

International Flavors (IFF)

\$125.29 (As of 08/11/20)

Price Target (6-12 Months): **\$106.00**

Long Term: 6-12 Months

Zacks Recommendation: Underperform

(Since: 06/25/20)

Prior Recommendation: Neutral

Short Term: 1-3 Months

Zacks Rank: (1-5)

3-Hold

Zacks Style Scores:

VGM:D

Value: D

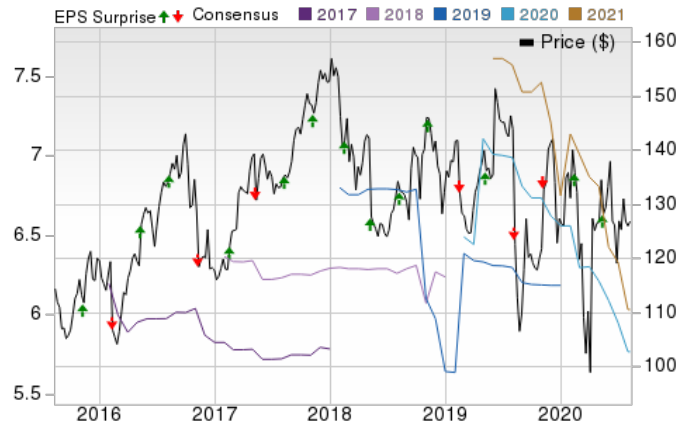
Growth: C

Momentum: C

Summary

International Flavors' second-quarter 2020 earnings beat the Zacks Consensus Estimate, while sales missed the same. Both top- and bottom-line figures declined year on year. The company has witnessed a slowdown in demand in Fine Fragrance and Food Service categories due to travel and shelter-in-place restrictions and the closure of retail outlets. Therefore, Fine Fragrance and Food Service categories will be affected by market pressures in the current year. The company is also incurring additional costs related to the coronavirus pandemic. Additionally, the company is experiencing disruption in supply of raw materials and transport logistics in certain markets. These headwinds will weigh on results until the situation stabilizes. The company's earnings estimates for the current year have undergone downward revisions lately.

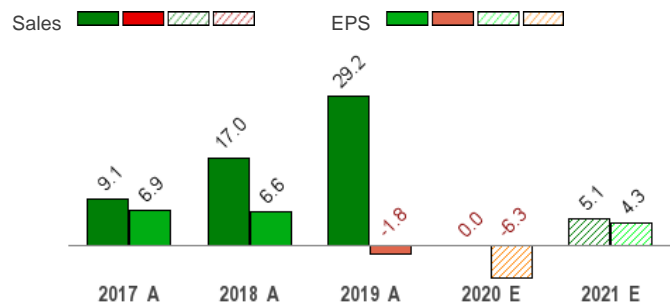
Price, Consensus & Surprise



Data Overview

52 Week High-Low	\$143.87 - \$92.14
20 Day Average Volume (sh)	887,109
Market Cap	\$13.4 B
YTD Price Change	-2.9%
Beta	1.03
Dividend / Div Yld	\$3.00 / 2.4%
Industry	Consumer Products - Staples
Zacks Industry Rank	Top 45% (115 out of 253)

Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	2.3%
Last Sales Surprise	-1.3%
EPS F1 Est- 4 week change	-2.9%
Expected Report Date	11/02/2020
Earnings ESP	2.7%
P/E TTM	21.0
P/E F1	21.7
PEG F1	NA
P/S TTM	2.6

Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					5,402 E
2020	1,347 A	1,199 A	1,268 E	1,271 E	5,141 E
2019	1,297 A	1,292 A	1,267 A	1,284 A	5,140 A

EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	\$1.14 E	\$1.43 E	\$1.53 E	\$1.48 E	\$6.03 E
2020	\$1.62 A	\$1.36 A	\$1.46 E	\$1.34 E	\$5.78 E
2019	\$1.57 A	\$1.30 A	\$1.53 A	\$1.46 A	\$6.17 A

*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 08/11/2020. The reports text is as of 08/12/2020.

Overview

New York-based International Flavors & Fragrances Inc., together with its subsidiaries, engages in the creation and manufacture of fragrance and flavor products in the United States and internationally.

