

## International Flavors (IFF)

**\$134.30** (As of 05/28/20)

Price Target (6-12 Months): **\$142.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 06/04/19)

Prior Recommendation: NA

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**4-Sell**

Zacks Style Scores:

VGM:D

Value: F

Growth: D

Momentum: B

## Summary

International Flavors' first-quarter 2020 adjusted earnings and revenues improved year-over-year and also beat the Zacks Consensus Estimate. The company is experiencing significant demand for ingredients and solutions used in certain consumer products amid the coronavirus pandemic. These include packaged food, beverage and hygiene and disinfection, which generate around 85% of its revenues. The company's top-line performance will thus be sustained. Weakness in categories such as Fine Fragrances, Cosmetic Actives, Fragrance Ingredients and Food Service will somewhat mitigate this effect. Moreover, the company is witnessing additional costs related to COVID-19. Nevertheless, its cost-saving actions and productivity initiatives will buoy margins. Investments and acquisitions aided by strong liquidity position will also drive growth.

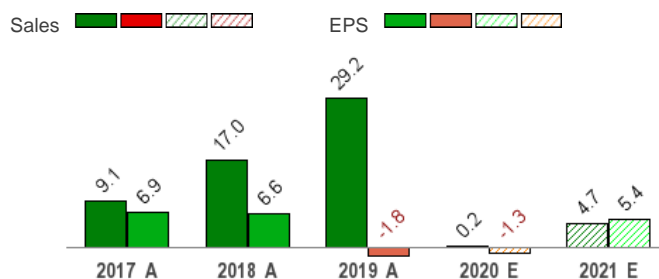
## Price, Consensus & Surprise



## Data Overview

52 Week High-Low	<b>\$152.95 - \$92.14</b>
20 Day Average Volume (sh)	<b>964,929</b>
Market Cap	<b>\$14.4 B</b>
YTD Price Change	<b>4.1%</b>
Beta	<b>1.08</b>
Dividend / Div Yld	<b>\$3.00 / 2.2%</b>
Industry	<b><u>Consumer Products - Staples</u></b>
Zacks Industry Rank	<b>Top 17% (43 out of 254)</b>

## Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	<b>1.3%</b>
Last Sales Surprise	<b>4.3%</b>
EPS F1 Est- 4 week change	<b>-2.0%</b>
Expected Report Date	<b>08/03/2020</b>
Earnings ESP	<b>0.0%</b>
P/E TTM	<b>22.7</b>
P/E F1	<b>22.1</b>
PEG F1	<b>NA</b>
P/S TTM	<b>2.8</b>

## Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021					5,391 E
2020	1,347 A	1,245 E	1,263 E	1,259 E	5,151 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	\$1.20 E	\$1.53 E	\$1.55 E	\$1.48 E	\$6.42 E
2020	\$1.62 A	\$1.48 E	\$1.50 E	\$1.32 E	\$6.09 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 05/28/2020. The reports text is as of 05/29/2020.

## 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.

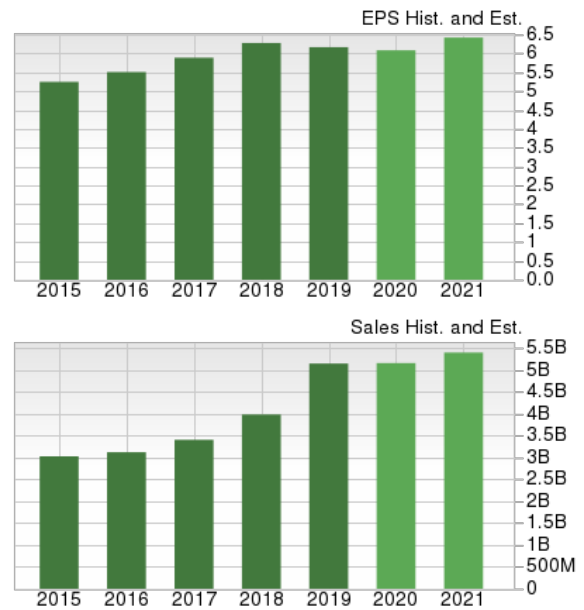
International Flavors acquired Frutarom in October 2018, creating a global leader in natural taste, scent and nutrition with a broader customer base, more diversified product offerings and more exposure to end markets, including those with a focus on naturals and health and wellness. It now has more 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.



