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PRESENTATION

Operator

At this time we would like to welcome everyone to the International Flavors & Fragrances second-quarter 2015 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, Global Corporate Communications and IR*

Thank you and good morning, good afternoon and good evening everyone. Welcome to IFF's second-quarter 2015 conference call. Yesterday we distributed a press release announcing our financial results. A copy of the release can be found on our IR website at www.IFF.com. 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 regard to our outlook for the third-quarter and fiscal-year 2015. 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 March 2, 2015, and our press release that we filed yesterday, all of which are available on our website.

Today's presentation will include non-GAAP financial measures which exclude those items that 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; our Executive Vice President and CFO, Alison Cornel; our Group President of Flavors, Mattias Haeni; our Group President of Fragrances, Nicolas Mirzayantz; and our Senior Vice President and Chief Accounting Officer, Rich O'Leary.

We will start with prepared remarks from Andreas and Alison and then the entire team will be available for any questions that you may have.

With that I would now like to introduce our Chairman and CEO, Andreas Fibig.

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

Thank you, Mike. I would like to start by providing an executive overview of our operational performance this quarter. I also want to take this opportunity to reiterate our Vision 2020 strategy for those of you who were not able to attend our recent investor day and then provide an update on the execution of our four-pillar strategy. Once finished, I will ask Alison to review our financial results in greater detail including the specifics on each business unit and take you through our outlook for the balance of the year. Before opening the call to questions I will come back to finish up with some comments.

Our financial results for the second quarter remain solid as we delivered results in line with the guidance we provided at our recent investor day. Currency neutral sales improved 5% including approximately 1 percentage point related to the acquisition of Ottens Flavors. Our topline performance continued to be driven by new wins which remained strong as both businesses reported solid growth.

Adjusted operating profit on a currency neutral basis was 7% as we achieved gross margin expansion that when combined with lower research, selling and administrative expense led to 40 basis points improvement in currency neutral adjusted operating profit margin.

Currency neutral adjusted EPS improved by 10% as we gained additional leverage below the line with a lower effective tax rate and a year-over-year decrease in average shares outstanding as a result of our share repurchase program.

As we are now at the midpoint of 2015, I felt it was appropriate to highlight our first-half results. As you can see on the slide, all our key metrics are at or above our currency neutral long-term targets of 4% to 6% sales growth, 7% to 9% operating profit growth and 10% EPS growth.

Our currency neutral sales growth in the first half was strong at 6% with 8% growth in Flavors and 4% growth in Fragrances. Adjusted operating profit grew 9% on a currency neutral basis driven by strong sales growth, benefit of productivity programs and manufacturing and RSA cost leverage. The net result was positive as our currency neutral adjusted EPS increased 11% in the first half of 2015.

At our investor day in June, we unveiled our Vision 2020 strategy which focuses on building greater differentiation, accelerating profitable growth and increasing shareholder value. Our strategy has four pillars.

The first one, when where we compete. Our goal to achieve a number one or two market position in key markets and categories and with specific customers. For example, in North America, our home market, we have an opportunity to increase our market share. We also identified that we want to win in Africa, Middle East, a new frontier in the emerging markets relatively small now but one of the fastest-growing areas in the world. There are also categories such as Home Care and Fine Fragrances as well as several customers which I cannot name but are growing well.

The second pillar, innovating firsts. We are also looking to strengthen our position and drive differentiation in product R&D platforms. During our strategy review process, we evaluated our investment in both existing and new platforms. The disciplined approach starts with our ability to determine the market size and based on the consumer need states.

Next, our ability to deliver innovation for each opportunity taking into account the technical likelihood of success and commercial potential. We then conducted a full evaluation of the technology degree of fit within our strategy and made the decision to focus on the highest return opportunities. This includes doubling down and focusing on key initiatives such as delivery systems, modulation, new molecules and naturals across both businesses.

The third one, become our customers' partner of choice. IFF has always been committed to growing our customer intimacy. In Vision 2020, our goal is to take that one step further so that we obtain commercial excellence by further providing our customers with in-depth scope of consumer understanding, industry-leading innovation, outstanding service and the highest quality products. This in turn should allow us to become an essential partner and ultimately lead to incremental business opportunities for our customers as well as IFF.

The fourth pillar is strengthen and expand the portfolio. As you have seen over the past couple of months, we have actively pursued value creating through partnerships, collaborations and acquisitions both within our industry and adjacencies. These opportunities, some of which I will touch on in a moment, will allow us to tap areas of expertise beyond the walls of IFF leading to more innovation and ultimately additional growth.

The three enablers to the strategy include talent and organization with investment in our people and R&D; continuous improvement with a relentless focus on finding efficiency and streaming processes to reinvest in the business; and sustainability, strengthening sustainment practices and becoming the leader within our industry.

While we are still early in days of execution we are seeing that our identified strategies imperatives are the right ones. In the areas where we are targeting a market leadership position we are seeing accelerated growth. We continue to leverage our long-standing presence in the emerging markets as they grew 7% on a currency neutral base led by 22% increase in the Middle East and Africa and strong growth in India, Brazil and Argentina.