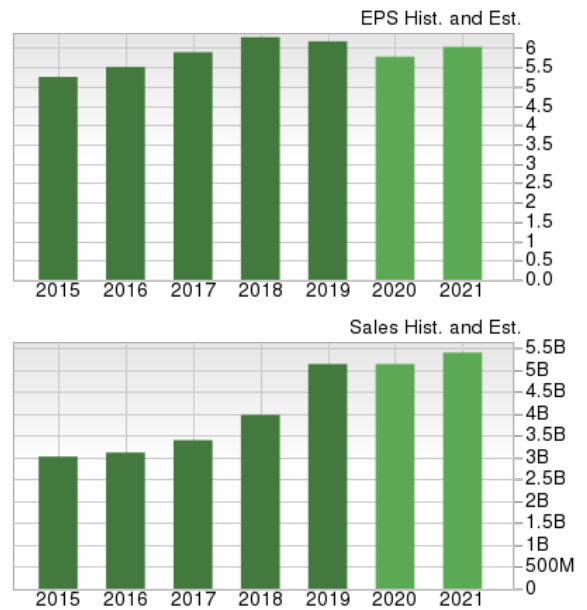
International Flavors acquired Frutarom in October 2018, creating a global leader in natural taste, scent and nutrition with a broader customer base, more diversified product offerings and more exposure to end markets, including those with a focus on naturals and health and wellness. It now has more than 90,000 products within its portfolio, serving customers across 195 countries.

Effective first-quarter 2020, International Flavors began reporting financial results in two segments, Taste and Scent.

Taste segment comprises a diversified portfolio across flavor compounds, savory solutions, inclusions and nutrition and specialty ingredients.

Flavor compounds provide flavors that are eventually utilized by customers in savory products, beverages, sweets, and dairy products. Savory solutions include marinades or powder blends of flavors, natural colors, seasonings, functional ingredients and natural anti-oxidants that are designed for the meat and fish industry. Inclusions provide taste and texture by, among other things, combining flavorings with fruit, vegetables, and other natural ingredients for a wide range of food products. Nutrition and specialty ingredients consist of natural health ingredients, natural food protection, natural colors and flavor ingredients.

Scent comprises Fragrance Compounds, Fragrance Ingredients and Cosmetic Active Ingredients. The Fragrance Compounds are used by customers in two broad categories — Fine Fragrances, including perfumes and colognes, and Consumer Fragrances, including fragrance compounds for personal care (soaps), household products (detergents and cleaning agents) and beauty care, including toiletries. Fragrance Ingredients includes synthetic and natural ingredients which can be combined with other materials to create unique fine fragrance and consumer compounds. Cosmetic Active Ingredients, consisting of active and functional ingredients, botanicals and delivery systems to support customers' cosmetic and personal care product lines.



Reasons To Sell:

- ▼ The company's sales slumped 7% on a reported basis and 4% on a currency neutral basis, year over year, during the June-end quarter. This downside can be attributed to the prevalent pressure in the Fine Fragrance and Food Service categories across emerging markets on account of the coronavirus pandemic. In the April-June period, currency neutral sales for Fine Fragrance and Food Service categories collectively plunged 38% year over year. The company expects that fine fragrances and food services will be hurt further by market pressure in the second half of the current year.
- ▼ Due to the pandemic, the company has witnessed a slowdown in demand in two categories — flavors used in retail food services and in its fine fragrances and cosmetic actives product categories. These declines are primarily a result of travel and shelter-in-place restrictions and the closure of retail outlets. Together, these categories generate around 15% of the company's revenues. Even though the company's fragrance ingredients business has started witnessing improvement since July as restrictions and closures have been eased, the recovery might be short-lived on further resurgence of coronavirus cases. International Flavors has not provided any guidance for the current year on account of the uncertain impact of the pandemic.
- ▼ The company is witnessing additional manufacturing and raw material costs related to COVID-19. The company has experienced disruption in supply of raw materials and transport logistics in markets where governments have implemented the strictest regulations including Italy, Spain and India. As a result, some shipments for some orders have been delayed. Although almost all of its manufacturing facilities remain operational, the company anticipates additional costs to be incurred from labor, shipping, and cleaning and higher raw material costs owing to potential COVID-19 supply chain disruptions. Manufacturing expenses are also expected to increase to support higher demand.
- ▼ Market for the flavors and fragrances segment is fragmented and highly competitive. The company might not be able to combat the raw material inflation with price increases given the aggressive price competition, which would negatively impact its profits. Further, the company's presence in international markets (accounting for 75% of its net sales) has exposed it to currency-translation risks. Another cause of concern is that increasing awareness of health and wellness are driving changes in the consumer products industry. Consumers in developed economies such as the United States and Western Europe, are now shifting away from products containing artificial ingredients to all natural, healthier alternatives.

