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PRESENTATION

Operator

At this time, I would like to welcome everyone to the International Flavors & Fragrances First Quarter 2017 Earnings Conference Call. (Operator Instructions) I would now like to introduce Michael DeVeau, Vice President, Global Corporate Communications and Investor Relations. You may begin.

Michael DeVeau - *International Flavors & Fragrances Inc. - VP of Global Corporate Communications & IR*

Thank you. Good morning, good afternoon, and good evening, everyone. Welcome to IFF's First Quarter 2017 Conference Call. Yesterday evening, we distributed a press release announcing our financial results. A copy of the release can be found on our IR website at ir.iff.com.

Please take a note that this call is being recorded live and will be available for replay on our website.

Please take a moment to review our forward-looking statements. During the call, we will be making forward-looking statements about the company's performance, particularly with regards to the outlook for our second quarter and full year 2017. These statements are based on how we see things today and contain elements of uncertainty. For additional information concerning the factors that can cause actual results to differ materially from forward-looking statements, please refer to our cautionary statement and risk factors contained in our 10-K filed on February 28, 2017, and our press release that we filed yesterday.

Today's presentation will include non-GAAP financial measures, which exclude those items that we believe affect comparability. A reconciliation of these non-GAAP financial measures to their respective GAAP measures is set forth in our press release.

With me on the call today is our Chairman and CEO, Andreas Fibig; and our Executive Vice President and CFO, Rich O'Leary. We will start with prepared remarks and then take any questions as you may have.

With that, I would now like to introduce Andreas.

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

Thank you, Michael. I would like to start with an executive overview of our operational performance for the first quarter. Then I want to provide an update on the progress we made in terms of our long-term Vision 2020 strategy. Once finished, I will ask Rich to cover our financial results in greater detail, including specifics on each business unit as well as our cash flow statement and outlook for the remainder of the year. Then I will provide some concluding remarks and we will finish by taking any questions that you may have.

I'm pleased to report that our first quarter sales growth was strong and in line with our expectations. Currency-neutral sales increased 7%, which was comprised of 10% growth in Flavors and 3% growth in fragrances. Sales performance was predominantly driven by the contribution of our recent acquisitions of David Michael and Fragrance Resources and a strong performance in our Organic Flavors business, while we achieved growth across all categories and regions.

In Fragrances, we were successful in offsetting challenging macroeconomic conditions in Latin America, primarily Brazil, driven by Fragrance Ingredients and Fine Fragrance, in particular, in the EAME region.

In terms of currency neutral adjusted operating profit, the contribution from our recent acquisitions was strong and support our overall profitability as we are ahead of our acquisition plans. Organically, our currency-neutral adjusted operating profit came in consistent with the prior year, as volume growth and productivity initiatives were offset by unfavorable price to input costs as well as several unplanned expenses that Rich, will go through in more detail later in the presentation.

We also benefited from a lower effective tax rate and reduced shares outstanding in the quarter, which supported a 9% improvement in currency-neutral adjusted EPS.

We continue to make progress each quarter with respect to our Vision 2020 strategy. I'm happy to report that 2 of our key R&D focus areas continue to be growth drivers in the first quarter. In Fragrances, our encapsulation technology continues to expand beyond the traditional Fabric Care category, with strong growth in Personal Wash. In Flavors, sales of our Sweetness and Savory Modulation portfolio continue to post strong growth, improving strong double digits on a currency-neutral basis, led by Savory, Dairy and Beverage.

This is further proof that our innovative solutions are allowing us to meet our customers' demand for healthier and better-for-you products.

Looking towards the future, we also commercialized 2 new flavor molecules to enhance our flavors palette for key tonalities in order to continue to build winning solutions for our customers.

We continue to see accelerated growth in the areas where we are targeting market leadership position. Benefiting from our recent strategic acquisitions as well as from solid growth in our Organic Flavors business, we saw a 14% increase in North America, in the first quarter 2017. Our ongoing commitment to provide our customers with in-depth local consumer understanding, superior innovation, outstanding service and the highest-quality products allowed us to continue to capture the growth of both global and faster-growing regional accounts, with regionals outpacing global accounts. This continues to strengthen as our recent acquisitions of David Michael and Fragrance Resources, are all well strong from a regional customer base.

I'm also happy to report that IFF | Lucas Meyer Cosmetics, continued its strength in the cosmetic-active ingredient segment as it won several beauty industry awards from CosmeticsDesign, including Best Skincare Active Ingredient for America's with Miniporyl; Best Hair Care Ingredient for America's with Defense Scalp and Best Skincare Active Ingredients Global with Miniporyl, all of which are showcased at CAGNY earlier this year.

In addition to the strides we have made from a market share and innovation perspective, we continue to position ourselves to be our customers' partner of choice and to-go supplier. In the first quarter of 2017, we expanded our business access by gaining core list status with a multinational flavor customer to ensure we continue to increase our participation, ultimately leading to continuous growth.

We also received an innovation award from a top Flavors customer, validating that our innovation, collaborative work and inspirational sessions are driving their success in achieving solutions that meet end-consumer demands.

