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PRESENTATION

Operator

At this time I would like to welcome everyone to the International Flavors & Fragrances second quarter 2016 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 & IR*

Thank you. Good morning, good afternoon and good evening, everyone. Welcome to IFF's second quarter 2016 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 www.ir.iff.com. Please note that this call is being recorded 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 second half and full year 2016. 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 1, 2016 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 we believe affect comparability. A reconciliation of these non-GAAP financial measures to their respective GAAP measures is set forth in our press release that we issued yesterday and is also on our website.

With me on the call today is our Chairman and CEO, Andreas Fibig, and our Executive Vice President and CFO, Alison Cornell. We will start with prepared remarks and then take any questions that you may have. With that, I would now like to introduce Andreas.



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

Thank you, Michael. I would like to start with an executive overview as usual of our operational performance for the second quarter. Then I will provide an update on the progress we are making in terms of our long-term Vision 2020 strategy. Once finished, Alison will review our financial results in greater detail, including specifics on each business unit as well as our of 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 all our key financial metrics for quarter two came in as we anticipated with currency neutral sales improving 4%, comprising 3% growth in Flavors and 5% growth in Fragrances. On a consolidated basis, our top line growth benefited by approximately 2 percentage points related to the contribution of our acquisitions of Ottens Flavors and Lucas Meyer's Cosmetics. Our organic business grew 2% on a currency neutral basis driven by new wins across both businesses.

From a profitability perspective, we strategically reinvested in our business while simultaneously delivering 7% currency neutral adjusted operating profit growth and a 70 basis points expansion and adjusted operating profit margin. This was driven primarily by volume growth, the benefits associated with our cost and productivity initiatives and the contribution of acquisitions. Currency neutral EPS improved 5% as lower year-over-year shares outstanding, due to our share repurchase program, were offset by higher interest expense and a higher effective tax rate.

Turning our attention now to Vision 2020. As we celebrate the first anniversary of its launch, this is a perfect time to review the progress we have made thus far. We are pleased with the performance we have made relative to our strategic priorities and remain focused on execution to drive long-term growth. Since inception, we have seen strong currency neutral sales growth across all our key platforms, including modulation, encapsulation, delivery systems and naturals -- proof that we're executing our plan and delivering what we believe is industry-leading innovation to our customers.

With that in mind, I'm happy to report that delivery systems across both Flavors and Fragrances continued to drive growth in the second quarter. In Flavors, sales of our sweetness and savory modulation portfolio continues its trend of strong double-digit currency neutral growth led by savory, dairy and beverage. In Fragrances, encapsulation related sales also continued its strong trend of growth, improving double digits in a currency neutral base led by fabric care and personal wash.

In the second quarter we also launched a new flavor modulator and a new natural flavor molecule to continue to give our flavors a superior palate to work from to insure we continue to build winning solutions for our customers. We also set a new benchmark for Fragrance sustainability with the release of the first ever cradle-to-cradle certified fragrance, PuraVita. The fragrance, which is noted of green apple, wood, apricot and vanilla, is a proof of concept for an innovative approach to sustainable fragrance creation. PuraVita is a model for what can be achieved when perfumers pair creativity with sustainable design principles.

In the areas where we are targeting a market leadership position, we are continuing to see accelerated growth. In North America we saw 5% currency neutral increase for the second quarter of 2016, driven primarily by the contribution of our acquisitions. Within North America Fragrances, consumer fragrance improved high single digits, led by solid new win performance. Strong growth trends in the Middle East and Africa continued through second quarter as currency neutral sales improved mid-single digits with strong growth coming from Flavors. Another strategic area for us, Home Care, grew mid-single digits on a currency neutral basis, led by double-digit growth in North America and EMEA.