We also improved our market share in North America achieving the number two position in Flavors after successfully closing the acquisition of Ottens Flavors

Home Care, another strategic priority for us, has increased high single digits globally on a currency neutral basis.

Delivery Systems across both Flavors and Fragrances continue to drive growth. The strong trends in fabric care and beverages continued in the second quarter led by our encapsulation technology in Fragrances and proprietary delivery system in Flavors. In Fragrances, Fabric Care grew midteens on a currency neutral basis driven by our encapsulation technology. We are expanding this technology into other categories such as toiletries, home care and personal wash which all grew double digits in the second quarter.

In Flavors, Latin America continued its double-digit trend for the seventh consecutive quarter led by our proprietary delivery system. We are very pleased that our sales of sweeteners and Savory modulation portfolio improved strong double digits an example that we are providing our customers with innovative solutions that win in the marketplace with consumers.

Our continued commitment to provide our customers with in-depth consumer understanding, superior innovation, outstanding service and highest quality products allow us to capture the growth potential of faster growing regional accounts most noticeably in Flavors in the second quarter which outpaced the growth of global accounts.

We broadened our product offering expanding into more rapidly growing cosmetic actives. With the recent acquisition of Lucas Meyer Cosmetics offering our customers greater option to support their strategic growth initiatives in skin and hair care. In addition, in Fragrance ingredients we launch and marketed Amber Xtreme, a unique and innovative more effective ingredient that was previously captive for the exclusive use of IFF perfumers and is now available for both use within the fragrance industry.

In line with our focus on strengthening and expanding our portfolio, we successfully completed the Ottens Flavors and Lucas Meyer Cosmetics acquisitions. We recently signed a partnership with Duke University focusing on finding effective flavor modulators that are novel to our industry and we are collaborating with the University of Liverpool to enhance our delivery system capabilities in fragrances.

Before turning the call over to Alison, I wanted to provide some additional commentary on our recent acquisition of Lucas Meyer Cosmetics. Lucas Meyer Cosmetics is headquartered in Quebec City, Canada with operations in France and Australia. They develop, manufacture and market innovative ingredients for the cosmetics and personal care industry. Their products are designed to maintain the body's natural reactions, strengthen its defense against environmental aggressions, delay the signs of aging and address other contemporary cosmetic challenges.

Some of the benefits of their active ingredients include wrinkle reduction, skin firming and protection from free radicals among others. We targeted Lucas Meyer as a partner as it as an award-winning company with strong proprietary portfolio and great customer relationships. We believe they have a strong fit with IFF's core competencies and strategic assets including a similar customer base allowing us to build greater customer intimacy and drive penetration into the skin care and hair care businesses through an expanding product offering.

Innovation is critical to both industries and we expect that we can cross leverage shared expertise and analytical research, sensory science and consumer insights. We also can combine IFF's industry-leading natural products, Aromor, with Lucas Meyer's Southern Cross Botanical platform and they have a strong brand recognition, one that stands for the highest level of quality and trust.

The acquisition will allow us to enter an attractive and fast-growing market with approximately $44 million in annual sales and EBITDAR margins much higher than in the Flavors and Fragrance industry. We believe Lucas Meyer Cosmetics is sustainable on a standalone basis and also a great foundation for further consolidation in cosmetic actives. It is truly a great business and we are excited to have it within the IFF portfolio.

With that I would like to turn over to Alison.

Alison Cornell - *International Flavors & Fragrances, Inc. - EVP and CFO*

Thank you, Andreas. I would like to start out by saying how happy I am to be here at IFF. It is a great time to be part of a company with the history that IFF has especially as we embark on Vision 2020 where we are looking toward building greater differentiation, accelerating profitable growth and increasing shareholder value.

I have been fortunate enough to speak briefly with some of you but for those of you who I have not met, let me quickly go through my background. I joined IFF from Covance, a global drug development company with $2.5 billion in sales and 12,500 employees located in 60 countries where as a Chief Financial Officer I was responsible for all financial management including financial reporting and analytics, capital allocation and strategic planning.

During my tenure there are several areas I am proud of but most notably the fact that we accelerated revenue growth, improved operating performance, streamlined processes and developed talent. These are all areas that I believe are transferable to IFF and I am excited to get started.

Prior to my time at Covance I spent 19 years with AT&T and held leadership roles of increasing responsibility. Among them leading finance for a $30 billion division as Vice President Forecasting, Performance and Investment Analysis. I look forward to getting to know many of you over the next few months as I get acclimated to the company and support the execution of the Vision 2020.

To provide a greater level of transparency, I thought I would lay out a bridge from our adjusted financial results to adjusted currency neutral results highlighting the impact of currency and showing results with and without the acquisition of Ottens.

Focusing in on the second column, Q2 was a challenging quarter from a currency perspective as the US dollar strengthened against many global currencies. From a sales perspective, the translation impact represented approximately 8 percentage points. On an adjusted operating profit and adjusted EPS basis despite our natural hedge given our considerable operations in Europe and currency hedging program, the volatility and exchange rates negatively impacted our adjusted operating profit by 8 percentage points and adjusted EPS by approximately 11 percentage points.