During the first quarter, we launched our 2016 Sustainability Report entitled Circular by Design. It is an in-depth testament to all we have accomplished over the past year and provides insight into our aspirations as we move forward with our journey to make IFF, a deeply greener company. If you haven't already, I invite you to check out our report and companion video are found online at iff.com/sustain.

Beginning in 2014, IFF-LMR took a step forward and partnered with the Institute of Market Ecology, a leading provider of international inspection and certification services for organic, ecological and social standards to certify that our strategic supply chains and operating platforms meet with the full life criteria. During the first quarter, we were proud to announce that IFF-LMR achieved its 9th for Life Certification, this time for Burgundy Blackcurrant Bud. Our responsible sourcing platforms in Naturals, demonstrates our commitment to traceability and towards progressively more responsible ingredients. Certification For Life is a guarantee from IFF, to our customers and their consumers.

We are also targeting opportunities within our industry in near adjacencies to develop new technologies and to expand our geographic and business access. All of this must be done in a way that makes strong strategic sense and leverages our expertise in science and technology.

Over the past 2 years, we have successfully acquired 5 companies, 3 of which closed in the past 7 months. Our acquisition of David Michael, in October 2016, helped further reinforce our differentiated service model in the U.S. for Flavors middle-market customers, focused on innovation, agility and enhanced collaboration.

In early 2017, we acquired Fragrance Resources, which is a key player in a fast-growing specialty Fine Fragrance category, also increasing our exposure to regional customer base.

In the first quarter of 2017, these 2 acquisitions contributed approximately 5 percentage points of our sales growth and 3 percentage points of operating profit growth already, as we are tracking ahead of our acquisition case, driving sales growth and extracting synergies.

Last month, we also announced a purchase of PowderPure, to further expand our expertise and offerings for clean label solutions that satisfy consumer demand. Founded in the early 2000s in Basin, Oregon, PowderPure utilizes its patented Infidri drying technology to create all-natural food ingredients by eliminating water while leaving the taste, nutrition and color matrix intact. Using minimal processing, PowderPure currently focuses on whole fruits and vegetable powders, juice powders as well as other specialty products.

PowderPure's technology has also been used to effectively repurpose valuable materials resulting from other food processing systems, turning them into useful and nutritious products and savings -- and saving them from waste streams. The global natural food formulations and the delivery of taste was optional for the cleanest possible label, it's clear and we found a combination of powders, product quality and the unique benefits of their technology, very compelling.

This platform further expands our access to fast-growing natural, clean label food ingredients and potentially creates opportunities in adjacent markets of nutraceuticals, specialty extracts and coloring foodstuffs. Overall, we are very excited about this addition to our organization and the future growth perspective it brings.

With that, I would like to turn the call over to Rich.

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

Thank you, Andreas. Our first quarter results and sales growth was strong and in line with our expectations. Currency-neutral sales grew 7%, including approximately 5 percentage points related to the contribution of David Michael and Fragrance Resources, and 2 percentage points from our organic business.

Currency-neutral adjusted operating profit grew 3% as the benefit of acquisitions, volume growth and cost-savings initiatives more than offset unfavorable price to input costs as well as unplanned expenses, including unfavorable manufacturing variances, bad debt, a product recall and litigation loss. I'll go through these in more specifics on my next slide.

Below the line, we had strong leverage as we benefited from a more favorable effective tax rate, which we expect to normalize over the next 3 quarters to approximately 22.5% on a full year basis, and a reduction in shares outstanding related to our share repurchase program. These 2 factors led to a robust currency neutral adjusted EPS growth in the quarter up 9%.

Looking at our Q1 currency-neutral operating profit growth, I want to provide some more clarity on our performance drivers year-over-year. In the second bar, you can see that volume growth added 6 percentage points to profitability. In the third bar, we have highlighted the benefits of cost and productivity initiatives. Due to likes of formula optimization, procurement savings and restructuring program savings, we delivered approximately 4 percentage points of benefit year-over-year. As Andreas stated earlier, the contribution of David Michael and Fragrance Resources, added 3 percentage points to operating profit growth as shown in the fourth bar as we are growing and realizing synergies. From a headwinds perspective, as seen in the next bar, price to input costs were unfavorable by about 4 percentage points, driven by a reduction in pricing within Fragrance Ingredients, as well as volume-related rebates and core list agreements in Fragrance compounds.

The area where I'd like to elaborate more on is in the next box, which is related to unplanned expenses, that negatively impacted our operating performance in the quarter by approximately 4%. About 1/2 of that amount relates to manufacturing variances in Fragrance Ingredients. We have a reactor temporarily suspended for approximately 2 to 3 weeks at one of our plants and manufacturing will yield variances due to the implementation of new manufacturing processes at another Fragrance Ingredients plant. The other half of the variance -- the headwinds was driven by bad debt for a single customer based in Latin America, a litigation loss, and lastly, a charge of $1.8 million related to the write-off associated with the product recall. The remaining items, grouped together in other, primarily relate to deferred compensation expense, where we make adjustments based on performance -- mark-to-market adjustments based on the performance of the equity market.

Net-net, had we not had these unplanned items, currency neutral adjusting operating profit would have been more in line with our expectations.

