



# International Flavors & Fragrances Inc. (IFF)

Updated February 29<sup>th</sup>, 2024 by Prakash Kollu

## Key Metrics

<b>Current Price:</b>	\$73	<b>5 Year CAGR Estimate:</b>	4.6%	<b>Market Cap:</b>	\$18.69B
<b>Fair Value Price:</b>	\$75	<b>5 Year Growth Estimate:</b>	2.0%	<b>Ex-Dividend Date:</b>	03/21/24
<b>% Fair Value:</b>	97%	<b>5 Year Valuation Multiple Estimate:</b>	0.6%	<b>Dividend Payment Date:</b>	04/10/24
<b>Dividend Yield:</b>	2.2%	<b>5 Year Price Target</b>	\$83	<b>Years Of Dividend Growth:</b>	0
<b>Dividend Risk Score:</b>	B	<b>Retirement Suitability Score:</b>	C	<b>Rating:</b>	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 2023, revenue was \$11.5B pro forma.

IFF reported Q4 2023 and full-year results on February 20<sup>th</sup>, 2024. For the quarter, companywide net sales were down (-5%) to \$2,703M from \$2,844M and adjusted diluted earnings per share decreased to \$0.72 from \$0.83 on a year-over-year basis, impacted by divestitures, lower volumes, and foreign exchange headwinds, offset by higher margins, productivity, and price increases. Diluted GAAP earnings per share declined to a loss of (\$10.21) on goodwill impairment.

Nourish sales decreased (-12%) to \$1,394M from \$1,577 due to softness in Functional Ingredients, despite higher prices and growth in Flavor. Health & Bioscience sales rose 5% to \$528M from \$501M with volume growth, higher pricing, and productivity gains. Scent sales increased +6% to \$578M from \$545M led by double-digit growth in Consumer Fragrances and growth in Fine Fragrances. Volume, pricing, and productivity improved. Pharma Solutions sales decreased (-8%) to \$203M from \$221M because of lower volumes despite higher pricing.

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 leverage to a target of 3.0X.

IFF set revenue guidance at \$10.8B - \$11.1B in 2024 and adjusted operating EBITDA to \$1.9B - \$2.1B

## Growth on a Per-Share Basis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
<b>EPS</b>	\$5.08	\$5.25	\$5.51	\$5.89	\$6.00	\$6.17	\$5.70	\$5.63	\$5.55	\$3.34	<b>\$3.77</b>	<b>\$4.16</b>
<b>DPS</b>	\$1.72	\$2.06	\$2.40	\$2.66	\$2.84	\$2.96	\$3.04	\$3.12	\$3.20	\$3.24	<b>\$1.60</b>	<b>\$1.68</b>
<b>Shares<sup>1</sup></b>	80	79	79	107	107	107	107	255	255	255	<b>255</b>	<b>255</b>

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 2029.

The firm cut the dividend by nearly 51% at the start of 2024 because of lower earnings, high debt, interest payments, and doubling of share count. Note that we pointed out the increased risk of a dividend cut in our last report. However, the dividend safety has improved, and we now expect 1% annual increases until leverage decreases.

<sup>1</sup> 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.



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## Valuation Analysis

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	Now	2029
Avg. P/E	19.1	21.6	22.6	23.1	24.4	21.3	21.4	25.1	25.1	24.2	19.4	20.0
Avg. Yld.	1.8%	1.8%	1.9%	2.0%	2.1%	2.3%	2.5%	2.2%	2.2%	4.1%	2.2%	2.0%

IFF's stock price was flat since our last report. We set our earnings estimate to match consensus for 2024. 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 \$75. Our 5-year price target is now \$83.