Lower demand for flavors used in retail food services and fine fragrances and cosmetic actives products and high costs due to the COVID-19 pandemic remains a concern.

Risks

- Given the pandemic-induced crisis, the company is witnessing significant demand for packaged food, beverage and hygiene and disinfection, which represents approximately 85% of its total 2019 revenues. Moreover, as restrictions and closures have been eased, it remains optimistic for further market improvements in the third quarter and beyond as the company is showing signs of stabilization in its business. Focus to drive greater efficiencies throughout the business through costs and productivity initiatives, margin improvement, acquisition-related synergies and favorable taxes continue to drive overall profits. The company's productivity initiatives will enable the company to check costs, make strategic investments and expand businesses globally. The company is also lowering capital expenditures and prioritizing projects that generate high returns within a short time while delaying longer-term investment that are unnecessary at this time.
 - The global market for Taste and Scent continues to grow propelled by increasing in demand for a variety of consumer products containing flavors and fragrances. The market is projected to grow approximately 2-3% by 2021, primarily driven by anticipated growth in emerging markets. Consequently, International Flavors is focused on gaining share in emerging markets. In Taste segment, the company is witnessing robust double-digit growth in health-oriented products as well as an improvement in natural colors. Over the past five years, the company's currency neutral sales growth rate in emerging markets has outpaced that of developed markets. Backed by the company's global presence, diversified business platform, broad product portfolio, global and regional customer base, it will be able to capitalize on the expansion in flavors and fragrances markets and deliver long-term growth.
 - New business wins and a diversified product portfolio have worked in favor of International Flavors & Fragrances. Over time, the company has made meaningful acquisitions, which have helped expand offerings and in turn profitability. Last October, the company completed the acquisition of Frutarom, the largest deal in the industry to date. Together, International Flavors and Frutarom created a global leader in natural taste, scent and nutrition with a broader customer base, more diversified product offerings and more exposure to end markets, including those with a focus on naturals and health and wellness. It expects to complete majority of the Frutarom integration by the end of this year. The company continues to anticipate generating cost synergies of more than \$145 million over the long haul. Synergies are expected to come from procurement, footprint optimization and streamlining of overhead expenses.
 - At the end of 2019, International Flavors entered into a definitive merger agreement with DuPont's Nutrition & Biosciences ("N&B") business unit to form a new entity, focused on creating a leading global integrated solution. The company is well poised to grow on this merger deal. The transaction is likely to close by the end of first-quarter 2021 upon approval by International Flavors' shareholders. Moreover, International Flavors expects to realize cost savings of around \$300 million on a run-rate basis by after closing the transaction.
 - International Flavors & Fragrances continues to maintain a disciplined approach to capital allocation even as it focuses on accelerating growth through organic investments and strategic acquisitions, while returning significant capital to shareholders. Although the company's debt level has gone up following the Frutarom acquisition, it continues to effectively manage its balance sheet by taking necessary actions to generate strong cash flow and maintain ample liquidity by reducing operational and capital expenses. The company's cash position at the end of the quarter was \$508 million. During the June-end quarter, it generated strong free cash flow of \$128 million, up 94% from the year-ago period. The company expects to generate robust free cash flow in the near term and thus, hiked the quarterly dividend by 3% to 77 cents per share. This marks the 11th consecutive year of increase in quarterly dividend payment.
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Last Earnings Report

International Flavors Q2 Earnings Top Estimates, Down Y/Y

International Flavors reported adjusted earnings of \$1.36 per share in second-quarter 2020, surpassing the Zacks Consensus Estimate of \$1.33. The bottom-line figure, however, declined 15.5% from the year-ago quarter.