Looking at the business unit performance for the first quarter. Fragrance currency-neutral sales improved 3% driven by growth in Fine Fragrances, Fabric Care and Fragrance Ingredients. From a category perspective, Fine Fragrance grew 10% on a currency-neutral basis, inclusive of the additional sales related to the acquisition of Fragrance Resources. 3 of the 4 regions, led by EAME, achieved strong growth with the exception of Latin America, which continues to experience abnormally high-volume erosion due to weak economic conditions. Consumer Fragrances grew 2% on a currency-neutral basis, principally driven by the additional sales related to the acquisition of Fragrance Resources, and improvements in Fabric Care.

In the first quarter, Fabric Care grew low single digits on a currency-neutral basis with 3 of the 4 geographies posting strong growth, led by double-digit increase in North America and high single-digit growth in EAME and Greater Asia.

Fragrance Ingredients sales were up 2%, on a currency-neutral basis as double-digit growth in EAME and LatAm, were offset by softness in North America and Greater Asia.

From a profit perspective, Fragrance currency-neutral segment profit decreased 6%, as volume growth and the benefits from productivity initiatives were more than offset by unfavorable price-to-input cost, as well as several of the unplanned expenses that I mentioned earlier.

In terms of currency-neutral segment profit margin, our profile remains strong yet was under pressure year-over-year driven by the above items I mentioned, plus the Fragrance Resource, acquisition, inclusive of the step-up in purchase price accounting and before realizing all the synergies.

Flavors currency-neutral sales increased 10%, driven by broad-based organic growth across all categories as well as the contribution of sales related to David Michael. From a regional perspective, each region delivered growth led by strong double-digit performance in North America, which improved 27% reflecting additional sales related to the acquisition of David Michael, as well as strong double-digit growth in Dairy and Savory, in the organic business. EAME increased 6% on a currency-neutral basis, led by high single digits in Western Europe, Central and Southeastern Europe. This performance was primarily driven by strong new wins.

Greater Asia posted 3% currency-neutral growth led by strong double-digit growth in India, Thailand and the Philippines.

On a category basis within Greater Asia, performance was led by double-digit growth in Beverages. Growth in Latin America continue, improving 7% on a currency-neutral basis, led by double-digit growth in Mexico and Andean Pact, impact as well as mid-single-digit growth in the Southern Cone.

Flavors currency-neutral segment profit grew approximately 12% led by volume growth, the benefits from productivity initiatives and the contribution of David Michael's acquisition.

In terms of the currency-neutral segment profit margin, we delivered year-over-year improvements, principally driven by our savings related to the productivity initiatives as well as volume growth.

Turning to our cash flow, our core working capital levels continued to show improvement, principally driven by the timing of payables. Operating cash flow for the first quarter was $22 million compared to $40 million in the first quarter of last year. While we experienced lower outflows from working capital, we were negatively impacted by the timing of higher pension payments, which will normalize throughout the year, as well as higher incentive compensation payments.

From a capital allocation standpoint, we spent approximately $27 million in CapEx and we continue to believe we can expand approximately 5% of sales in 2017.

Regarding cash returned to shareholders in Q1, we spent approximately $51 million on dividend payouts and $38 million on share repurchases.

For the full year, we expect to meet or exceed our total payout objective of 50% to 60% of adjusted net income.

As we look to the balance of the year, we are optimistic that we can achieve our previously stated total financial guidance on a currency-neutral basis. Please note that this is absent of any additional cost and/or recovery related to the product recall, as it's not estimable at this time. We do not believe that the ultimate settlement of the claim will have a material impact on our financial condition, however, it may have an impact on any one quarter.

We are reiterating our previously stated currency-neutral sales growth projection of 7.5% to 8.5%, including approximately 4.5 percentage points contribution from the acquisitions of David Michael and Fragrance Resources.

Embedded in the acquisition impact is a sales benefit related to the recent acquisition of PowderPure, which is expected to have a negligible impact on a full year basis.

From adjusted operating profit and EPS perspective, excluding the impact of currency, we expect to achieve 5.5% to 6.5% and 6.5% to 7.5%, respectively, inclusive of a 2.5 percentage point contribution from M&A for each.

Given our performance in the first quarter and the outlook for the balance of the year, we raised the contribution from acquisitions, which provided an offset to the unplanned expenses in our organic business in the first quarter. For modeling purposes, please note that we expect the momentum in terms of currency-neutral adjusted operating profit to accelerate in the second half of the year as we fully realize the benefits of our previously announced productivity improvement initiatives.

While our currency-neutral guidance has not changed, the effects of currency movements on our results have. From a top line perspective, the impact of currency improved by approximately 1 point to 1.5 percentage points headwind, primarily driven by an improvement in the euro to U.S. dollar exchange rate.

On a profit and EPS basis, movements in several currencies, such as the Brazilian real, Argentinian peso, Indonesia rupiah and Mexican peso versus the dollar have had an adverse effect on our guidance as well as transaction rate differences on the timing of the inventories. We are hedged approximately 75% on a euro profit exposure at $1.12 for 2017. As a result, on a full year basis, we expect the impact of foreign exchange on adjusted operating profit to be approximately 2.5 percentage points and approximately 3 percentage points on adjusted EPS.

With that, I'd like to turn the call back over to Andreas.