Including the acquisition of Ottens which you can see in the third column, currency neutral sales increased 5%, adjusted operating profit 7%, and adjusted EPS 10%. This included a lower tax rate due to higher earnings from lower tax jurisdictions, lower loss provisions and lower repatriation costs in 2015 and the benefit of lower shares outstanding as a result of our share repurchase program.

The acquisition which only included two months worth of business added about 1 point to the top line and was a slight benefit to adjusted operating profit and adjusted EPS. Excluding the acquisition, our organic business performed well and was in line with the guidance given at our June 2 Investor Day. We managed to achieve good leverage down the P&L with sales improving 4%, adjusted operating profit up 7% and adjusted EPS increasing 9% all on a currency neutral basis.

Before moving forward I wanted to take a moment to note that the amortization of intangibles relating to the Ottens acquisition represented about $1.2 million in the quarter. If we added this back to understand the cash component of the business, growth from a profit and EPS perspective would have improved another 1% to 8% and 11% respectively.

As we begin to execute Vision 2020, M&A is expected to play a larger role. Going forward, we will continue to provide analysts and investors with visibility to the amortization of intangibles of acquisitions so you have a better idea of what the actual cash generation is of the business. From an evaluation perspective, we hope it provides an understanding of the returns of any deals we pursue.

Turning to business unit performance, Flavors currency neutral sales grew 7% including approximately 3 percentage points relating to the acquisitions of Ottens Flavors. All categories experienced broad-based growth with the strongest results in beverage and Savory. Greater Asia was up 6% driven by mid single-digit gains in Savory, beverage and dairy.

On a country perspective, strong growth was achieved in India, Indonesia and the Philippines. This performance more than offset a slight decline in China where we temporarily stopped production to install new odor abatement equipment. The plant has since reopened and we continue to ramp up production working with the government to ensure we are in full compliance.

As of last week, our backlog of orders returned to normal levels and we are either servicing all accounts from our plant in China or other facilities around the world.

Keeping with the subject of China, we have recently been notified by Chinese authorities of a compliance issue pertaining to the emission of odors in our fragrance ingredients plant. We are working to address these issues by making investments in additional odor abatement equipment similar to what we did in Flavors but expect to operate at a reduced capacity until the equipment is installed and fully operational sometime in Q4.

Our full-year 2015 guidance which I will touch on in a moment is inclusive of this matter both from a topline and cost perspective based on returning to normal production later this year.

Turning back to Flavors, in our Europe, Africa and Middle East regions, sales increased 6% led by double-digit gain in Savory and mid single-digit growth in beverage. As Andreas mentioned, the Middle East and Africa reported our highest growth improving over 20% driven by strong new win performance. North America improved 5% as a result of additional sales related to the acquisition of Ottens Flavors and high double-digit growth in dairy. Excluding the transaction, the core North American business was soft as we previously communicated at our investor day principally due to underlying trends with select customers.

Latin America increased 14% as all categories reported positive growth. The double-digit trend in beverage continued for the seventh consecutive quarter and Savory and dairy also grew double digits as a result of strong new win performance.

Flavors currency neutral segment profit improved approximately 1% as topline growth, productivity and cost neutral initiatives were reduced by a year-over-year increase in incentive compensation expense and the inclusion of amortization of intangibles related to the acquisition of Ottens Flavors.

Q2 operating profit margin was also impacted by approximately 50 basis points or about 2 percentage points in terms of growth relating to China.

Based on what we know today, we would expect a similar impact to the remainder of the year which is included in our full-year 2015 guidance that I will discuss momentarily.

Fragrance currency neutral sales improved 4% led by double-digit growth in Europe, Africa and Middle East regions and a mid single-digit improvement in Latin America driven by Consumer Fragrances.

From a category perspective, Fine Fragrances was up 2% as Europe, Africa and the Middle East grew 17% as a result of a very strong pipeline of new wins and volume growth. This strong growth more than offset softness in Latin America where economic conditions particularly in Brazil have an impact on discretionary spending.

While the economy is soft we continue to see our win rate remain high which ultimately will continue to support our market leadership position. For the 15th consecutive quarter, Consumer Fragrances continued to grow up 6% led by double-digit growth in Fabric Care, thanks in large part to our strong encapsulation technology and high single-digit growth in Home Care.

In addition, hair care increased high single digits as a result of new win performance. As previously communicated, fragrance ingredients was weak, down 3% as we made the strategic decision not to engage in lower margin businesses and more importantly to supply and further strengthen our fragrance compounds business as our internal demand for our own ingredients is up double digits.

It should be repeated that this weakness is primarily related to one customer whom if we exclude the rest of our portfolio would be up mid-single digits.

On a profit perspective, Fragrance currency neutral segment profit improved approximately 5% driven by volume growth, continued cost savings initiatives and continued productivity programs. Segment profit margin on a currency neutral basis increased 20 basis points to 20.2%.

From a cash flow perspective, our core working capital levels continued to show improvement year-over-year as a percentage of sales as our five quarter rolling average figure through the end of Q2 was down 120 basis points to approximately 29% of our trailing 12-month sales. Much of our gains came from lower payables as our days payable outstanding increased [15%] versus the same period a year ago. The net result of our working capital improvement and net income growth led to an $11 million increase in operating cash flow to $166 million and a 35% improvement excluding pension contributions.