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## Reasons To Buy:

- ▲ In the wake of the COVID-19 pandemic, packaged food, beverage and personal care and hygiene products have witnessed significant demand. International Flavors' ingredients and compounds are a key component for these products, and generate around 85% of its revenues. Thus, the company's top-line performance is likely to sustain amid the turbulence.
- ▲ 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. Further, amid the pandemic, the company has cut down on non-essential expenses and assessing opportunities to reduce inventory and drive greater emphasis on collections. 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 flavors and fragrances 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 & Fragrances is focused on gaining share in emerging markets. 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 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 reduce debt levels and strengthen its balance sheet. The company's total debt was around \$4.33 billion as of the end of first-quarter 2020. This has been lowered from \$4.38 billion at the end of 2019. The company's cash position at the end of the quarter was \$433 million with \$1 billion of credit facility available. Its total debt-to-total capital ratio stands at 0.40, much lower than its industry's 0.75. Further, the company's times interest earned ratio was 5.3, better than the industry's 1.3. This further underscores International Flavors' ability to meet debt obligations.

Growing global demand for flavors and fragrances will continue to drive International Flavors' growth. It will also gain on cost cutting efforts, productivity initiatives and acquisitions.

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## Reasons To Sell:

- ▼ 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. Operating margin is anticipated to be impacted as a result of decreased sales in these higher margin categories. International Flavors has withdrawn the financial guidance for the current year on account of the uncertain impact of the coronavirus pandemic.
- ▼ The company is witnessing additional 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 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.

## Last Earnings Report

### International Flavors Beats on Q1 Earnings, Scraps View

International Flavors & Fragrances reported adjusted earnings of \$1.62 per share in first-quarter 2020, surpassing the Zacks Consensus Estimate of \$1.60. The bottom-line figure also increased 3.2% from the year-ago quarter's \$1.57.

Including one-time items, earnings per share in the quarter came in at \$1.15 per share compared with the 96 cents recorded in the year-ago quarter.

In the reported quarter, International Flavors' net sales were \$1.35 billion, reflecting year-over-year growth of 4%. In addition, the top-line figure beat the Zacks Consensus Estimate of \$1.29 billion. In the first quarter, currency neutral sales increased 6% on broad-based growth in Scent and Taste.

Given the coronavirus pandemic-induced crisis, the company is witnessing significant demand for packaged food, beverage and hygiene and disinfection, which represents approximately 85% of its total revenues. The company continued to advance its integration planning with DuPont Nutrition & Biosciences.

### Operational Highlights

In the March-end quarter, International Flavors' cost of goods sold was up 2% year over year to \$781 million. Adjusted gross profit was up 5% year over year to \$566.5 million. Adjusted gross margin came in at 42.1% compared with the 41.6% witnessed in the year-ago quarter. Research and development expenses declined 5% year over year to \$86 million. Adjusted selling and administrative expenses during the first quarter of 2020 increased 6.6% year over year to \$210 million. Adjusted operating profit climbed 8.3% year over year to \$222 million. Adjusted operating margin came in at 16.5% compared with the year-ago quarter's 15.8%.

### 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 were up 3%, year over year, to \$830.3 million during the January-March period. On a constant-currency basis, revenues improved 5% year over year on double-digit growth in Savory Solutions and Inclusions as well as low single-digit growth in Flavors and Natural Products Solutions. Operating profit climbed 4.6% year over year to \$137 million.