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

Thank you, Rich. In summary, we are pleased that we achieved currency-neutral growth across all metrics in the first quarter of 2017. Sales growth was strong and our currency-neutral adjusted operating profit was supported by a successful integration of recent acquisitions, evidence that we are allocating capital to the highest-return initiatives. Simultaneously, we continue to be focused on the execution of Vision 2020, as we believe our emphasis on building great differentiation and delivering profitable growth that will create incremental shareholder value long-term. For the full year, we are optimistic that our financial growth rates should accelerate, as our 2016 performance as we have confirmed our currency-neutral financial guidance.

With that, I would now like to open up the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from Mark Astrachan with Stifel, Nicholas.

Mark S. Astrachan - *Stifel, Nicolaus & Company, Incorporated, Research Division - Director*

So I wanted to ask, if I heard correctly, that your organic sales growth expectation is unchanged while EBIT and EPS are a little bit lower. So I guess on the top line, confidence in achieving accelerating organic sales growth through the year, including now off of a lower 1Q base, and I guess maybe putting it differently too, what would have to happen for you to hit the low and the high end of that 3% to 4% range?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

All right. Thanks, Mark. Look, I think, from a top line a standpoint, the first quarter was challenging. I think when we look at our full year expectations, it's based on our view, current views in terms of confirmed new wins. We do expect that volume erosion and the effects of destocking, expect to have less of a drag as we proceed through the balance of the year. We are expecting to see improved performance, particularly in the second half of the year related to Lucas Meyers. And we'll continue to see greater contribution from the faster-growing acquisitions and their impact associated with local and regional customers.

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

If I might add, and if you look at the acquisitions, you have certainly, an impact from David Michael, which was done in the fourth quarter, but it's not a total quarter, so we have technically more sales than Fragrance Resources, which was closed basically, mid of January, so that has an effect here as well.

Mark S. Astrachan - *Stifel, Nicolaus & Company, Incorporated, Research Division - Director*

Okay. Maybe just following on that. You sort of look at the business performance relative to peers. Clearly, IFF has been underperforming, depending on which you want to -- you benchmark against at least, the other big public 4 companies. So I guess, curious what your thoughts are (inaudible) that has contributed to that? And then sort of related to it from a geographic standpoint, why do you think developed markets contribute more than developing markets in terms of the expected growth and what are you specifically, seeing that would be the underlying behind that?

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

Okay, Mark, I take it. First of all, we don't see an underperformance compared to competitors on an FX neutral basis, that's number one. Last year, the first quarter is the first quarter, and I think we should look at the year. Looking at the developing markets, we see actually, right now a pretty good performance for certainly North America, in many regards organically but also through the acquisitions. Europe is actually amazingly strong for us, which is a good one.

Coming to the emerging markets, here we see a lot of headwinds in terms of currency. I think all the currencies was, except with the euro, Rich just mentioned are all in the emerging markets which are creating a lot of headwind for us. We see a lot of economic turmoil and volatility in Latin America, which is obviously an important customer not just for the Fragrance business -- or region for the Fragrance business, in particular Brazil, is really not easy to manage right now. We see certainly more turmoil in the Middle East as well. And China is volatile. So you see that the emerging markets or the contribution of the emerging market was not as good or as, let's say, important as it was many years or the years before. We believe that we still, with our exposure to the emerging market, that many of these markets will come back over time and will create again, a growth engine for us looking forward during the, let's say, strategic planning horizon.

Operator

Your next question comes from the line of Lauren Lieberman with Barclays.

Lauren Rae Lieberman - *Barclays PLC, Research Division - MD and Senior Research Analyst*

So looking at the outlook for the balance of the year and, Andreas, you just mentioned I think -- I'm sorry, I think it was Rich, about volume erosion and destocking being less pressure as we go through the year. Just when we look at the results of some of your customers, largely in the U.S., more so for the food companies but also the HPC players, the first quarter was a shocking turn to the negative and they all seemed very surprised. So I'm curious to the degree to which you've seen that sort of inventory adjustments for customers make its way to impact your business yet? Or is that something we should still be anticipating in the second quarter?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

Lauren, it's Rich. I think a couple of things for me. One, I'd sit there and I would say that, again, while I expect and we expect to see less of an impact, it's not like we're -- it's based on a significant turnaround. We still expect to see pressure and it's less about having less of a headwind but it's still going to be a headwind. Our expectations are not based on having a significant turnaround, for example, in Latin America, for Fragrances. Latin America, for Flavors is quite strong. And our full year outlook for Flavors in Latin America, is pretty consistent with what we saw in the first quarter. I think as -- when we look at our relationship to our customers, I think as there's a downward correction, we are more lagging. And I think when conditions are improving, we're probably an earlier indicator.

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

And I might add on, if you look at the market and you have seen this between the big companies and the small or mid-market companies, it's really bifurcation of the market. And now for us, in particular in North America, increasing our share in the smaller customers, is really beneficial for us and it will help us with our growth rate as well going forward.

Lauren Rae Lieberman - *Barclays PLC, Research Division - MD and Senior Research Analyst*

But Andreas, are those -- I understand that, I know that's been a big piece of the strategy and the acquisition, it all makes a ton of sense. I just wonder if those businesses are yet large enough to offset some of the pressure that may be ahead, even if it's just short term, again as Rich said, kind of lagging the correction that your customers -- your larger customers in North America have seen in the last 3 months?

