



International Flavors & Fragrances Inc. (IFF)

Updated November 26th, 2023 by Prakash Kolli

Key Metrics

Current Price:	\$75	5 Year CAGR Estimate:	3.9%	Market Cap:	\$19.0B
Fair Value Price:	\$67	5 Year Growth Estimate:	2.0%	Ex-Dividend Date:	12/27/23
% Fair Value:	112%	5 Year Valuation Multiple Estimate:	-2.2%	Dividend Payment Date:	01/08/24
Dividend Yield:	4.3%	5 Year Price Target	\$74	Years Of Dividend Growth:	21
Dividend Risk Score:	D	Retirement Suitability Score:	C	Rating:	Hold

Overview & Current Events

International Flavors & Fragrances Inc. is a global manufacturer and seller of flavors and fragrances. The company has made two large acquisitions, Frutarom (2018) and DuPont Nutrition and Biosciences (2021) in a short period. IFF now reports four segments: Nourish (~53% of revenue), Health & Biosciences (~17% of revenue), Scent (~23% of revenue), and Pharma Solutions (~7% of revenue). The company sells flavors, scents, fragrances, enzymes & cultures, and binders & polymers globally for cosmetics, detergents, soaps, perfumes, prepared foods, beverages, dairy, pharmaceuticals, confectioners, and more. In 2022, revenue was \$12.4B pro forma.

IFF reported Q3 2023 results on November 6th, 2023. Companywide net sales were down (-8%) to \$2,820M from \$3,063M and adjusted diluted earnings per share decreased to \$0.38 from \$0.82 on a year-over-year basis, impacted by divestures, lower volumes, foreign exchange headwinds, and lower margins, offset by productivity and price increases. Diluted GAAP earnings per share declined to \$0.10 from a loss in the prior year.

Nourish sales decreased (-7%) to \$1,449M from \$1,703 due to significant volume declines in Functional Ingredients, despite higher prices and growth in Flavor. Health & Bioscience sales rose 2% to \$518M from \$512M after accounting for divestures with growth in Cultures & Food Enzymes, Grain, and Home & Personal Care, and Animal Nutrition. Scent sales increased +7% to \$615M from \$591M led by double-digit growth in Consumer Fragrances and growth in Fine Fragrances. Pharma Solutions sales decreased (-9%) to \$238M from \$257M because of lower volumes.

IFF divested the Microbial Control, Food Preparations, Savory Solutions, Flavor Specialty Ingredients, and Lucas Meyer cosmetics businesses. But the company is exploring further strategic actions to reduce debt.

IFF kept revenue guidance to \$11.3B - \$11.6B in 2023 and adjusted operating EBITDA to \$1.85B - \$2.0B

Growth on a Per-Share Basis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
EPS	\$4.47	\$5.08	\$5.25	\$5.51	\$5.89	\$6.00	\$6.17	\$5.70	\$5.63	\$5.55	\$3.35	\$3.70
DPS	\$1.46	\$1.72	\$2.06	\$2.40	\$2.66	\$2.84	\$2.96	\$3.04	\$3.12	\$3.20	\$3.24	\$3.41
Shares¹	81	80	79	79	107	107	107	107	255	255	255	255

IFF's acquisitions have transformed the company, expanding its market presence in food and beverage, personal care, and health and wellness. The company expected higher growth rates due to the acquisitions. But the large size of the acquisitions has saddled the company with debt. In addition, the COVID-19 pandemic, inflation, global supply chain challenges, rising competition, and higher interest payments have resulted in several years of earnings declines. Consequently, we have lowered our growth estimates to 2% EPS on average out to 2028.

We are now expecting that the dividend will grow slower at 1% per year because of high debt. Furthermore, the number of shares has more than doubled due to the acquisitions, limiting the per share dividend growth. Moreover, the firm's current struggles have increased the risk of a dividend cut because of the elevated payout ratio.

¹ Share count in millions.