We continue to position ourselves to be our customers' partner of choice and go-to supplier. The second quarter we launched an enhanced sustainability strategy focused on leading positive transformational changes toward a regenerative, healthy and abundant world. As an enabler of IFF's Vision 2020 business strategy, creating a sustainable future is essential to IFF's long-term growth. As such, the new sustainability strategy is centered on three main aspects: positive principles, regenerative products and sensational people. For this strategy, IFF has committed to engage its people and partners to ask, what if, and to take a complex challenges for [reimagining] what is possible when sustainability, innovation and passion combine.

We also achieved [core-less] status with key customers in the second quarter. With this core-less status, we are the one and only core supplier with 100% briefing access. This is a great accomplishment as it is a clear key competitive advantage, helping to drive future growth in the years to come. We are also happy to announce that we have partnered with Unilever to improve the lives of vetiver farming communities in Haiti. The partnership,

vetiver together, aims to sustainably improve food, security, increased yields and diversify income while working to support women's empowerment and our environmental conservations.

Haiti produces some of the best vegetables in the world and many farmers rely on cultivating of the root for their entire source of income. But due to the economic pressures, farmers often harvest the roots before they are fully mature, leading to low prices, poor oil yields, deforestation and soil erosion. The partnership will help farmers address these challenges as well as provide training to community members, including crop and live stock production, soil [conservation] and nutrition to help improve social conditions and diversity of farm production and food security.

Finally, in quarter two we also deployed the industry's first onsite wind turbine at our Tilburg, Netherlands facility. The turbine, which has an output of 2.4 megawatt, will produce the clean energy equivalent of what is needed to power 1,900 households. It is estimated to provide up to 30% of the site's electricity needs. And when combined with purchased green electricity, the facility will be powered by 100% renewable electricity.

In line with our focus on strengthening and expanding our portfolio, I'm pleased to report that our two recent strategic acquisitions continue to perform well. IFF Lucas Meyer Cosmetic achieved double-digit growth on a standalone basis and IFF Ottens Flavors continued its solid growth trend. We believe these results are good indications that we are putting our capital to work to drive accelerated performance, both in terms of growth and return.

Following the end of the second quarter we also announced that IFF Lucas Meyer Cosmetics made a strategic investment in Bio ForeXtra, a Quebec City, Canada based R&D laboratory highly specialized in the development of active cosmetics and botanical extracts. This investment expands IFF Lucas Meyer Cosmetics access to raw materials for the cosmetic active business. We believe the access we will gain to sustainably sourced extracts from the [virile] forests of Canada will provide us with a competitive edge.

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

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

Thank you, Andreas. Our financial results for the second quarter remain solid and were consistent with our expectations. Currency neutral sales improved 4%, including approximately 2 percentage points relating to the acquisition of IFF Ottens Flavors and IFF Lucas Meyer Cosmetics. Our top line performance continued to be driven by new wins across new both businesses.

If we include foreign exchange related pricing in our Q2 growth rate, our currency neutral sales would have increased to approximately 6%. And on a two year basis would have increased 7%, which is ahead of our competitors. Adjusted operating profit on a currency neutral basis grew 7% as we achieved gross margin expansion. That, when combined with volume growth benefits associated with cost and productivity initiatives and the contribution of acquisitions, translates to a 50 basis point improvement in currency neutral adjusted operating profit margin. Currency neutral adjusted EPS improved by 5% as lower year-over-year shares outstanding, due to our share repurchase program, were offset by higher interest expense and a higher effective tax rate.

As we are now at the midpoint of 2016, I thought it would be appropriate to highlight our first half results as well. Our currency neutral sales growth in the first half was strong at 5% with 4% growth in Flavors and 6% growth in Fragrances. Adjusted operating profit grew 7% on a currency neutral basis, driven by strong sales growth, benefits of our productivity programs and contributions from acquisitions. The net result was positive as our currency neutral adjusted EPS increased 8% in the first half of 2016.

Turning to business unit performance for the second quarter. Flavors currency neutral sales increased 3%, including approximately 1 percentage point related to the acquisition of IFF Ottens Flavors. All categories experienced broad based growth with the strongest growth in savory and dairy. From a region perspective, growth was led by mid-single digit increases in North America, Europe, Africa and Middle East and greater Asia. North America increased 4% on a currency neutral basis, inclusive of our acquisition of IFF Ottens Flavors.