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

No. I -- actually, we see it now through because it is now 5 acquisitions, if you include PowderPure, and we are building critical mass. And what we see here is new wins as well going forward. And actually all of these acquisitions, okay, I can't talk about our peers, probably between you, but all of the 4 acquisitions have at least double to triple the growth rate of our regional business and they are becoming an engine of growth for us. And I think it's helping. I agree with you at the beginning when we had our first acquisition, it was very small, it was not moving the needle but now accumulating more of these growth engines, that's really, really helpful for us and that's actually moving it forward, particularly in North America, we see it actually big times, big times.

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

Lauren, I would also say -- sorry, Lauren, I would also say that to what Andreas is talking about is, when you look at our win rates this year compared to win rates last year, we feel good about where we are in both businesses. Volume erosion in the Q1 was above average. And as I said, I think we still expect to see pressure in the first half of this year. As that works out, we've got certainly, the situation in Latin America, is challenging. We've got key customers there, 2 of the key local and regional customers are clearly going through destocking. And again, as I said, we are not expecting that to turn around significantly but we expect the impact to lessen as we progress through the year.

Lauren Rae Lieberman - *Barclays PLC, Research Division - MD and Senior Research Analyst*

Okay, great. And then on the Ingredients business, so you mentioned that the spread between pricing and input cost, reading the Q, it doesn't sound like the input cost basket is all that much worse, so it feels like maybe more pricing concession or raw pressure in the business. So can you just talk a little bit about that and sort of plans to come back that dynamic?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

Sure. Yes, when you look overall the net of pricing to input cost is as a percent of sales, the net impact in the quarter is a little less than a point. Of that, about 1/3 of that is price, so that's principally related to the Ingredients business. 2/3 of that -- the other part of that is really, as we talked about in the commentary, it's related to the Fragrance compound business, both the effects of core list agreements and getting onto new agreements as well as the volume-related rebates. So it's principally those 2 factors in that split.

Lauren Rae Lieberman - *Barclays PLC, Research Division - MD and Senior Research Analyst*

And is that core list kind of fee in rebates, is that something that's always been a feature of the business? Or has been gotten more competitive as that's kind of a new dynamic to get access?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

So, I think that's always been there for -- as we get access to more business, I mean, there is a bigger impact to that. But the effect of the global and the large customers using -- requiring that, it's been around for years.

Operator

Your next question comes from Silke Kueck-Valdes with JPMorgan.

Silke Kueck-Valdes - *JP Morgan Chase & Co, Research Division - VP*

It's Silke Kueck-Valdes for Jeff. If you look at your 2% organic growth in the quarter, was it 3% volume, negative 1% price? Was it 4% volume, negative 2% price? Like how does one think about it?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

As I mentioned earlier, I would say that the new win commercial performance was strong. It's in line with our long-term averages. Pricing was slightly unfavorable and I talked about that just my previous comments with Lauren. And as I also said, volume erosion was a little worse than the long-term averages.

Silke Kueck-Valdes - *JP Morgan Chase & Co, Research Division - VP*

So you -- so that's a volume erosion but organic growth and you think your price were down slightly, so that's down like 0.5%. Is that what slightly is?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

So if you I mean overall.

Silke Kueck-Valdes - *JP Morgan Chase & Co, Research Division - VP*

How do you measure negative price versus rebates, it seems you seem to capture rebates...

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

That's in price. That's embedded in the price number that I gave you.

Silke Kueck-Valdes - *JP Morgan Chase & Co, Research Division - VP*

Okay, okay. In terms of the Fragrance Resources acquisition, I think it was like well benefit from the sales that was added this quarter. Is that just is a one-time event, having to do this like the inventory write-ups and then you expect the business to contribute for the rest of the year?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

Are you talking about in the 10-Q, Silke?

Silke Kueck-Valdes - *JP Morgan Chase & Co, Research Division - VP*

Just when I look at the Fragrance result, I look at the acquisition impact, it looks like there was the sales impact that was positive but no profit effect. And so was wondering whether that feels like a one-time issue because you just thought you had to write-up inventories and you expect it to contribute to profits?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

Yes, there's 2 factors. One is we have to write-up the inventory to, basically, selling price. So the initial -- as that the initial sales of the inventory we, basically, get no margin on it or very little margin on it. I think that will continue probably for at least another quarter. On top of that, we have, obviously, we have the step-up in intangibles, which will continue and we'll have that for multiple years. And it really drives the impact, the synergies, ultimately as we ramp-up the synergies, that's how we get to back the cost of capital returns.

Silke Kueck-Valdes - *JP Morgan Chase & Co, Research Division - VP*

And I want to touch one more time on Latin America, because it seems like some of the headwinds in Latin America, have been -- well, like when I look back, I think, some of these we've seen now for like 3 quarters or 4 quarters and so, like that seem that by the time you get to the second quarter, your Latin America, business should begin to get better. While I guess, you've had these headwind for -- by that time you're stuck 4 quarters whereas headwinds of the consumer side and the Ingredients side. Well -- I'm sorry, on the Fragrance side and the Ingredients side?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

Yes, look, I mean, again, from a business standpoint, Latin America, again, I think Flavors is performing well. From a Fragrance standpoint, we've got a couple of factors again, the macroeconomic factors are certainly impacting the overall region. As I mentioned early, we've got a couple of key customers that their business is under pressure. And on top of that, we know that they are going through destocking. And that's -- until they get through that process, it's going to continue to impact us.