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



International Flavors & Fragrances Inc. (IFF)

Updated November 26th, 2023 by Prakash Kolli

Valuation Analysis

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	Now	2028
Avg. P/E	17.7	19.1	21.6	22.6	23.1	24.4	21.3	21.4	25.1	25.1	22.3	20.0
Avg. Yld.	1.8%	1.8%	1.8%	1.9%	2.0%	2.1%	2.3%	2.5%	2.2%	2.2%	4.3%	4.6%

IFF's stock price has gained since our last report on better results. We raised our earnings estimate to match consensus for 2023. Our fair value multiple is 20X, below the average in the past decade accounting for merger risks, lack of growth, and high debt. Our fair value is now \$67. Our 5-year price target is now \$74.

Safety, Quality, Competitive Advantage, & Recession Resiliency

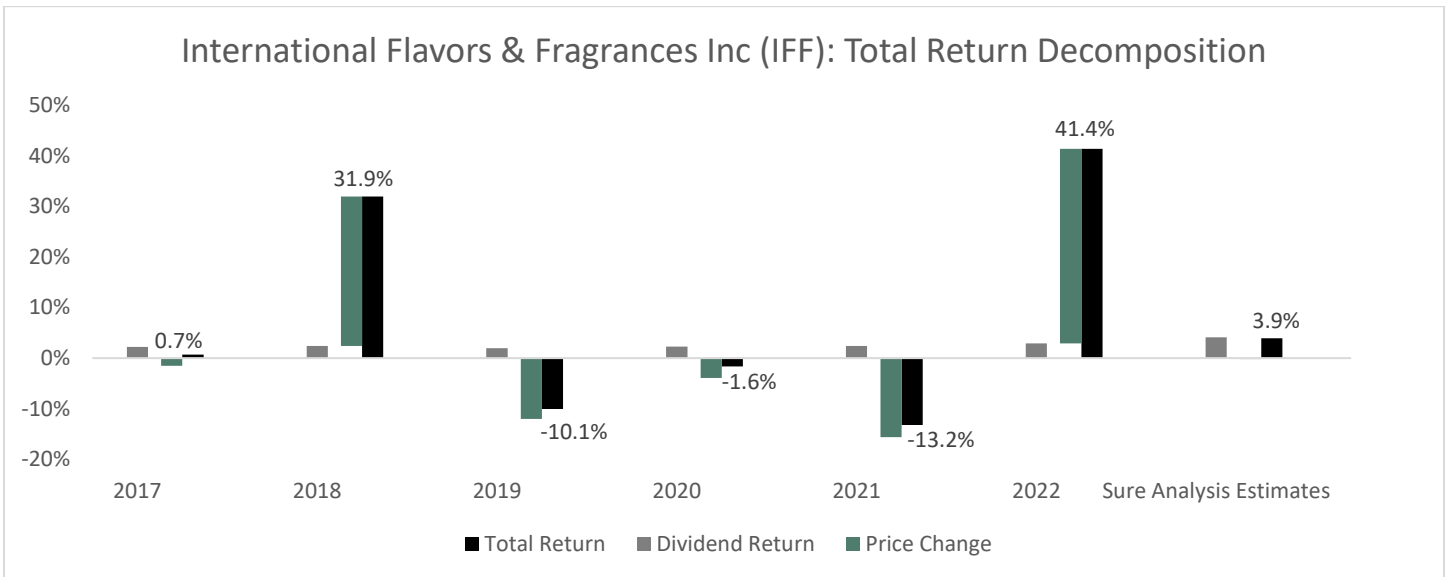
Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2028
Payout	31%	33%	33%	34%	39%	44%	45%	47%	48%	58%	97%	92%

IFF's products are often unique, and the company typically controls the intellectual property giving IFF a competitive advantage. Furthermore, scents, flavors, fragrances, etc. are often product differentiators and IFF's solutions are integrated into their customer's product development and supply chains. This makes the cost of switching suppliers risky for customers. IFF maintains this advantage by conducting R&D to generate new IP for molecules and delivery. IFF is a company with recession resistant qualities. Sales and EPS only dropped slightly during the Great Recession but recovered rapidly afterwards. IFF's debt increased substantially due to recent acquisitions. Short-term debt is \$1,142M and long-term debt is \$9,159M offset by only \$639M in cash and equivalents. The leverage ratio is ~5.4X.