Europe, Africa and the Middle East increased 4% on a currency neutral basis as growth was led by new win performance, particularly in dairy and beverage. Africa and the Middle East continued to outgrow Western Europe, improving approximately 7% in the second quarter. Greater Asia posted 6% currency neutral growth, led by strong growth in Indonesia, India, and [Asean].

On a category basis we achieved double-digit growth in sweet and mid-single digit growth in savory. Growth in Latin America in the second quarter was disappointing, decreasing 7% on a currency neutral basis, based on a strong 14% currency neutral prior year comparable growth rate. From a country perspective, Mexico grew strong double digits on a currency neutral basis; however, with offset by challenges related to customers reducing their inventory positions due to the softening of import restrictions in Argentina. Flavors currency neutral segment profit grew approximately 9%, primarily resulting from volume growth and the benefits from cost and productivity initiatives. Segment profit margin also expanded 120 basis points on a currency neutral basis.

Fragrances currency neutral sales improved 5%, including approximately 3 percentage points associated with the acquisition of IFF Lucas Meyer Cosmetics, led by a double-digit increase in greater Asia, high single digit growth in North America and low single digit growth in Europe, Middle East and Africa.

From a category perspective, Fine Fragrances decreased 1% on a currency neutral basis as strong double-digit growth in Latin America was offset by softness in North America and Europe, Africa and the Middle East, where new wins did not compensate for erosion of existing business. The growth trend in Consumer Fragrances continued, improving 4% on a currency neutral basis, driven by broad based growth across all subcategories, led by a double-digit increase in personal wash, strong contributions from technology-driven innovation in fabric care and mid-single digit growth in home care.

On a geographic basis in Consumer Fragrances, growth was led by double digit increase in greater Asia and high single digit growth in North America, both on a currency neutral basis. Fragrance ingredients sales were up 14%, driven primarily by the acquisition of IFF Lucas Meyer Cosmetics. As expected, trends in our Organic Fragrance Ingredients business remain challenged and should improve in the second half of the year. From a profit perspective, Fragrance's currency neutral segment profit increased 7% year-over-year, resulting from volume growth, benefits from cost and productivity initiatives and the benefit from the acquisition of IFF Lucas Meyer Cosmetics. As a result, currency neutral operating profit margin improved 40 basis points.

From a cash flow perspective, our operating cash flow in the first half was \$155 million, compared with \$166 million in the prior year period. This change was driven by our core working capital levels being challenged, principally by the timing of payables within our year-over-year period. As communicated previously, we still expect this impact to normalize as we progress throughout 2016.

From a capital deployment perspective, capital expenditures through the first half totaled \$43 million, or 2.7% of sales. And we continue to believe we will spend approximately 5% of sales in 2016. As previously noted, this increase will principally be driven by capacity projects in greater Asia and investments in technology expansion.

Switching gears to cash returned to shareholders. In the first half we spent approximately \$89 million on dividend payouts and \$72 million on share repurchases. Last week our Board of Directors authorized a quarterly dividend of \$0.64 per share of the Company's common stock, an increase of 15%, to bring our dividend yield to around 2%. This marks the sixth consecutive year that the Board approved a double digit increase in our dividend. This increase in our quarterly dividend demonstrates our confidence in IFF's long-term growth prospects and commitment to returning 50% to 60% of adjusted net income to our shareholders.

With the first half of 2016 now behind us, we remain cautiously optimistic for the balance of the year. We are reiterating our previously stated currency neutral financial guidance for 2016 of 3.5% to 4.5% currency neutral sales growth, including approximately a 1.5 percentage point contribution from the acquisition of IFF Ottens Flavors and IFF Lucas Meyer Cosmetics. From an adjusted operating profit perspective, we expect to achieve 5% to 7% growth, inclusive of a 1.5 percentage point contribution from M&A. Currency neutral adjusted EPS growth is expected to improve by 6.5% to 8.5%, supported by a modestly lower effective tax rate and the continuation of our share repurchase program.