I think the other factor is when you look at our fabric business, which is our biggest business in consumer, we are a little bit -- we are more indexed to the value-added segment particularly, related to our encapsulation around, say something like, fabric conditioner. And in a market like Latin America, we see consumers trading down and/or not purchasing fabric conditioners, as much as they are doing basic detergents. So that's part of what's dragging the consumer Fragrance business down and providing the big headwinds that we've seen for multiple quarters.

Silke Kueck-Valdes - *JP Morgan Chase & Co, Research Division - VP*

Okay. The last question I have, can you just explain maybe, I missed it, what's the product recall relates to? And like in which region it affected?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

Yes, sure, it's North America. There was a contamination issue that we traced back to one of our suppliers. Our own quality control and testing procedures identified the vast that contained the salmonella. We notified the customer and the FDA. And they've mandated a product recall. We don't believe it's reached the consumer and there's been no reported illnesses. As a result of that, we wrote-off our sales related to the inventory, and we wrote-off our remaining inventory. And that was the total charge of about $1.8 million in the quarter. We do believe it's probable that we're going to have additional losses and costs but we can't estimate it at this point in time. But we don't believe it's going to have a material impact on our financial condition, but it could have an impact on any particular quarter. And we'll also continued to pursue reimbursement but again, we have -- it's fairly early in the process.

Operator

Your next question comes from Heidi Vesterinen with Exane.

Heidi M. Vesterinen - *Exane BNP Paribas, Research Division - Analyst*

Sorry if I missed this earlier, could you update us on input cost, please. What was the impact in Q1? What do you expect for the full year? And could you also update us on what you are seeing in vanilla in Madagascar?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

Okay. So couple of things there, Heidi. Impact in the first quarter was slightly unfavorable. We've got and that's higher input costs for the Flavors business, particularly, driven by the naturals and the vanilla that we talked about previously. Favorable on the Fragrance side of the business, but slightly negative -- slightly unfavorable in total. For the full year, I would say that we're looking probably at this point in the range of 3%, it could continue to go higher, depending upon what's going on with particularly, vanilla. Vanilla continues to increase in the market. There's been supply constraints, there's a lot of pressure from a demand standpoint. And we continue to see vanilla prices going up.

Heidi M. Vesterinen - *Exane BNP Paribas, Research Division - Analyst*

And I guess you have a bit of stock, so you're incubated from the market prices for a couple of quarters, would that be the right way to think about it?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

Yes, we are more -- I would say we are more incubated on the David Michael side. And on the rest of our business, particularly in North America and Europe, we are working with our customers on pricing.

Operator

Your next question comes from Faiza Alwy with Deutsche Bank.

Faiza Alwy - *Deutsche Bank AG, Research Division - Research Analyst*

I just wanted to follow-up on the pricing. So we're talking about prices going up 3%. Have you -- I know you said you're in the process of having conversations with your customers. Have you sort of gotten any pushback on taking pricing? Has the environment changed at all from previous years?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

Yes. So again, I think, it's primarily in -- the pricing is primarily in the natural side of the business and more on the Flavors side, as I mentioned earlier. Overall, that's reflected in roughly 3% guidance that I just mentioned earlier. And we are working with our customers on that to recover those costs.

Faiza Alwy - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. Okay, so no change. And then just if you could talk a little bit about Ottens. And then I guess more broadly, if you could talk about what the organic growth of the business would have been, assuming all of these acquisitions were in the base period?

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

So let me talk about the 2 acquisitions we did in North America, on the Flavors side, Ottens and David Michael. This is all a lot of exposure towards the small and mid-sized customers. We see here a good development. We see great new wins going forward. And we see that the performance is certainly outperforming the market. If we look at our market data right now, we should be the market leader for this segment of the market, which was the intent of these 2 acquisitions, to make sure that we increase our exposure towards these faster-growing, growing customers. In terms of the sequencing, we acquired David Michael in October, so I would say end of this October, it turns into organic and Ottens is already organic. So it's not accounted any longer as an M&A, let's say, growth number is already an organic number and it's helping us with our organic growth acceleration anyway.

Faiza Alwy - *Deutsche Bank AG, Research Division - Research Analyst*

Okay. But if you assume that Fragrance Resources and David Michael were in the base, what would your pro forma organic growth would have been?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

I mean, as we indicated when you look at the first quarter, it was about 5 percentage points worth of growth.

Faiza Alwy - *Deutsche Bank AG, Research Division - Research Analyst*

Okay, okay, I'll follow-up offline. I mean the 5 percentage includes the incremental benefit of like the entire sales, right? So I just want to know sort on an organic basis, how those businesses are doing? But I'll follow-up.

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

Yes, we can follow-up on it.

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

Yes.

Operator

Your next question comes from Curt Siegmeyer with KeyBanc Capital Markets.