Final Thoughts & Recommendation

At present we are forecasting a 3.9% annualized total return for the next five years from a 4.3% dividend yield, 2.0% EPS growth, and (-2.2%) P/E multiple contraction. After two large acquisitions in a short time, total debt, the leverage ratio, and share count are much higher. The company is in turnaround mode as it tries to pare down its balance sheet and return to growth in a tough economic environment. At the current price, we rate IFF a hold.

Total Return Breakdown by Year



[Click here to rate and review this research report. Your feedback is important to us.](#)

Disclosure: This analyst has no position in the security discussed in this research report, and no plans to initiate one in the next 72 hours.



International Flavors & Fragrances Inc. (IFF)

Updated November 26th, 2023 by Prakash Kolli

Income Statement Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Revenue	2953	3089	3023	3116	3399	3978	5140	5084	11656	12440
Gross Profit	1284	1362	1352	1396	1472	1683	2113	2086	3735	4151
Gross Margin	43.5%	44.1%	44.7%	44.8%	43.3%	42.3%	41.1%	41.0%	32.0%	33.4%
SG&A Exp.	506	508	495	573	570	707	876	949	1749	1768
D&A Exp.	83	89	90	102	118	174	323	325	1156	1179
Operating Profit	518	594	596	540	572	588	697	588	625	1053
Op. Margin	17.6%	19.2%	19.7%	17.3%	16.8%	14.8%	13.6%	11.6%	5.4%	8.5%
Net Profit	354	415	419	405	296	337	456	363	270	-1843
Net Margin	12.0%	13.4%	13.9%	13.0%	8.7%	8.5%	8.9%	7.1%	2.3%	-14.8%
Free Cash Flow	273	375	366	424	262	264	457	522	1040	-161
Income Tax	132	135	120	119	241	108	97	74	75	211

Balance Sheet Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Total Assets	3332	3495	3702	4017	4599	12889	13343	13556	39678	35390
Cash & Equivalents	406	479	182	324	368	635	624	657	715	493
Acc. Receivable	524	494	538	551	664	938	876	929	1906	1818
Inventories	534	569	572	592	649	1079	1123	1132	2516	3151
Goodwill & Int.	696	752	1247	1366	1572	8418	8350	8320	26940	22437
Total Liabilities	1865	1972	2107	2386	2910	6846	7114	7233	18455	17597
Accounts Payable	227	216	286	275	338	471	510	556	1532	---
Long-Term Debt	933	942	1068	1325	1639	4553	4382	4414	11400	10970
Total Equity	1463	1519	1590	1626	1684	6033	6230	6311	21118	17734
LTD/E Ratio	0.64	0.62	0.67	0.82	0.97	0.75	0.70	0.70	0.54	0.62

Profitability & Per Share Metrics

Year	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Return on Assets	10.7%	12.1%	11.7%	10.5%	6.9%	3.9%	3.5%	2.7%	1.0%	-4.9%
Return on Equity	26.1%	27.8%	27.0%	25.2%	17.9%	8.7%	7.4%	5.8%	2.0%	-9.5%
ROIC	15.1%	17.0%	16.4%	14.4%	9.4%	4.8%	4.3%	3.4%	1.2%	-6.0%
Shares Out.	81	81	80	79	79	107	106	106	243	255
Revenue/Share	36.04	37.90	37.37	38.96	42.82	45.14	45.36	44.74	47.97	48.78
FCF/Share	3.34	4.60	4.53	5.30	3.30	3.00	4.03	4.60	4.28	-0.63

Note: All figures in millions of U.S. Dollars unless per share or indicated otherwise.

Disclaimer

Nothing presented herein is, or is intended to constitute, specific investment advice. Nothing in this research report should be construed as a recommendation to follow any investment strategy or allocation. Any forward-looking statements or forecasts are based on assumptions and actual results are expected to vary from any such statements or forecasts. No reliance should be placed on any such statements or forecasts when making any investment decision. While Sure Dividend has used reasonable efforts to obtain information from reliable sources, we make no representations or warranties as to the accuracy, reliability or completeness of third-party information presented herein. No guarantee of investment performance is being provided and no inference to the contrary should be made. There is a risk of loss from an investment in marketable securities. Past performance is not a guarantee of future performance.