We are also making progress on our share buyback program. Year to date through the end of July, we have spent a total of nearly $60 million on buying back roughly 525,000 shares at a price of $112.

At our investor day, we provided an update on our uses of cash. We said we wanted to remain an attractive investment for our shareholders by providing a consistent competitive return of cash. Leveraging our strong cash flow generation and commitment to Vision 2020, we increased our targeted cash return to shareholders to 50% to 60% of adjusted net income.

As a follow-up to that, late last week our Board of Directors approved a 20% increase in dividend. This increase provides us with a more competitive yield while simultaneously balancing our growth objectives. In addition, our Board authorized an incremental $250 million share repurchase through the end of 2017 on top of $50 million remaining under the current authorization. At the current market price, this new program plus the remaining authorization would enable the repurchase of more than 2.5 million shares or approximately 3% of the shares currently outstanding. This combination is expected to lead to an approximate 65% payout ratio of our estimated adjusted net income in 2015 while still providing financial flexibility for M&A.

Turning to our outlook for the full-year 2015, we will now provide guidance inclusive of Ottens an Lucas Meyer Cosmetics acquisition on a preliminary basis. We expect currency neutral sales to grow approximately 6% including approximately 2 percentage points related to acquisitions. Fragrance ingredients is expected to remain soft as we have two more quarters where we are managing through pressure from the one customer I noted earlier.

In Fine Fragrance, we expect a modest improvement in the back half of the year as economic softness in the large fragrance market of Brazil could have an impact on our results. In addition, we expect to see decelerating trends in our Europe, Africa and Middle East region versus strong first half through the order patterns and high erosion rates on last year's wins.

The solid trends seen in Q2 for Flavors are expected to continue in the second half with an improvement in Flavors North America anticipated in Q3. We expect this topline growth combined with our continued cost control to lead to approximately 9% adjusted operating profit growth and about 10% adjusted EPS growth assuming a 24.5% to 25% full-year tax rate all on a currency neutral basis.

This guidance includes approximately $8 million relating to the amortization of intangibles from acquisitions. If we exclude this impact, adjusted operating profit and adjusted EPS would grow approximately 100 basis points higher. Like many US multinational companies, the strengthening US dollar versus many global currencies will impact our results.

In this chart we are highlighting the expected profit impact of key currencies within our foreign exchange basket by multiplying the year-over-year percentage changes through July of 2015 by the portion it represents out of our operating profit. As you can see, the weakening euro versus the US dollar which represents our largest currency exposure is expected to have the greatest impact.

In addition, several other currencies while small in terms of profitability exposure have all weakened considerably versus the US dollar and are collectively pressuring profitability. Mitigating this exposure we expect a gain from our transactional euro hedging program which I identified on the last bar of the chart.

As discussed in Q1, the benefits of this program will be more back-half weighted based on the phasing of our program. The net result is we expect foreign exchange movements to have approximately 7 percentage point impact on sales and an approximately 5 percentage point impact on adjusted operating profit on a full-year 2015 basis.

Incorporating the foreign exchange impact on our full-year guidance, we would expect reported sales to be down approximately 1% including approximately a 7% percentage point drag from currency. Adjusted operating profit is expected to rise about 4% inclusive of approximately a 5 percentage point headwind of currency.

Before turning the call back over to Andreas, I just want to reiterate how pleased I am to be part of IFF. I look forward to making a positive contribution in the coming months as we continue to create incremental shareholder value.

With that I would like to turn the call back over to Andreas for some closing comments.

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

Thank you, Alison, I briefly want to reiterate that we have started the first half of the year well as we delivered strong currency neutral operational performance. We increased our cash return to shareholders while simultaneously initiating the execution of Vision 2020. Our strategy is a natural evolution and the logical next step that will provide the fuel that we need to accelerate our growth and increase differentiation which in turn should lead to sustainable, profitable growth for the years to come.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Mark Astrachan, Stifel.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Thanks. Good morning, everybody. I wanted to ask about North America. So growth slowed in Flavors excluding acquisitions also remain weak. In Fragrances, I know you talked about expecting an improvement in Flavors so maybe talk a bit about Company category dynamics, drivers, expectations over the balance of the year including that improvement. And did that improvement include the benefit from the acquisition in terms of having a full three month's worth of benefit?

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

Thank you for the question. I give it to Matthias.

Matthias Haeni - *International Flavors & Fragrances, Inc. - Group President, Flavors*

Good morning, Mark. Excluding the transaction, the core business was soft as we previously communicated at the investor day principally due to underlying trends with select customers. I also would like to mention here that we have comparables not only relative to last year in Q2 but also in Q1 this year. We were posting a 10% growth in Q1 this year. When it comes to the overall performance by category, we mainly faced some challenges in the category of Savory and we are confident that in Q3 we are getting back to growth and we will be posting low single digit growth. And I would be also very confident for the entire balance of the year that we are going to be positive for the year.

And this is all organically, this is all excluding Ottens so what we shared with you was like for like excluding the acquisition of Ottens.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Great. Then on the Fragrances side, maybe talk a bit about that too please.