Curtis Alan Siegmeyer - *KeyBanc Capital Markets Inc., Research Division - Associate*

Just on a follow-up on unplanned expenses, I know you clarified on the product recall cost uncertainty related to that, but would you expect any costs related to the manufacturing or the bad debt litigation to carry into 2Q or beyond?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

Bad debt, no. I think we might have a little bit of carryover into Q2, on the manufacturing side. The reactor is back up and running, so that's not going to be an issue for Q2 but the other issue where we've ramped up the new manufacturing process, there will be a little bit of carryover into Q2.

Curtis Alan Siegmeyer - *KeyBanc Capital Markets Inc., Research Division - Associate*

Got it. And then just on Fine Fragrances in Latin America, the volume erosion that you experienced there, I know that's been an issue in -- for several quarters in a row but I'm just wondering when you compare that to the Flavors side that was -- showed really solid volume growth, is there a vast difference in the geographic exposure and that being part of the reason? Or is the economic conditions that impacted Fine Fragrances, not as impactful on the Flavors aside? Or maybe just some more color around that.

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

I would say, Curt, that certainly the Fine Fragrances is in, let's say, in a weak economic environment, more discretionary item and people save on it. But on the food side, probably not so much. And with our products, in particular, in Latin America, we are, let's say, exposed to, let's say, better cost solutions like with the powder drinks, for example, so that we basically hitting actually an area which is -- has good, good growth rates. Unfortunately, that's not the case with the Fine Fragrances. And here we have to say as well in particular 2 of our local customers where we're very strong, where we have very high win rates, still they're suffering volume losses here. So that's what it is, that's actually the difference between the Flavors and the Fragrances business.

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

And the destocking that I mentioned earlier.

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

And the destocking, yes.

Operator

Your next question comes from Adam Samuelson with Goldman Sachs.

Adam L. Samuelson - *Goldman Sachs Group Inc., Research Division - Lead Analyst*

Maybe a question on customer activity, and I know you talked about some, I mean, obviously the sales pressures that your customers are facing have been significant, especially in Latin America. And you talked about new business wins to start to layer into the portfolio later this year. Can you talk about the activity level in terms of new briefs and if your larger MNC customers in particular, have maybe shifted a little bit out of kind of cost containment and are actually trying to accelerate that new product cycle to reinvigorate growth and how that provides visibility you get later into this year or into 2018?

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

It's a very, very good question. We see it actually stable for the big ones compared for with last year but we are seeing increasing activity from the smaller customers, in particular on the Flavors side, and that's encouraging, taking our strategy into account where we are increasing our exposure here. But in the big ones, we haven't seen an increased level, so far it's pretty stable compared with last year.

Adam L. Samuelson - *Goldman Sachs Group Inc., Research Division - Lead Analyst*

Okay. And then on the Fine Fragrance side, your customers distribution, it's disrupting to say the least with the department stores, especially in North America. Are you starting to see that flow back into your business in terms of the customer mix as new distribution channels become much more important to that business?

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

Yes, absolutely. And you hit it earlier. It is, in particular North America, where the distribution model is changing and particularly, on the more mass Fragrance, Fine Fragrance part. And yes, it's actually obvious to make sure that we as well and our customers, let's say, find the right mix of the products between the prestige, the premium and the mass and (inaudible) market. I think that's really, really important. Interesting enough, it looks at the moment, it's very much a North America issue. Europe, looks still different and if you look at our growth rates, you can reconcile it. But that's certainly a topic for our customers and ultimately, a topic for us as well.

Adam L. Samuelson - *Goldman Sachs Group Inc., Research Division - Lead Analyst*

And can you talk about the margin implications of that? Do you see that presenting risks as some of the Fine Fragrance can be particularly rich in terms of the margins?

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

Yes, at least not on our end so far. No, we don't see any risk.

Operator

Your next question comes from Jonathan Feeney with Consumer Edge.

Jonathan Patrick Feeney - *Consumer Edge Research, LLC - Senior Analyst*

Andreas, I want to talk about, could you give us a rough sense of your split of business between across the company, between the large global companies and smaller regional companies. I know you talk -- gave us a little detail about the trends there but how big have smaller regional companies, however, you want your customers define that become within your mix? And is -- I mean, the trends are better, I mean, is the cost to serve those customers because of increased complexity a little bit higher than your larger customers, at least on a marginal basis? And is that maybe part of what we saw this quarter? Or is there anything to that? I'd just like to understand it.

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

It's a good point. So for us, our exposure, big to smaller ones is roundabout 50/50. What we see is -- or what you have to do if you serve these smaller customers is that you need a differentiated service model, which creates, let's say, actually, a better approach for these customers, which is more agile, faster, more nimble. And has certainly, also, on our side probably less exposure to cost because the good thing is many of these customers are making faster decisions. And you basically get the business earlier and faster than with the bigger ones. And usually, you don't have a core list exposure where you have to say, bigger prepay -- rebates to get on this list, for example. That's the reason why on the Flavors side here, in the U.S., we are having kind of a stand-alone facility now serving these customers and that's basically, everything the whole operation between Ottens and David Michael, with some of our smaller business together to make sure that we take into consideration, a really differentiated service model here. That's the only way that you can become successful in this market segment.