In terms of modeling the second half, please note that our fourth quarter and 2016 growth rate is expected to be the strongest, given our more favorable comparable to prior year periods. In addition, we also expect currency neutral operating profit to grow less than sales in Q3, given the timing of some of our planned reinvestments.

While our currency neutral guidance has not changed, we have updated our EPS guidance to reflect the FX gain we benefited from in the second quarter. The net result is that the impact of currency on sales and profit remains the same, at 2 and 3 points respectively, and the impact on EPS is lower by approximately 1 percentage point. At this point in time we are hedged approximately 80% on our Euro profit exposure at [114] in 2016 and hedged at approximately 40% of our 2017 exposure at [113].

As we discussed on our first quarter conference call, we said we were reviewing our currency neutral methodology to determine if either a more refined or simpler approach is warranted in order to ensure that we provide investors increased insight into our underlying operating performance, [create] alignment with how our businesses run and information that is more usable for comparison purposes. While we are still reviewing our current methodology, any changes determined will not be implemented until the beginning of 2017 since our employees end-year compensation is linked to our current methodology.

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

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

In summary, I'm pleased with the second quarter and first half of 2016 from a financial and strategic standpoint. Despite the volatile global operating environment, we are on pace to achieve our previously stated currency neutral guidance for 2016. Simultaneously, we continue to be focused on the execution of Vision 2020, which is geared towards accelerating our growth and increasing differentiation, which in turn should lead to sustainable, profitable growth.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Your first question comes from Mark Astrachan with Stifel.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Thanks. Good morning, everybody. Wanted to ask about sales growth. So you're still guiding to growth for 2016 below long-term targets. So wanted to understand how the business is performing relative to the going in beginning of the year plan. And then more broadly, want to understand how we should think about returning to 4% to 6% long-term sales growth targets. Is that predicated on improving end demand, IFF specific share gains, acquisitions, et cetera?

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

Okay. Mark, thank you for the first question. Let me talk about 2016 first. And it's true that performance first half of the year was good -- actually a very good growth rate and a great performance. But we have all witnessed that there's great macroeconomic and political volatility over the course in the year. And we will see it in some of our geographies which are important for us. We will have elections the US. We have seen the Brexit and



we have seen other events like Turkey, for example, where we have to be cautious. And that's the reason why we reiterate our guidance and we believe we are on track to make it. But volatility is certainly unprecedented.

Talking about 2017, I can't talk in detail about 2017. I believe that needs some more time because we have first of all to finish 2016. But we will return -- and we are optimistic to return to our long-term guidance because what we see is actually a couple of things. First of all, we have an unprecedented pipeline strengths in terms of new molecules for Fragrances, for example. We see great progress in some of our other R&D platforms like modulation and naturals. And that will help us to gain share going forward. And that's the reason which makes me cautiously optimistic for the years to come.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Great. And then just following up -- another question. Wanted to ask about M&A and sort of how the Company is thinking about bolt-on versus larger scale deals. There's clearly a little bit more cash on the balance sheet than there has been in recent years. I don't know if that really means anything but just sort of broadly you've done a couple bolt-on deals. So is that still the path or do you think now learnings from that allow for larger scale?

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

Mark, as you know, many of these deals are, let's say, opportunistic at the very end because you never know whether you get the asset you want. But I can reassure you our M&A pipeline so forth is pretty well filled. We have made great progress in identifying the right targets. And it might be a mix going forward in terms of bolt-ons and more bigger acquisition. And we certainly, as you have alluded, have the fire power to do these kind of deals. So we are on a path and the good thing is the year is not closed.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Thank you.

Operator

Your next question comes from Lauren Lieberman with Barclays.

Lauren Lieberman - *Barclays Capital - Analyst*

Thanks so much. Good morning.