Nicolas Mirzayantz - *International Flavors & Fragrances, Inc. - Group President, Fragrances*

Good morning, Mark. It is Nicolas here. So first of all, I will divide the dynamic between the two segments; North America for Consumer Fragrances we had a very, very strong growth last year of 8.2% for the full year so we knew we had gained market share. Here we expect to be still positive for this year and so we will be growing above market. So I think that we have gained market share. Here you see that we came also after a very, very strong growth of 15% last year in Q2 so we know that the market is not growing at that speed so it was a really difficult comp for Q2.

In Fine Fragrance, we are facing with some of the launch that took place last year that were not as successful as expected. So we had a very, very strong pipeline last year and we have the same reorder leading to the wins from last year. So it is putting pressure on our topline.

But obviously as you know most of the activity in market share growth in North America is taking place with European brands and as you can see we have been able to capture a significant part of the new launches and we know that all of our European based customers are manufacturing in Europe for the world including North America.

Mark Astrachan - *Stifel Nicolaus - Analyst*

And just following up on that, Nicolas, so the ingredients piece, weak now for a couple of quarters, you talked about a specific customer. So is it fair to assume that that business doesn't improve until you start cycling the loss of whatever that piece of business is of that customer?

Nicolas Mirzayantz - *International Flavors & Fragrances, Inc. - Group President, Fragrances*

Yes, that is correct. We don't expect growth for the remainder of the year so we will still be challenged. I think what was important in what Alison shared with you is that if you exclude that customer, we will be up mid single-digit so that is very, very good. And also regarding the strategic linkage between ingredients and fragrance compounds, our overall volume in our plants of ingredient is up double digits. So you can see that there is a significant benefit of having the vertical integration and I think that is what is really important is that the continued performance and success that we are having in Consumer Fragrances is largely supported by our ingredients. So the focus of our ingredients business is really to support our continued growth in compounds.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Great. Just switching gears, global expenses has been extremely volatile in the last few quarters. How much of the decline year to date has been due to incentive comp? How should we think about that in the back half of the year? And then is it fair to assume that assuming the topline trends get back into the midrange of the 4 to 6 organic next year that that resets and potentially is a higher number on a go forward basis sort of more in line with what we have seen in recent years?

Alison Cornell - *International Flavors & Fragrances, Inc. - EVP and CFO*

I'm sorry. Could you repeat the question?

Mark Astrachan - *Stifel Nicolaus - Analyst*

Yes, I'm asking about global expenses. So they have been down a lot year to date in terms of that line item. So I'm trying to figure out how much of that has to do with incentive compensation. And then trying to think about how much this year is an exception relative to what should be more of a normalized run rate for that segment going forward?

Rich O'Leary - *International Flavors & Fragrances, Inc. - SVP and CAO*

Mark, it is Rich. Two things I think, the two big drivers that are in that corporate category, one is the AIP and the incentive comp piece. The second is the cash flow hedging and so I think there's a couple of things that you've got to think about. I think the AIP differential, I think the second quarter that will continue through the third and fourth quarter relative year-over-year performance. The cash flow hedging impact as we have talked about is back ended so that will grow in the second half of the year relative to where it was in the first half of the year.

So I think when you look at 2015 as a whole, it is below, I will call it below normal given the incentive comp trend trending below expectations and cash flow hedging being positive compared to prior years where it was negative.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Got it, great. Thanks, Rich.

Operator

Lauren Lieberman, Barclays.

Lauren Lieberman - *Barclays Capital - Analyst*

Good morning. I was hoping you could bridge the gap for us between reported sales being down 1 and EBIT being up 4. I'm guessing obviously incentive comp is a piece of it but even still the implication is some pretty big acceleration on profits and productivity. So if you can give us a little information on that it would be great.

Alison Cornell - *International Flavors & Fragrances, Inc. - EVP and CFO*

So it is a combination of incentive comp as you mentioned. Our raw materials are down, our productivity savings are up. I would say so those are the main drivers.

Lauren Lieberman - *Barclays Capital - Analyst*

Is there anything specific though because honestly I would have thought that with the Vision 2020 being laid out that the bias is to invest sooner rather than later so the implication for currency neutral EBIT growth is the high-end of your long-term range.

So I guess wondering if there is any sort of holding back on some of those investment plans given how rough currency is? Also maybe the magnitude of how much the compensation is really driving that swing in expenses?

And then also I would have thought there would have been greater expenses given the plant issues, the emissions things you are putting in in China that that would have been an incremental expense.

Alison Cornell - *International Flavors & Fragrances, Inc. - EVP and CFO*

So let me chunk it up a bit. So our forecast for China, full-year forecast plus our second quarter includes everything we know about it at this point in time. So we are closely monitoring what is going on in China. We have plans in place to for the odor abatement as quickly as possible but everything we know at this point is included in our forecast.

The other items impacting the difference, so hedging which I neglected to mention. So want to include that in terms of the things that are positively impacting bottom-line performance. But then also want to address in terms of our investment. We are fully committed and fully moving forward on Vision 2020 investment and so there is no holding back associated with that. I think it is really just a combination of multiple factors that are helping the bottom line appear much greater. But nevertheless, I think each item has support in and of itself. I think it is really just in combination you get the outcome.