Including one-time items, earnings per share in the quarter came in at 74 cents per share compared with the \$1.20 per share recorded in the year-ago quarter.

In the reported quarter, International Flavors' net sales were \$1.20 billion, reflecting a year-over-year fall of 7%. The top-line figure also missed the Zacks Consensus Estimate of \$1.21 billion. In the second quarter, currency neutral sales decreased 4% on pressure in the Fine Fragrance and Food Service categories across emerging markets due to the coronavirus pandemic.

Given the pandemic-induced crisis, the company is witnessing significant demand for packaged food, beverage and hygiene and disinfection, which represents approximately 85% of its total 2019 revenues.

Operational Highlights

In the June-end quarter, International Flavors' cost of goods sold was down 3% year over year to \$717 million. Adjusted gross profit declined 12% year over year to \$482 million. Adjusted gross margin came in at 40.2% compared with the 42.3% witnessed in the year-ago quarter.

Research and development expenses declined 5% year over year to \$81 million. Adjusted selling and administrative expenses slid 3% year on year to \$194 million during the second quarter. Adjusted operating profit declined 26% year over year to \$158 million. Adjusted operating margin came in at 13.2% compared with the year-earlier quarter's 16.6%.

Segmental Performances

The company has reported financial results in two segments, Taste and Scent, incorporating nearly all of the Frutarom business into the Taste segment.

Revenues in the Taste segment slipped 7.8%, year over year, to \$748 million during the April-June period. On a constant-currency basis, revenues declined 5% year over year. Food Service witnessed pressure, declining 36% year over year on a currency neutral basis. Operating profit fell 18.3% year on year to \$107 million.

Revenues generated in the Scent segment came in at \$450 million, down 6.3% year over year. On a constant-currency basis, revenues were down 4% year over year. Fine Fragrance plunged 40% year on year on a currency neutral basis, thanks to the temporary disruptions of consumer access to retail markets due to the pandemic. Operating profit decreased 25.5% year over year to \$70 million.

Financial Position

International Flavors had cash and cash equivalents of \$508 million as of Jun 30, 2020, down from the \$624 million as of Dec 31, 2019. Long-term debt rose to \$4,182 million as of Jun 30, 2020, from \$3,997 million as of Dec 31, 2019.

International Flavors generated \$208 million of cash from operating activities during the first half of the current year compared with \$185 million recorded in the first half of 2019. Capital invested in purchasing property, plant and equipment totaled \$80 million in the first half of 2020.

Dividend paid summed \$160 million in the first half of the ongoing year. On Aug 10, the company's board authorized and hiked the quarterly dividend by 3% to 77 cents per share. This marks the 11th consecutive year of increase in quarterly dividend payment. The dividend is payable on Oct 5 to shareholders of record as of Sep 24, 2020.

Guidance

International Flavors has not provided any guidance for the current year on account of the uncertain impact of the coronavirus pandemic.

The company will continue to effectively manage its balance sheet by taking necessary actions to generate strong cash flow and maintain ample liquidity.

Quarter Ending 06/2020

Report Date	Aug 10, 2020
Sales Surprise	-1.27%
EPS Surprise	2.26%
Quarterly EPS	1.36
Annual EPS (TTM)	5.97

Recent News

International Flavors April, May Sales Dip 7% on Coronavirus Woes

On Jun 8, 2020 International Flavors provided its business performance update for the initial eight weeks of second-quarter 2020 amid the coronavirus crisis.

The company's sales dropped 7% on a reported basis and 3% on a currency neutral basis, year over year, during the first two months of the June-end quarter. This downside resulted from the prevalent pressure in certain end-market categories across few countries on account of the coronavirus pandemic and particularly with small- and mid-size customers.

International Flavors witnessed significant demand for its products used in packaged food, beverage and personal care and hygiene products on the COVID-19 crisis during the April-May period. Currency neutral sales for this category grew 3%, year on year, while the Consumer Fragrances business grew in double digits. Notably, these end markets represent approximately 85% of International Flavors' total revenues in 2019.