Jonathan Patrick Feeney - *Consumer Edge Research, LLC - Senior Analyst*

I was just going to say, is there a structural cost to serve here at the margin that it gets harder I mean, it seems to me like a lot of your growth in margin over the past 5 years has been taking, making everything more efficient, focusing on more larger briefs for huge customers and this is a lot of what you've done and now like a little bit more complexity maybe erodes that at the margin but maybe bring some other things. So I'd just like to understand how your margin work structurally?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

Yes, let me just put some -- a little bit in context. When you look at the year-over-year margin profile for the business, if you take the currency impact out, which is probably 80 basis points, if you take out the effect of the unplanned expenses that I mentioned earlier, which is probably 70 basis points at the margin level, so absent those 2 factors, our margin year-over-year will be slightly positive.

So your cost-to-serve element, there's different components Andreas, talked about the Flavors side of it. If I look at the compound side for Fragrances, smaller customers, we have less from a cost-to-serve standpoint because more of that business is going to come off of our -- out of our bank and we have less of a creative demand related to local and regional customers.

Operator

Your next question comes from Brett Hundley with Vertical Group.

Brett Michael Hundley - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

First, just a quick one, I'm sorry if I missed this. But what is M&A now expected to contribute to currency-neutral sales and EPS growth? Before it was expected to contribute 4.5% to sales and 1.5% to EPS growth, and I think you guys said that, that's stepped up a little bit. Did you give those revised figures?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

We didn't. I mean, it's about 1.5% at the top line and 2.5% at the operating profit line, so it's shifted a little bit, given the strong performance in the Q1 from the M&A business and the unplanned result, the unplanned expenses on our organic business in Q1.

Brett Michael Hundley - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

I'm sorry, you said 1.5% top line incremental one on that?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

Yes 2.5%. Sorry, yes, the M&A impact about 1.5% top line and 2.5% operating profit.

Brett Michael Hundley - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

Okay. I appreciate that. And then just for you and/or Andreas, I -- even with these regionals, these smaller customers increasing as a percentage of your mix, as you well know, M&A is an increasingly greater proportion of your sales growth today versus previous quarters or previous years, however, you want to look at it. And when we talk to other ingredient companies in the industry, other adjacent companies, they are increasingly talking about blends -- ingredient blends as getting more and more in focus from a customers' standpoint, being in greater demand relative to just single flavor and Fragrance compounds. I know some of these guys are obviously, talking their book because that's what they produce. So maybe, I'll give you guys a chance to talk your book and discuss if you're seeing that as well and maybe how you guys are set up to handle any related shift?

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

So we -- I would not say that you see a trend in that, but what we see certainly, that this is an opportunity. And if you look at on the Flavors side at our PowderPure acquisition, then this is certainly going into an adjacent part of the business, which could certainly add to that quite significantly. On the Fragrance side, I'm actually not so sure. I would say on the Fine Fragrance, you deliver the whole package anyway, despite the packaging material but we haven't seen anything else on the Consumer Fragrance side.

It's probably more trend we see towards the Flavors and in Ingredients business. And then here, we are taking account of it but you have to make sure as well as, that you keep your margin profile because some of these, let's say, complete solutions are not the most profitable ones and we have to make sure that we manage that in a very careful pace -- way here.

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

Brett, let me make one correction to what I just said. It's at the top line, it's about 4.5%. I was I transposed currency versus M&A. So it's about 4.5% top line.

Brett Michael Hundley - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

Yes, so no change to the top line impact and instead of 1.5% help now on the bottom line, it's 2.5% help?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

Correct.

Operator

Your next question comes from Lauren Lieberman with Barclays.

Lauren Rae Lieberman - *Barclays PLC, Research Division - MD and Senior Research Analyst*

I was actually going to clarify that, so that's helpful. And then the other thing was on reinvestment spending. I know on expected expenses in the quarter but I just wanted to check in where in that bridge which we could find any reinvestments you did there was, this quarter?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

It's basically going to get netted in the cost and productivity. But again, it's been limited, given the environment. I mean, I think the big part of the reinvestment is going to come as we talked about, later this year and in '18 as we get the full benefits associated with the productivity program.

Lauren Rae Lieberman - *Barclays PLC, Research Division - MD and Senior Research Analyst*

Okay. And then also on the bridge, the 6 point contribution from volume, is that inclusive -- that's including volume from acquisitions, I would think because I thought, it sounded like total company volume wouldn't have that much positive leverage to it?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

So the M&A impact, all the M&A is in the M&A line.

Lauren Rae Lieberman - *Barclays PLC, Research Division - MD and Senior Research Analyst*

Okay. it is totally separate. So at this level of volume growth, which was -- I would have thought was slightly down total volume. I was just surprised that there was this, again, positive leverage?

Richard A. O'Leary - *International Flavors & Fragrances Inc. - CFO and EVP*

Yes, I'll go back and check it, but -- that's apples-to-apples.

Operator

There are no further questions at this time. I would now like to turn the call over back over to Andreas, for closing remarks.

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

Thank you very much for your questions and have a good day. Thank you. Bye-bye.

Operator

Thank you for participating in today's conference. You may now disconnect.