Revenues generated in the Scent segment came in at \$517 million, up 5% year over year. On a constant-currency basis, revenues were up 7% year over year on double-digit growth in Consumer Fragrance and high single-digit growth in Fragrance Ingredients. Operating profit increased 17% year over year to \$105 million.

### Financial Position

International Flavors had cash and cash equivalents of \$443 million as of Mar 31, 2020, down from the \$624 million as of Dec 31, 2019. Long-term debt fell to \$3,947 million as of Mar 31, 2020, from \$3,997 million as of Dec 31, 2019.

International Flavors generated \$17 million of cash from operating activities during the reported quarter compared with the \$47 million recorded in year-ago quarter. Capital invested in purchasing property, plant and equipment totaled \$48 million in the March-end quarter. Dividend paid totaled \$80 million in the first quarter.

### Revokes Guidance

International Flavors has withdrawn the financial guidance for the current year on account of the uncertain impact of the coronavirus pandemic. The company will continue to effectively manage balance sheet by taking necessary actions to generate strong cash flow and to maintain ample liquidity.

Quarter Ending **03/2020**

Report Date	May 11, 2020
Sales Surprise	4.34%
EPS Surprise	1.25%
Quarterly EPS	1.62
Annual EPS (TTM)	5.91

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## Recent News

### International Flavors Seals Merger Deal With DuPont Arm - Dec 15, 2019

International Flavors has 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 combined entity is valued at \$45.4 billion on an enterprise basis.

DuPont's Nutrition & Biosciences business offers solutions for home and personal care, food and beverage, dietary supplements, energy, animal nutrition and pharmaceuticals markets. It is one of the biggest producers of specialty ingredients. The division accounted for 29% of DuPont's third-quarter 2019 sales.

#### Transaction in Detail

Under the terms of agreement, DuPont shareholders will own 55.4% of the newly-formed company, while International Flavors shareholders will hold the remaining. Upon closing of the deal, DuPont will get a one-time cash payment of \$7.3 billion. The deal has been approved by the boards of both companies. The combination will be executed through a Reverse Morris Trust transaction.

#### Detailing of the New Entity

The new entity will be based in New York. It is expected to be a global leader in high-value ingredients and solutions for food and beverage, home and personal care, and health & wellness markets. The newly-formed company will have attractive positions across key growth categories, which include Taste, Scent, Texture, Nutrition, Enzymes, Cultures, Soy Proteins and Probiotics. With expanded global reach and enhanced capabilities, the company will be able to meet customers' increasing preference for natural and healthier products.

Besides, shareholders will benefit from a highly profitable business with strong cash flow. The company expects to register stellar top-line growth as well as enhanced margins, with further benefit from cost synergies and revenue growth.

#### Financial Benefits

The integrated company will have estimated current-year revenues of more than \$11 billion and EBITDA of \$2.6 billion. The company expects adjusted EBITDA margin of around 23% prior synergies and 26% with run-rate cost synergies based on estimated results for the ongoing year. Over the long term, the company expects mid-single digit revenue growth with solid cash-flow generation. Further, the new company will continue to maintain International Flavors' current dividend policy.

Moreover, International Flavors expects to realize cost savings of around \$300 million on a run-rate basis by the end of the third year after closing the transaction. In fact, these cost synergies will be driven by streamlining overhead, procurement excellence and manufacturing efficiencies. Additionally, the new entity's targeted cost-synergy to deliver more than \$400 million in run-rate revenue synergies would result in EBITDA of \$175 million, spurred by cross-selling opportunities and leveraging the extended capabilities across a broader range of customers. Also, International Flavors continues to maintain investment-grade rating.

#### Guidance

International Flavors has reiterated its guidance for 2019. Sales are projected at \$5.15-\$5.25 billion. Adjusted earnings per share are expected in the band of \$4.85-\$5.05. Adjusted earnings, excluding amortization, are anticipated between \$6.15 and \$6.35.