Meanwhile, the company witnessed pressure in two categories, Fine Fragrance and Food Service, which represented around 15% of total revenues in 2019. Currency neutral sales for these categories plummeted 40% year over year. These downsides are primarily a result of the travel and shelter-in-place restrictions and the closure of retail outlets. The operating margin in the ongoing quarter might be affected by the sales decline in these higher margin categories.

The company's business in North America performed resiliently, while the emerging markets, primarily India and several Latin American countries were hurt by the coronavirus crisis and regulatory restrictions. Growth in China has sequentially improved after restrictions were lifted in the country.

Gross profit declined 12% year over year on lower sales volumes and an unfavorable mix, along with additional manufacturing and procurement costs related to COVID-19. However, these were offset by cost management and continued productivity initiatives. Focus to drive efficiencies throughout the business through costs and productivity actions, margin improvement, acquisition-related synergies and favorable taxes will keep driving overall profits in the near term.

The company has experienced disruption in supply of raw materials and transport logistics in markets where governments have implemented the strict regulations, including Italy, Spain and India. As a result, shipments for some orders have been delayed. The company continues to fulfill customer demand, despite logistics issues around the world while almost all of its global manufacturing facilities remain operational under this turbulent situation.

Valuation

International Flavors' shares are down 2.9% in the year-to-date period and up 5.6% over the trailing 12-month period. Stocks in Consumer Products – Staples industry and the Zacks Consumer Staples sector are down 1.8% and 7.8% in the year-to-date period, respectively. Over the past year, the Zacks sub-industry and sector are down 2.5% and 5.5%, respectively.

The S&P 500 index is up 3.3% in the year-to-date period and 14.1% in the past year.

The stock is currently trading at 21.14X forward 12-month earnings, which compares with 21.73X for the Zacks sub-industry, 19.91X for the Zacks sector and 22.62X for the S&P 500 index.

Over the past five years, the stock has traded as high as 22.13X and as low as 14.65X, with a 5-year median of 19.91X.

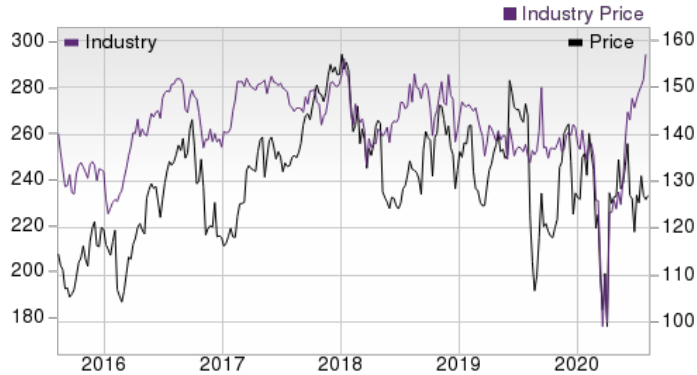
Our Underperform recommendation indicates that the stock will perform worse than the market. Our \$106 price target reflects 17.88X forward 12-month earnings per share.

The table below shows summary valuation data for IFF:

Valuation Multiples - IFF					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.14	21.73	19.91	22.62
	5-Year High	22.13	22.83	22.37	22.62
	5-Year Low	14.65	19.31	16.63	15.25
	5-Year Median	19.91	20.84	19.58	17.58
EV/EBITDA TTM	Current	14.39	10.93	37.15	12.55
	5-Year High	15.86	11.71	45.91	12.84
	5-Year Low	11.27	3.55	28	8.24
	5-Year Median	14.19	10.41	39.09	10.9
P/B TTM	Current	2.29	13.79	11.79	4.64
	5-Year High	2.52	14.2	20.29	4.68
	5-Year Low	1.62	5.76	9.14	2.83
	5-Year Median	2.25	10.15	16.47	3.74

As of 08/11/2020

Industry Analysis Zacks Industry Rank: Top 45% (115 out of 253)