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

Good morning.

Lauren Lieberman - *Barclays Capital - Analyst*

I want to talk first about the North America Flavors. It looks like the organic was up a little bit and it seems like probably an acceleration coming next quarter. Can you just talk about what's sort of driving the improvement you're starting to see in North America Flavors?



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

I'll probably take it. Lauren, first of all it's Andreas. Great question. In North America we have actually seen good movements in some of the smaller accounts we are having. That's the reason why our IFF Ottens has actually very, very good performance here. But we see a recovering of some of our bigger accounts as well. We have a better win rate. And we are cautiously optimistic for North America. But we have to take into consideration that the North America market, as a market, is not a high growth market. So we always have to take this into perspective.

Lauren Lieberman - *Barclays Capital - Analyst*

Okay. And then also on Asia, I was actually surprised to see Asia -- both Flavor and Consumer Fragrances being so strong -- both because of the macro in the region and usually kind of looking at your trend as a little bit of a leading indicator of where your customers expect sales trends to go and also knowing some of the manufacturing challenges you were dealing with in China. So if you could talk about market growth and also some of the manufacturing things in China, that would be great.

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

So Lauren, it's Alison. So first, while we had continued challenges in China, what we saw was growth in Indonesia, India, across greater Asia. And that was a function of our technology, our delivery, so encapsulation, our delivery systems, very strong pipeline, strong win rate. And so all those things are combining to deliver a strong performance despite our challenge in China.

As we talked about China previously, we have taken corrective steps in China in terms of the odor abatement issue as well as announcing our second factory in China. We've also modified our commercial strategy that we're targeting, I'd say, higher growing categories. As you know, in order to commercialize things in this space, it takes time. So fortunately in the interim we're experiencing strength in the other areas or the other geographic places across greater Asia.

Lauren Lieberman - *Barclays Capital - Analyst*

Okay. So that's great. So in China this -- sorry. Excuse me. In Asia, the strength wasn't even yet showing that China's starting to come back for you or there's any kind of recapture of some of the lost business.

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

Exactly.

Lauren Lieberman - *Barclays Capital - Analyst*

Okay. That's great. Thank you so much.

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

Sure.

Operator

Your next question comes from the line of [Soki Kuchik] from JPMorgan.

Soko Ku - *JPMorgan - Analyst*

Good morning. This is [Soko Ku] for Jeff Zekauskas. How are you?

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

Very well, Soko.

Soko Ku - *JPMorgan - Analyst*

I was wondering whether you can shed a little bit of light on the gross margin expansion in the quarter. Like what was the benefit from favorable buys over costs? Were there any hedging gains due to productivity improvements?

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

Yes, so there were, I'll say, several benefits. So we had first starting with volume -- so that was about 120 basis points, so cost productivity initiatives another 120 basis points. And that was offset by other items like unfavorable price to input cost, higher incentive compensation, higher RSA and then slightly negative mix. But the biggest drivers from the favorability volume and cost.

Soko Ku - *JPMorgan - Analyst*

As you think about the back half of the year, do you think a 46 gross margin is something that's sustainable?

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

Yes -- there or thereabouts. What you'll see, though, is it will be somewhat weaker in Q3. And that's relative to the timing of our cash flow hedge. And then stronger in Q4.

Soko Ku - *JPMorgan - Analyst*

And in terms of the SG&A line, so the SG&A grew 7.5% on sales that were up 3%. And can you discuss what was due to the strategic investments and how much was due to the acquisitions and maybe higher amortization expense?

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

Sure. So let me start with amortization expenses. So amortization expense in the quarter was \$3.3 million. From a strategic investment perspective, that was \$4.5 million, or call it 3 percentage points of growth. That's split \$700,000 in Fragrances, \$600,000 in Flavors. And then we had \$3.2 million associated that's with cost and productivity initiatives -- all of those initiatives in line with our Vision 2020 strategy.

