanted to try and put some numbers around this. So, I think you have around $100 million of revenue in synthetic colors outside of

the US or outside the Americas. In a scenario where we see momentum on conversion outside of the Americas, any reason why that conversion multiplier would be any different from the 8x to 10x average that we're talking about on the Americas side? That's the first question.

Paul Manning
Good question. I think based on our experiences thus far, we've typically used 10x as our ratio. As you get to certain parts of the world, it may be lower. Maybe our experience in Brazil would be on the lower end of that conversion, maybe it's 5x to 6x to 1. LatAm, though, I think would be as strong as the US on that conversion ratio. And again, you go down to LatAm, the products are beautiful, Nicola. I don't know if you've been to Mexico into a food store, but it's just beautiful. Everything is colored, brightly colored. So yes, you would expect particularly high ratios there.

China and India, I think you'd be probably in that 8 to 10 range as well. But again, some of the products may be more weakly colored, which could lend themselves to lower ratios. I guess I'd have to kind of look at the whole landscape to give you a more definitive answer. But I would tell you that typically, in the highly colored markets, which is most of the ones I've referenced, 8x to 10x is a really good number to use, maybe more like 10x. Where you see more lightly, it's going to be lower than that. So, it’s a blended average, anywhere between 7x and 10x, but I could get back to you about a more definitive answer on that one.

Nicola Tang
Yes, sure. That would be interesting. And just for reference, what's the ratio in Europe, which obviously is already quite converted already?

Paul Manning
Well, Europe is a different matter, and I would tell you a couple of things. Back in 2008, 2009 when that took place, there wasn't nearly as much technology that was available. The conversion was expected in a very, very short time frame. So in my opinion, most of the customers, the folks selling products in Europe kind of had to move, had to move very quickly and had to move with what was available. And what was available, I would tell you, is not nearly as effective and performance driven as what is available today.

In fact, interestingly enough, we see more and more wins in Europe where we've upgraded customers' colors. So how do we now bring in some of the newer technologies that make your product look substantially better or enable you to produce them substantially more efficiently in your production plant. So, Europe is in need of some upgrading on some of the colors, I would tell you, in my opinion. And certainly, that forms parts of our pipeline today because, yes, it was a very different experience than what you're seeing now and what you'll see in the future, I think.

Nicola Tang
Okay. And then I know it's been asked a few times around margins in the Colors business, but I was wondering, given what you said about better-than-expected kind of momentum in terms of wins, but that we're still very much at the early innings of this potential conversion opportunity, surely as we go forward, wouldn't the operating leverage improve from where we are? And, therefore, I guess my question is, what's your view or do you have a new view on midterm margins, EBITDA margins for the Colors business?

Paul Manning
Well, maybe for the sake of variety, I'll pass this one off to Tobin, and you all can hear his thoughts on this topic.

Tobin Tornehl
Yes. Paul was talking about it before, but overall I think the mid-20s for the Color Group for the full year is what we feel good about, so think around 25%. That can change quarter-to-quarter. This last quarter, excluding the tariffs, they were 26% and change, so really healthy. Paul talked about the investments that we continue to make. So, we were investing in SG&A people across our Color Group, and that's been occurring, so our next round of investments will be in production and cost of goods sold as more revenue comes.

But overall, I think mid-20s we feel really good about. And as Paul indicated, could that be 26% on a quarter? Could it be 24% on a quarter? Sure. But overall, I would say I would think mid-20s for the Color Group and then also for our Asia Pacific Group. Our Flavor Group, coming back to them, I think the high teens is definitely where we're kind of modeling them for the year. So that's how we kind of look at the margin. So hopefully, that helps, Nicola.

Nicola Tang
Yes, sure. And then maybe a final one. You mentioned that the working capital around serving naturals will increase. I know we've talked in the past about risk of bottlenecks upstream in terms of getting access to raw materials. Can you just talk us through what's happening upstream and also how we should think about weather events and other risks to raw material supply?

Paul Manning
Yes. Well, our plan is built around having enough raw materials to achieve our $1 billion target and then, of course, retain that $1 billion and grow that, too. So, we've been doing this supply chain thing going on almost 20 years now, so this is really nothing new for us. Our program is really about just continuing to expand growing regions, continue to expand relationships that you have. The number of growers who are entering this market and processors, these folks are making investments, too. I'm not the only one seeing what's going on here. So, yes, I feel really good about our footprint.

Now is our raw material footprint sufficient right now to affect the entire change, the natural color conversion change? I'd say we feel really, really good. Now there are always weather events, to your point, so we anticipate that there will be routinely some kind of weather event, political event, whatever you may think about, but my goal is to never talk about ever on a call like this a supply chain problem because we will have mitigated that either through holding working capital on some of these more problematic raw materials, having backup alternative formulas, which is an interesting concept that can help you moderate a lot of the supply chain risk. But then just having lots of growers in both hemispheres, we're having continuous harvest in some part of the world, we're harvesting, so there's a lot of ways that we have and we will continue to mitigate these risks.

Because you're absolutely right, if you think you're just going to get this one raw material from this one guy in this one country, that's great, right up to the part where like somebody takes over that part of the country and now you're not getting anything. So, we are particularly paranoid about this part of the business, but we've got a lot of experience here, too, and we've done an awful lot to mitigate that, and we continue to do that day in and day out in this company. We have an entire organization singularly dedicated to this activity.

And as technologies emerge, maybe we won't be so dependent on the supply chain as it exists today in this format. So, in short, we're going to get to our $1 billion. And I would tell you that raw material and the supply chain is going to be part of why we get to the $1 billion because we do a lot of thinking on this, and we've done a lot of mitigation activity, so I feel really good. I can't speak about the rest of the market, but I can speak very, very strongly about our $1 billion.

CONCLUSION

Operator
And that concludes our question-and-answer session. I'd like to turn the conference back over to the company for any closing remarks.

Tobin Tornehl
Okay. Thank you. That concludes our call today. Thank you, everyone, for participating. And if you have any follow-up questions, please feel free to contact the company. Have a great weekend.

Operator
Thank you, sir. And this does conclude our conference call. We thank you all for attending today's presentation. You may now disconnect your lines and have a wonderful day.