Top Peers

Company (Ticker)	Rec	Rank
The Kraft Heinz Company (KHC)	Outperform	3
Conagra Brands Inc. (CAG)	Neutral	3
ChurchDwight Co., Inc. (CHD)	Neutral	3
The Clorox Company (CLX)	Neutral	3
Campbell Soup Company (CPB)	Neutral	2
The Estee Lauder Companies Inc. (EL)	Neutral	4
e.l.f. Beauty Inc. (ELF)	Neutral	3
Hershey Company The (HSY)	Neutral	3

Industry Comparison Industry: Consumer Products - Staples				Industry Peers		
	IFF	X Industry	S&P 500	CAG	CHD	CPB
Zacks Recommendation (Long Term)	Underperform	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	3	-	-	3	3	2
VGM Score	D	-	-	A	B	C
Market Cap	13.40 B	3.49 B	23.61 B	18.15 B	22.93 B	15.04 B
# of Analysts	2	5	14	8	11	7
Dividend Yield	2.39%	0.00%	1.69%	2.28%	1.04%	2.81%
Value Score	D	-	-	B	D	B
Cash/Price	0.03	0.07	0.07	0.03	0.02	0.08
EV/EBITDA	16.82	14.70	13.32	14.35	23.73	13.31
PEG Ratio	NA	3.00	2.95	2.22	3.73	2.10
Price/Book (P/B)	2.23	4.65	3.22	2.28	7.65	5.83
Price/Cash Flow (P/CF)	13.08	16.19	12.79	12.06	28.44	13.13
P/E (F1)	22.21	20.98	22.02	15.56	33.00	17.40
Price/Sales (P/S)	2.63	1.72	2.57	1.64	4.99	1.80
Earnings Yield	4.61%	4.18%	4.29%	6.42%	3.03%	5.75%
Debt/Equity	0.70	0.90	0.77	1.12	0.60	2.01
Cash Flow (\$/share)	9.58	1.82	6.94	3.09	3.26	3.79
Growth Score	C	-	-	A	A	C
Hist. EPS Growth (3-5 yrs)	3.15%	2.29%	10.41%	-2.26%	12.34%	-2.14%
Proj. EPS Growth (F1/F0)	-6.40%	2.62%	-6.51%	4.99%	13.73%	-2.53%
Curr. Cash Flow Growth	40.43%	5.95%	5.22%	22.57%	12.70%	-12.42%
Hist. Cash Flow Growth (3-5 yrs)	15.13%	5.06%	8.55%	4.34%	9.63%	0.50%
Current Ratio	2.24	1.47	1.34	0.88	1.28	0.84
Debt/Capital	41.63%	59.66%	44.59%	52.82%	37.66%	66.79%
Net Margin	8.27%	2.24%	10.13%	7.60%	15.70%	18.34%
Return on Equity	11.26%	14.47%	14.59%	14.38%	25.58%	46.05%
Sales/Assets	0.39	1.21	0.51	0.49	0.66	0.66
Proj. Sales Growth (F1/F0)	0.01%	2.91%	-1.45%	-2.92%	9.44%	-4.97%
Momentum Score	C	-	-	D	D	F
Daily Price Chg	-4.03%	-0.96%	-0.17%	-1.30%	-2.18%	-1.25%
1 Week Price Chg	0.67%	0.34%	2.30%	1.04%	-1.42%	0.81%
4 Week Price Chg	-1.35%	5.55%	6.41%	1.31%	9.74%	-1.07%
12 Week Price Chg	-2.76%	19.59%	15.42%	12.74%	28.57%	0.30%
52 Week Price Chg	5.54%	11.74%	2.88%	28.85%	18.21%	17.77%
20 Day Average Volume	887,109	631,299	2,007,486	2,268,448	1,728,986	1,707,339
(F1) EPS Est 1 week change	0.17%	0.00%	0.00%	0.00%	0.00%	0.00%
(F1) EPS Est 4 week change	-2.89%	1.07%	1.84%	0.00%	3.08%	0.00%
(F1) EPS Est 12 week change	-5.12%	0.78%	2.40%	3.68%	3.49%	1.68%
(Q1) EPS Est Mthly Chg	1.04%	2.15%	0.72%	0.00%	-4.92%	0.00%

Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	D
Growth Score	C
Momentum Score	C
VGM Score	D

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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