Lauren Lieberman - *Barclays Capital - Analyst*

Okay. And then I know it is very early but knowing what you know today about how your hedges work, if currency stayed at today's levels do you have a sense for what the drag from currency would be next year because I know the hedging kind of gives you a lagged effect?

Alison Cornell - *International Flavors & Fragrances, Inc. - EVP and CFO*

So I would say 3% to 4% headwind.

Lauren Lieberman - *Barclays Capital - Analyst*

On EBIT next year?

Alison Cornell - *International Flavors & Fragrances, Inc. - EVP and CFO*

2016, yes.

Lauren Lieberman - *Barclays Capital - Analyst*

Okay, great. At today's spot. Thank you so much.

Operator

Jeff Zekauskas, JPMorgan.

Unidentified Participant

Good morning. I was wondering whether I could touch one more time on the issues in US American Flavors and that is if you strip out the acquisition benefit, the North American Flavor business was down (inaudible) maybe 4%. And I know you grew very strongly in the first quarter but even if you averaged it out it means that maybe you grew 3% on a local currency basis excluding acquisitions and last year you were down 4%. And your comparisons in the fourth quarter are becoming difficult again because there was volume growth of 7% and obviously there is some implications to the EBIT level as well because your overall Flavor sales this quarter dropped $3 million but your EBIT was down [7]. And so I was wondering whether you can sort of like shed some thought on that as to what the issues are in the North American Flavor business and why you are confident that outside of cost control, things should be better in the back half of the year?

Secondly, I was wondering how much of your share repurchase program you may complete in 2015 and in 2016?

Matthias Haeni - *International Flavors & Fragrances, Inc. - Group President, Flavors*

This is Matthias speaking. Let me answer the first question H1, year to date our number four North America would be up. We are growing small low single digits. We had challenges in the second quarter in (inaudible) and in particular as outlined before in the category of Savory.

We also recognize that the larger accounts, the very large international accounts where we have a very high index in North America, they are not growing as fast as the smaller more agile companies which are probably the more the manufacturers in the food and beverage industry. It is exactly the reason and part of the strategic rationale why IFF had a very strong interest and we feel very pleased and privileged to have Ottens being part of our portfolio. It will give us a vehicle where we can differentiate ourselves, where we can keep the agility, the speed, the responsiveness and the ownership for those accounts to make tailored solutions which have a faster growth rate in North America.

Overall I feel confident that we will be posting full-year growth excluding Ottens like for like still and I believe together with Ottens we will further accelerate in the quarters to come.

Alison Cornell - *International Flavors & Fragrances, Inc. - EVP and CFO*

In terms of share repurchase for the remainder of 2015, we would expect to spend about $40 million to $50 million and then $100 million each year thereafter.

Unidentified Participant

Thanks very much.

Operator

Faiza Alwy, Deutsche Bank.

Faiza Alwy - *Deutsche Bank - Analyst*

Good morning. So I wanted to talk about Latin America. I know you mentioned that this was the seventh quarter of double-digit growth in Flavors in particular. And I know you talked about delivery systems so I was wondering if you could expand on that a little bit? I know the categories you mentioned were beverages in particular but it would be helpful to learn more about who these customers are, are you gaining share or is market growth just as strong, just anything else that you can add to that?

Matthias Haeni - *International Flavors & Fragrances, Inc. - Group President, Flavors*

Thank you for the question. I certainly believe we are gaining share in Latin America, it is not a coincidence that we are posting the seventh consecutive double-digit quarter. We are really traveling well. Our approach pipeline is very strong and when I was referring to our unique delivery system technology, I'm referring here to a product which increases authenticity, naturalness of the taste and it is mainly used not only but mainly used in beverages.

In addition, we have a lot of great inroads being made in other categories such as Savory thanks again to our technologies in Savory modulation. And frankly I feel very good about our performance even going forward and it makes us feel good that we are investing in Vision 2020 in exactly those areas which are truly differentiating ourselves in the competition.

Faiza Alwy - *Deutsche Bank - Analyst*

Okay. And other customers, is it a mix of multinational and local customers or is there more contribution from one of those?

Matthias Haeni - *International Flavors & Fragrances, Inc. - Group President, Flavors*

We have very strong growth across the account base irrespective of whether these are the strategic accounts or the larger accounts or even smaller accounts which are more local in Latin America.

Faiza Alwy - *Deutsche Bank - Analyst*

Okay. And then Alison, just a clarification from you. I knows so the local currency operating profit growth you said was going to be 9% including acquisitions. And then I think you said it was 8% excluding acquisitions, is that right?

Alison Cornell - *International Flavors & Fragrances, Inc. - EVP and CFO*

For the outlook?

Faiza Alwy - *Deutsche Bank - Analyst*

For the year, for 2015.

Alison Cornell - *International Flavors & Fragrances, Inc. - EVP and CFO*

So currency neutral is 9% growth and adjusted operating profit ex the acquisitions is 8%.

Faiza Alwy - *Deutsche Bank - Analyst*

Okay, great. I just wanted to clarify that. Thank you.