Soko Ku - *JPMorgan - Analyst*

And what do you think the level of investment -- of strategic investments will be for the second half? Like it sounds like that those -- that level of spending is going up, if I understood it right.



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

I would say it's consistent with the run rate, if not slightly higher. Again, what you'll see is in Q3 the timing of our -- you'll see greater spending in the Q3 associated with strategic initiatives. And that's really just due to the timing of the projects versus Q4. So at a macro level, it's consistent with run rate but it does have a quarterly spread.

Soko Ku - *JPMorgan - Analyst*

And so when you look at your operating margin as a whole for the third quarter, do you think the margins would expand or would it be more flattish due to the timing of the investments?

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

I would say they'd be flat in the third quarter and improved in the fourth.

Soko Ku - *JPMorgan - Analyst*

And then my last question is I was wondering what your expectation is for the new flavor modulator that you launched. If you look at it over like a, I don't know, like a one year period or three year period or five year period, like how big of a market is there for the product and what do you think -- what revenues do you expect over time?

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

Soko, it's very early times for the new modulator and we can't give you any specific guidance on that one. But we might come back when we see more, let's say, in-market sales.

Soko Ku - *JPMorgan - Analyst*

Do you have a hope of what you may achieve?

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

(laughter) We have always great hopes but I can't give you anything in specific here.

Soko Ku - *JPMorgan - Analyst*

Okay.

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

I'm sorry.

Soko Ku - *JPMorgan - Analyst*

Thanks very much. I'll get back into the queue.

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

Okay.

Operator

Your next question comes from Heidi Vesterinen with BNP Paribas.

Heidi Vesterinen - *Exane BNP Paribas - Analyst*

Hi. I wanted to ask about LATAM. Was the weakness just in Argentina or are you seeing weakness in other countries as well? Because we're hearing from some customers that Brazil is getting quite bad and potentially worse in the second half. Perhaps you could walk us through trends that you're seeing in the key countries you're exposed to in LATAM, please. Thank you.

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

Heidi, thank you for the question. It was basically Argentina for us, which was really, really bad. And here I would I say my interpretation is that there's a lot of changes in the policies as well in import and export and we will see how that straightens out over the course of the year. Actually, on Brazil, in terms of the Fine Fragrance business, it was doing very, very well. So we can't see the weakness here. And we have another hope that we'll see Olympic games probably people are using some of our personal wash, but we never know. (laughter) I'm sorry.

Heidi Vesterinen - *Exane BNP Paribas - Analyst*

That's great. Thank you.

Operator

Your next question comes from Mike Sison with KeyBanc.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Hi. Good morning and nice quarter there. Andreas, interesting -- every time I see a commercial these days they talk about reformulating into naturals, both fast food and some of your consumer products companies. Can you sort of walk us through how this movement to more natural ingredients continues to impact your business? And do you think it potentially accelerates over the next couple years?

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

Actually, our planning or our belief is that we might see even more of an acceleration. We get already on the Flavors side more than 50% of our [briefs] on naturals or organic. And so this is a clear trend. And I think it goes with the trend of health and wellness as well. So that this is basically the ask from the consumer. That's what we see in our consumer surveys as well. So that will be something which will stay strong over time. And here what we see, particularly on the modulators -- and you know we do on Savory, on sweetness modulations -- they're basically all natural right now in what we are doing. That's another indicator that this trend is probably here to stay. Okay, Mike?

Mike Sison - KeyBanc Capital Markets - Analyst

Okay. Great. And then in cosmetic actives, I think every quarter you report it's double digits. Can you help us understand maybe what's driving that? Is it -- is there some end-market drivers there? And is that something that can continue for quite some time?

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

So first of all, the business we have acquired here had already in the past a very solid track record. But what we see right now for us is that first of all the whole market has a higher growth rate than our core market with probably 4.5%, which is basically double -- almost double in what we see in our core market. And then we see that we come up with good solutions, which are really needed by the customers. Plus we find new customers as well because -- and that was the idea of the acquisition that we can open some doors for the active cosmetic sales teams, make sure that we introduce them to some of our clients we have already for many, many years. So that's a classic top line synergy we are playing here.