DuPont reaffirmed total annual revenue guidance at \$21.5 billion and adjusted earnings per share of \$3.77 to \$3.82. DuPont expects operating EBITDA to be at the lower end of the previously-guided range, due to temporary supply-chain disruptions in Safety & Construction (S&C) and Electronics & Imaging (E&I).

The transaction is likely to close by the end of the first quarter of 2021 upon approval by International Flavors' shareholders. Both companies have obtained fully-committed debt financing from Morgan Stanley and Credit Suisse. Upon the deal's closure, the new entity's board will consist of the seven current directors of International Flavors and six appointed by DuPont. International Flavors' chief executive officer Andreas Fibig will run the combined company and also continue to be the board chairman.

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## Valuation

International Flavor's shares are up 4.1% in the year-to-date period and remained flat over the trailing 12-month period. Stocks in Consumer Products – Staples industry are up 5% and the Zacks Consumer Staples sector is down 13.3% in the year-to-date period.

Over the past year, the Zacks sub-industry and sector are down 11.6% and 6.7%, respectively.

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The S&P 500 index is down 5.9% in the year-to-date period and up 8.7% in the past year

The stock is currently trading at 21.58X forward 12-month earnings, which compares with 23.09X for the Zacks sub-industry, 19.56X for the Zacks sector and 22.02X for the S&P 500 index.

Over the past five years, the stock has traded as high as 26.92X and as low as 14.65X, with a 5-year median of 21.11X.

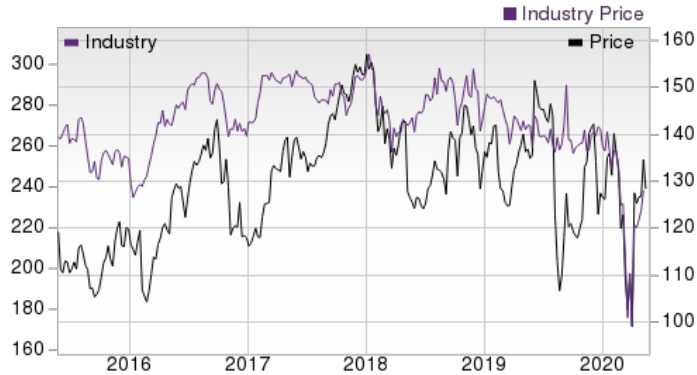
Our Neutral recommendation indicates that the stock will perform in line with the market. Our \$142 price target reflects 22.82X forward 12-month earnings per share.

The table below shows summary valuation data for IFF:

Valuation Multiples - IFF					
		Stock	Sub-Industry	Sector	S&P 500
P/E F12M	Current	21.58	23.09	19.56	22.02
	5-Year High	26.92	23.09	22.37	22.02
	5-Year Low	14.65	13.74	16.65	15.23
	5-Year Median	21.11	17.97	19.66	17.49
EV/EBITDA TTM	Current	14.69	11.3	33.14	11.21
	5-Year High	20.49	19.73	45.11	12.86
	5-Year Low	11.27	3.65	27.18	8.26
	5-Year Median	14.92	12.61	38.37	10.8
P/B TTM	Current	2.46	13.13	16.16	4.14
	5-Year High	7.33	24.63	20.29	4.56
	5-Year Low	1.62	3.08	9.1	2.83
	5-Year Median	5.72	6.69	16.53	3.65

As of 05/28/2020

## Industry Analysis Zacks Industry Rank: Top 17% (43 out of 254)



## Top Peers

Company (Ticker)	Rec	Rank
The Clorox Company (CLX)	Outperform	1
Conagra Brands Inc. (CAG)	Neutral	2
ChurchDwight Co., Inc. (CHD)	Neutral	2
Campbell Soup Company (CPB)	Neutral	2
The Estee Lauder Companies Inc. (EL)	Neutral	3
e.l.f. Beauty Inc. (ELF)	Neutral	3
Hershey Company The (HSY)	Neutral	3
The Kraft Heinz Company (KHC)	Neutral	2