Operator

John Roberts, UBS.

John Roberts - *UBS - Analyst*

Good morning. Are cosmetic actives sold in a briefing process? And for a cosmetic active that is fragranced as well or a cosmetic product that is actives and is fragranced, would a customer brief the actives and fragrances together as a package?

Nicolas Mirzayantz - *International Flavors & Fragrances, Inc. - Group President, Fragrances*

Good morning, John. You have a briefing process but the active ingredients is very much innovation led. So you really create the opportunity through a consumer insight and really a development of very specific solutions linked to the trend in the market. So you create the growth opportunity instead of really waiting for a brief. So it is slightly different than ours. And if you look at the dynamic because the customer base is very, very similar, we believe that through encapsulation technology, for our consumer insight we will be able to actually increase the market access of the Lucas Meyer portfolio and provide additional solutions for the future.

John Roberts - *UBS - Analyst*

So just as a follow-up, if you brought a new active for a cosmetic product to a customer, would they still brief the fragranced part of it?

Nicolas Mirzayantz - *International Flavors & Fragrances, Inc. - Group President, Fragrances*

It can be usually. It is in separate activities but today the fact that we can provide a joint solution might create some new opportunities.

John Roberts - *UBS - Analyst*

If you could just remind me the year-over-year increase in the performance comp in Flavors, that was primarily because of the year-ago being below plan, it was not really related to a change in the accrual rate for the current year?

Alison Cornell - *International Flavors & Fragrances, Inc. - EVP and CFO*

Yes, that is correct.

Operator

(Operator Instructions). Heidi Vesterinen, Exane.

Heidi Vesterinen - *Exane BNP Paribas - Analyst*

I wondered if you could update us on the cross listing please? What was the rationale and are you taking any actions to improve liquidity there? Thank you.

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

Yes, we absolutely are. As we discussed, we began trading in early June with our cross listing in the Euronext. I think now we are in the process of working with several banks in Europe based in Paris to see if we can improve our liquidity. We would expect through the balance of the summer to probably have some news in September probably middle to end of September.

Heidi Vesterinen - *Exane BNP Paribas - Analyst*

Thank you.

Operator

Mike Sisson, KeyBanc.

Mike Sisson - *KeyBanc Capital Markets - Analyst*

Good morning. Nice quarter, guys. Wanted to just ask about in Flavors currency neutral operating income growth was up 1% despite currency neutral sales up 7%. So can you talk about some of the headwinds that sort of took away from some of the operating leverage? Clearly you tend to have better operating leverage so I think you flushed out some but didn't know if you could share any specifics?

Alison Cornell - *International Flavors & Fragrances, Inc. - EVP and CFO*

This is Alison. So there was an impact -- I would say the biggest impact in terms of offsetting that profitability going to the bottom line was increased incentive compensation. Beyond that we had the intangible impact of $1.2 million was also mentioned and that was somewhat offset by productivity and cost control initiatives but that was the biggest, those were the two biggest impacts. And then we also mentioned China, which is also included (technical difficulty).

Matthias Haeni - *International Flavors & Fragrances, Inc. - Group President, Flavors*

They will not be higher than what we had for the quarter in Q2. In terms of productivity, it is very high on our agenda. It obviously stands or falls a lot on how much we can profitably further accelerate our top line. While we are still early in the quarter I feel good that we will deliver a solid topline growth that can then offset some of the pressures Alison have alluded to before.

Alison Cornell - *International Flavors & Fragrances, Inc. - EVP and CFO*

Mike, just another comment so for the second half of the year, too, AIP will continue to be a headwind from a profit perspective.

Mike Sisson - *KeyBanc Capital Markets - Analyst*

Okay, got it. And then just a quick one on encapsulation. That business sounds like it is really gaining some momentum here. Where do you think you are at in terms of penetration in sort of these other markets like toiletries and personal wash? And is that an area that is going to continue to grow double digits for the next whatever quarters or certainly years?

Nicolas Mirzayantz - *International Flavors & Fragrances, Inc. - Group President, Fragrances*

Good morning, Mike. As you know, encapsulation has been really one of the key drivers of the continued growth and success in Consumer Fragrances. I will say the majority of the revenues from encapsulation at this stage are really in Fabric Care. But it is really one of the key pillars of the driver and driver of our Vision 2020. That is where we are really investing significantly right now in resources and capacity and with a goal obviously to enlarge the offering to other categories.

So we have early success in other categories. We are pleased. That is why it is growing fast but on a small base. So for the foreseeable future the growth will be coming from Fabric augmented possibly with the other categories.

Mike Sisson - *KeyBanc Capital Markets - Analyst*

Great, thank you.

Operator

Mark Astrachan, Stifel.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Thanks for the follow-up. Two questions. One, Alison, if you can give us an update on interest expense over the balance of the year inclusive of the two acquisitions? And then just broadly wondering if you could comment on category growth dynamics overall? You plus your competitors seem to have slowed a little bit second quarter relative to 1Q and relative to growth in 2014. So I guess just curious what you are seeing from a customer standpoint just broadly? And then an expectation on a go forward basis relative to where you were maybe a quarter or so ago?