Mike Sison - KeyBanc Capital Markets - Analyst

Okay. And then last one, in terms of your outlook for the second half of the year, if conditions kind of stay where they are now, would you be similar to the first half? Meaning that you kept your guidance despite doing better in the first half. You would need sort of a deterioration in the environment from here to be at the lower end.

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

Look, Mike, we reiterate guidance here. That's where we stay. Because you never know how things are playing out.

Mike Sison - KeyBanc Capital Markets - Analyst

Okay. Thank you.

Operator

Your next question comes from Faiza Alwy with Deutsche Bank.

Faiza Alwy - Deutsche Bank - Analyst

Yes, hi. Thank you. Good morning. I was just wondering, Andreas, if you could give us some more background on -- you talked about the new core list that you have gotten on recently that you weren't on before. If you could maybe give us some more background around that, sort of what led to that. Was it your technology? Was it customer relationships? Sort of just a little bit more on that.

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

Faiza, first of all, good morning. Unfortunately I can't give you any more details on the core list. But it's a significant customer for us, which is, I think, that's important to know as a good volume. And what helped us here? Certainly technology. So the technology we are providing to this specific customer has helped to gain access. And the second one is certainly, let's say, focus on the customer and being a partner of choice as well to working with them very, very closely together in many, many areas. And that has helped us to gain access here.



Faiza Alwy - *Deutsche Bank - Analyst*

Okay. Great. And then just -- I just want to push a little bit more on Latin America because it sounds like you do have difficult comps going into the third quarter also. And I know we talked about it a little bit with respect to Argentina. But is there anything else? Is that expected to continue into the back half? And like what are -- are you expecting a recovery there in the back half? Or do you expect trends to be similar to where they were this quarter?

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

So I think overall we're going to see a slight recovery in the flavor space. But from a Fragrance perspective, I'd say we remain cautious for the second half.

Faiza Alwy - *Deutsche Bank - Analyst*

Okay. And then just one last one, Alison. You had that great chart as part of the Q4 presentation where we talked about the profitability improvement in 2016. And you highlighted Vision 2020 investments. We're going to reduce operating profit by 3.5% and then fund-the-journey was going to help by 5% to 6%. I know you talked about where we are in terms of the investments. Can you talk about some of the savings that we've seen so far? Have those come through? Or are those expected in the back half?

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

Yes. So I would say, Faiza, that we're tracking with our plan, both on the investment side as well as the fund-the-journey productivity cost savings initiatives. And so those are in line with our plan.

Faiza Alwy - *Deutsche Bank - Analyst*

Okay. Great. Thank you.

Operator

Your next question comes from Jonathan Feeney with Consumer Edge Research.

Jonathan Feeney - *Consumer Edge Research - Analyst*

Good morning. Thanks very much. I wanted to ask -- I'm not sure I understood -- just be clear on your answer to Lauren's question, Alison. What would -- that mid-single digit growth in North America Flavors, I think the Ottens business is fairly heavy in North America. Could you give -- I mean what would that -- could you give us a sense what that would have been without the acquisition?

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

Sure. So organically in the second quarter we were flat in North America. Having said that, through the second half of the year our organic business by itself, excluding Ottens Flavors, improves. And that was based on the pipeline, strong wins and so forth through the second half of the year.



Jonathan Feeney - *Consumer Edge Research - Analyst*

Great. Thanks. And forgive me if you mentioned this before. Would the pro -- would the margin profile of Ottens Flavors be likely similar to your overall margin profile?

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

Yes.

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

Yes.