## Safety, Quality, Competitive Advantage, & Recession Resiliency

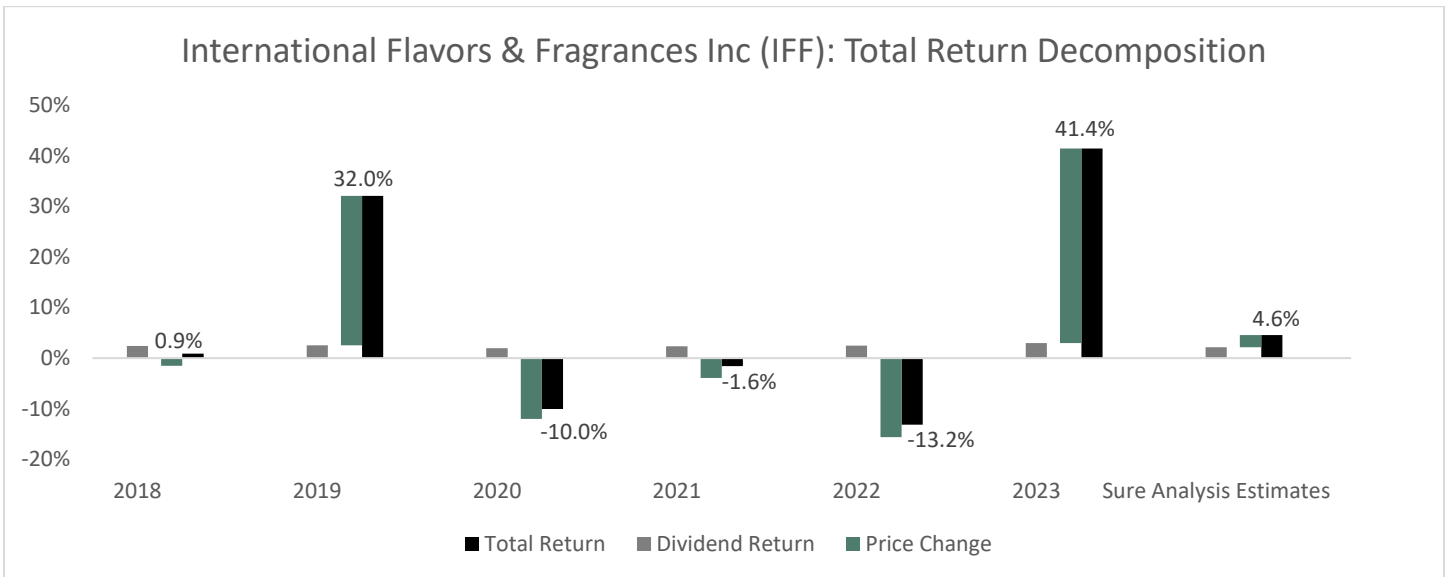
Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2029
Payout	31%	33%	33%	34%	39%	44%	45%	47%	48%	97%	42%	40%

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 \$855M and long-term debt is \$9,186M offset by only \$709M in cash and equivalents. The leverage ratio is ~4.9X.

## Final Thoughts & Recommendation

At present we are forecasting a 4.6% annualized total return for the next five years from a 2.2% dividend yield, 2.0% EPS growth, and 0.6% P/E multiple expansion. After two large acquisitions in a short time, total debt, leverage, and share count are much higher resulting in a dividend cut. 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



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## Income Statement Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Revenue</b>	3089	3023	3116	3399	3978	5140	5084	11656	12440	11479
<b>Gross Profit</b>	1362	1352	1396	1472	1683	2113	2086	3735	4151	3681
<b>Gross Margin</b>	44.1%	44.7%	44.8%	43.3%	42.3%	41.1%	41.0%	32.0%	33.4%	32.1%
<b>SG&amp;A Exp.</b>	508	495	573	570	707	876	949	1749	1768	1787
<b>D&amp;A Exp.</b>	89	90	102	118	174	323	325	1156	1179	1142
<b>Operating Profit</b>	594	596	540	572	588	697	588	625	1053	578
<b>Op. Margin</b>	19.2%	19.7%	17.3%	16.8%	14.8%	13.6%	11.6%	5.4%	8.5%	5.0%
<b>Net Profit</b>	415	419	405	296	337	456	363	270	-1843	-2565
<b>Net Margin</b>	13.4%	13.9%	13.0%	8.7%	8.5%	8.9%	7.1%	2.3%	-14.8%	-22.3%
<b>Free Cash Flow</b>	375	366	424	262	264	457	522	1040	-161	936
<b>Income Tax</b>	135	120	119	241	108	97	74	75	211	45

## Balance Sheet Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Total Assets</b>	3495	3702	4017	4599	12889	13343	13556	39678	35390	30978
<b>Cash &amp; Equivalents</b>	479	182	324	368	635	624	657	715	493	703
<b>Acc. Receivable</b>	494	538	551	664	938	876	929	1906	1818	1726
<b>Inventories</b>	569	572	592	649	1079	1123	1132	2516	3151	2638
<b>Goodwill &amp; Int.</b>	752	1247	1366	1572	8418	8350	8320	26940	22437	18992
<b>Total Liabilities</b>	1972	2107	2386	2910	6846	7114	7233	18455	17597	16336
<b>Accounts Payable</b>	216	286	275	338	471	510	556	1532	---	1378
<b>Long-Term Debt</b>	942	1068	1325	1639	4553	4382	4414	11400	10970	10071
<b>Total Equity</b>	1519	1590	1626	1684	6033	6230	6311	21118	17734	14611
<b>LTD/E Ratio</b>	0.62	0.67	0.82	0.97	0.75	0.70	0.70	0.54	0.62	0.69

## Profitability & Per Share Metrics

Year	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
<b>Return on Assets</b>	12.1%	11.7%	10.5%	6.9%	3.9%	3.5%	2.7%	1.0%	-4.9%	-7.7%
<b>Return on Equity</b>	27.8%	27.0%	25.2%	17.9%	8.7%	7.4%	5.8%	2.0%	-9.5%	-16%
<b>ROIC</b>	17.0%	16.4%	14.4%	9.4%	4.8%	4.3%	3.4%	1.2%	-6.0%	-9.6%
<b>Shares Out.</b>	81	80	79	79	107	106	106	243	255	255
<b>Revenue/Share</b>	37.90	37.37	38.96	42.82	45.14	45.36	44.74	47.97	48.78	45.02
<b>FCF/Share</b>	4.60	4.53	5.30	3.30	3.00	4.03	4.60	4.28	-0.63	3.67

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

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