I know you have slightly revised the sales guidance toward the low end so obviously within that what you are seeing today relative to what you were seeing maybe three or six months ago and how you think about that normalizing over time?

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

On a total company question for your part 2 on guidance?

Mark Astrachan - *Stifel Nicolaus - Analyst*

Yes.

Alison Cornell - *International Flavors & Fragrances, Inc. - EVP and CFO*

Okay, so first let me answer the interest related question. There will be a $2 million increase which was included in our guidance so that is reflective. In terms of overall outlook at our investor day we guided towards a currency neutral range of 4% to 6%. So we expect this year's performance to be in line with the overall long-term guidance of 4% to 6%. We still believe that is the case albeit at the low-end of the range due to pressure from ingredients which Nicolas had spoken about as well as some uncertainty in Fine Fragrance.

Operator

Alec Patterson, AGI.

Alec Patterson - *AGI - Analyst*

Good morning. Just a couple of quick ones. The Latin America midteens growth in Fragrances and Flavors, is it all volume or volume mix? I know you tend to price in dollars but I just wanted to get clarification.

Matthias Haeni - *International Flavors & Fragrances, Inc. - Group President, Flavors*

Thank you for the question. In Latin America as I outlined before, we are really traveling very well and very strong. We have a lot of new wins. We have also good volume growth but a lot is driven really by new wins, even new customers. We are moving into new geographies also in Latin America. You may recall that we have opened a new affiliate in Chile for example. This gives us leverage and we see very good with the traction which we gained thanks to the technology increase customer intimacy and additional accounts.

Alec Patterson - *AGI - Analyst*

And just curious, China has been an issue especially for wholesale inventory management for a lot of your customer base. What are you seeing there? And then lastly, a question just can you round out or update us on some of the gross margin drivers, the raw material trends, that sort of thing?

Matthias Haeni - *International Flavors & Fragrances, Inc. - Group President, Flavors*

Talking about China, frankly we see the same, we see challenges as well. We see mainly very large international accounts being challenged. We see volumes decreasing, we see retail destocking and we are (inaudible) and we mainly have a similar system as we have in North America that small accounts seem to be more agile and probably have faster in (inaudible) or solutions which are more tailored for the market in China.

As we are aware of it, we try to expand. We work with the commercial teams in China to increase our cost of our portfolio and to ensure that we are again more relevant within the market place.

I however would like to remind SEC challenges in China, we have comparables what we are comparing to last year irrespective of whether it is Q2 or even H1 we are comparing to very solid single digit growth so we mainly had a slowing down in last three quarters in China.

Alison Cornell - *International Flavors & Fragrances, Inc. - EVP and CFO*

And in terms of the second part of your question in terms of raw materials, we expect to see a relatively stable raw material environment for the remainder of 2015.

Operator

Jeff Zekauskas, JPMorgan.

Unidentified Participant

I was wondering whether you can just share your thoughts and sort of like the competitive environment and that is there is opportunity now like a new entrant in the industry with ADM acquiring WILD Flavors. I could see a little bit of a roll up in the food industry where Heinz acquired Kraft and like where Tyson is acquiring Hillshire brands. In the fragrance industry, P&G is divesting its beauty care business and that is going now to Cody. So was wondering whether you can discuss a little bit like what the competitive trends are like?

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

Thank you for the question. I think what we experience these days is what we probably saw in the industry a long time ago. We see consolidation from the account base. I think consolidation is such on the accounts is also a great opportunity for us. It is really an opportunity to ensure that we are truly partnering at the very early stage and I outlined once at the investors day. As soon as we are partnering at the very early stage with our customers, our win rate and the chance that we are really submitting a value creation and value addition to them is much higher.

Nowadays our customers they are not looking for vendors and suppliers anymore, they are really looking for true partners and I really see this as a great opportunity. When it comes to North America, what we outlined is Ottens. We all said that we want to create a vehicle for us to truly differentiate ourselves to keep the agility, the speed, the ownership but the (inaudible) the very long-standing history Ottens has built here in North America and to pack it together with Flavor technology from IFF. We are firm of the belief that this will help us to accelerate our growth rate to penetrate into a segment that is growing faster of what we believe than the very large accounts here in North America and see it as a great opportunity.

Maybe Nicolas, do want to add something, provide some color to Fragrance?

Nicolas Mirzayantz - *International Flavors & Fragrances, Inc. - Group President, Fragrances*

Very similar trends in terms of the customer dynamic moving to strategic partnership. So every consolidation provides additional upside opportunities and here it is obviously our duty to support and provide consumer insight and to identify gross opportunities for the portfolios and reaching significant scale so we believe it is a positive outlook for us.

Unidentified Participant

I appreciate the thoughts. Thank you.

Operator

I would now like to turn the call back over to Andreas for closing remarks.

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

Thank you very much for the questions. As we said we had a good first half-year. We are in the middle of the execution of our Vision 2020 which works very well. We basically finished the two acquisitions for this year as well which will help us differentiate and accelerate our growth going further, going to the future.

Thank you very much for the questions again and let me end the call right now. Thank you.

Operator

Thank you for joining today's conference, you may now disconnect.