Jonathan Feeney - *Consumer Edge Research - Analyst*

Okay. Great. And then I guess just one bigger picture question. The capabilities you build through Meyer and Ottens, how much of this is specific to a set of customers? And how much of this is building competitive advantage relative to the other big three global players? Do you feel as if this is a race and all these companies are sort of building your capabilities and you're positioning IFF to be stronger? Or is this sort of -- are these sub-niches that you're trying to maybe stake out while the other three, big three sort of stake out other niches?

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

No. Actually if you look at the two acquisitions -- quite a different approach. On the active cosmetic ingredients we were looking at an adjacent business to our Fragrance business. And we entered into this business because we believe that we have great top line synergies here in terms of the customer coverage. And we are playing in the premium segment of that market, which gives us an extra profitability and certainly a good growth as well. So that's important to understand. That was the reason why we ventured into that business.

On the Flavors side, different approach because as we said and probably many of our competitors are telling you as well, is that you see some of the smaller, mid-size companies with higher growth rates. And we needed kind of a differentiated service model for that kind of part of the market as well. And that was the reason that we acquired Ottens to use as a platform in that segment because this way usually customers -- we were not reaching out at much as we would like to have it. And now we have the platform, we're filling the platform and we are pretty happy with it.

Jonathan Feeney - *Consumer Edge Research - Analyst*

Okay. Great. Thank you very much, Andreas and Alison.

Operator

(Operator Instructions)

And your next question comes from the line of Edlin Rodriguez with UBS.

Edlin Rodriguez - *UBS - Analyst*

Thank you. Good morning, guys. Just a quick follow-up on M&A. Andreas, you've talked about like the pipeline and opportunities that are available. So was just trying to figure out like what's preventing you from closing on some of those deals? Is it just that those assets are very pricey and you have to make sure it makes sense financially? Or is it just a matter of time? Just want to figure out like what the opportunity --



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

Edlin, it's actually more a matter of time because you really have to work through these -- the pipeline. You have to figure out what are the -- what is the real value of these assets and do they make sense from a strategic point of view? So we are certainly not, let's say, under pressure here to do it. We're really taking our time to look at these assets and then make the call if the time is ready to do it.

Edlin Rodriguez - *UBS - Analyst*

That makes sense. And one just -- and one last one. You've highlighted the markets where you're doing well. And in some of the markets where you're seeing weakness, Latin America and some other products in other places, like do you believe it's temporary? And if it's not, like are there steps you can take to address that to make sure it doesn't have like a significant impact on results going forward?

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

I actually believe, in particular, in the emerging markets it's temporary because in the mid and long term you will see still, let's say, a very significant population growth and people are trending towards middle class, lower middle class. And these are all potential customers for our products. If you look at the numbers, for example Africa, Middle East is an area which is expanding double-digit for us. And you will see a doubling of the population in Africa until 2050. So it will happen.

We always see these kind of spikes or [lambdas] going forward. And I'm actually very optimistic in the long range that these will stay good growth areas for us. And the good thing within IFF is, as you might know, is that we have 50% of our business in the emerging markets and 50% in the mature markets. And so that will help us when we see these markets returning to good growth. Whether we will see like in China, again, double-digit growth over years, I doubt it. But even if you see, let's say, 6% or 7% growth, I think it's still a pretty significant one.

Edlin Rodriguez - *UBS - Analyst*

Okay. Thank you very much.

Operator

You have a follow-up question with Heidi Vesterinen with BNP Paribas.

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

Heidi?

Heidi Vesterinen - *Exane BNP Paribas - Analyst*

Sorry about that. Could you tell us what your organic growth rate might be if you included LATAM currency effects like your peers do, please? Thank you.

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

Heidi, we don't have the specificity at this point. This is Mike. I can follow up with you offline. It will be significantly higher because that's probably where the most concentrated effort would have been in terms of the differential in reporting differences with respect to pricing related to FX.

Heidi Vesterinen - *Exane BNP Paribas - Analyst*

All right. Thank you.

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

Thanks.

Operator

And I'm showing no further questions at this time. I'll now turn the call back over to the speakers.

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

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

Operator

Thank you for joining today's conference. You may now disconnection.

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