Industry Comparison Industry: Consumer Products - Staples				Industry Peers		
	IFF	X Industry	S&P 500	CAG	CHD	CPB
Zacks Recommendation (Long Term)	Neutral	-	-	Neutral	Neutral	Neutral
Zacks Rank (Short Term)	4	-	-	2	2	2
VGM Score	D	-	-	C	B	A
Market Cap	14.35 B	3.15 B	21.49 B	16.52 B	18.21 B	14.94 B
# of Analysts	3	5	14	8	11	7
Dividend Yield	2.23%	0.00%	1.98%	2.51%	1.30%	2.83%
Value Score	F	-	-	A	C	A
Cash/Price	0.03	0.05	0.06	0.01	0.06	0.00
EV/EBITDA	17.52	11.60	12.50	16.48	18.53	13.88
PEG Ratio	NA	2.56	2.87	2.22	3.32	2.41
Price/Book (P/B)	2.46	4.15	2.95	2.10	6.46	5.98
Price/Cash Flow (P/CF)	14.02	14.02	11.81	13.43	22.72	13.06
P/E (F1)	21.87	20.34	21.33	15.56	27.26	17.27
Price/Sales (P/S)	2.76	1.63	2.28	1.59	4.07	1.80
Earnings Yield	4.53%	3.85%	4.50%	6.43%	3.67%	5.80%
Debt/Equity	0.68	0.82	0.76	1.16	0.64	1.97
Cash Flow (\$/share)	9.58	2.31	6.96	2.52	3.26	3.79
Growth Score	D	-	-	C	A	B
Hist. EPS Growth (3-5 yrs)	3.15%	3.15%	10.87%	-2.98%	11.72%	-1.52%
Proj. EPS Growth (F1/F0)	-1.35%	4.76%	-10.48%	8.46%	9.98%	24.66%
Curr. Cash Flow Growth	40.43%	5.95%	5.39%	10.04%	12.70%	-12.42%
Hist. Cash Flow Growth (3-5 yrs)	15.13%	4.69%	8.55%	-0.87%	9.63%	0.50%
Current Ratio	1.98	1.44	1.29	0.87	1.03	0.61
Debt/Capital	40.94%	62.82%	44.54%	53.63%	39.12%	66.31%
Net Margin	9.09%	0.98%	10.59%	7.37%	14.96%	17.46%
Return on Equity	11.03%	14.00%	16.26%	12.08%	24.62%	50.69%
Sales/Assets	0.40	1.24	0.55	0.47	0.65	0.64
Proj. Sales Growth (F1/F0)	0.22%	3.40%	-2.53%	14.93%	6.80%	-7.34%
Momentum Score	B	-	-	F	B	B
Daily Price Chg	-1.42%	-0.44%	-0.65%	0.53%	1.54%	1.77%
1 Week Price Chg	0.94%	6.09%	4.99%	-4.36%	-2.27%	-9.68%
4 Week Price Chg	2.50%	9.11%	4.28%	1.41%	5.79%	-0.92%
12 Week Price Chg	7.59%	5.79%	-3.05%	19.11%	-1.32%	-6.74%
52 Week Price Chg	-0.64%	2.87%	0.01%	26.25%	-1.11%	38.32%
20 Day Average Volume	964,929	692,184	2,425,602	2,687,533	1,561,975	2,299,990
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.00%	2.66%
(F1) EPS Est 4 week change	-1.99%	0.00%	-1.70%	-1.41%	1.25%	1.57%
(F1) EPS Est 12 week change	-4.30%	-3.84%	-16.00%	7.31%	1.56%	13.18%
(Q1) EPS Est Mthly Chg	-9.48%	0.00%	-3.25%	-5.21%	3.18%	0.00%



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## 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.

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### 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	F
Growth Score	D
Momentum Score	B
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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