

International Flavors & Fragrances Inc

IFF cuts dividend by ~50% & affirms plans to sell assets; upgrade to OW from MW

Rating Change - Credit

IFF cuts dividend by ~50%; affirms plans to sell assets

On Tuesday evening, International Flavors and Fragrances (IFF) reported 4Q23 earnings. In its release, IFF reduced its dividend by ~50% to \$0.40/share (payable April 10) to enable faster deleveraging and provide improved financial flexibility. Management also maintained plans to pursue portfolio optimization actions with proceeds to be used for debt reduction. On its earnings call, management noted that its dividend cut does not change its divestiture strategy or timeline (though not provided). IFF also stated that targeted divestitures will be the biggest driver of achieving its de-leveraging goal. As a reminder, Bloomberg reported in late October that IFF was exploring a sale of its Pharma Solutions business, a sale that could be worth up to \$3.5b (according to Bloomberg), though investors believe that valuation is on the higher end. Separately, IFF affirmed its commitment to IG credit ratings and returning net leverage to 3.0x by YE24. The company reported adjusted net leverage of 4.5x as of YE23.

Dividend cut = sustainable commitment to IG B/S

IFF's dividend cut significantly supports its credit story and signals a more sustainable commitment to debt reduction. We believe rating agencies will view the decision favorably and could provide additional flexibility for IFF to reach its de-leveraging goal, which makes a downgrade to HY unlikely, in our view. Over the long-term, we think a smaller dividend burden (~\$400mm vs ~\$800mm previously) alleviates IFF's cash flow issues and could allow for more durable, value creation. In terms of asset sales, we believe that a Pharma sale is still on table and would essentially achieve IFF's de-leveraging goal, in our view. Should Pharma not be sold, we believe IFF would evaluate other divestitures to support de-leveraging. All together, we think IFF's dividend cut and encouraging commentary around asset sales significantly supports the company's credit story.

Attractive value vs peers, upgrade to OW from MW

We see value in IFF's spreads which are ~5-15 bps wide of LyondellBasell Industries (LYB, MW) and Eastman Chemical (EMN, NR) through the curve. We also see upside to IFF's ~20 bps discount to the BBB Corp Index when using a theoretical IFF 10-yr note (assuming a 25 bps 10s30s curve). We do not necessarily think IFF should trade tight to LYB or EMN right now given its lower credit rating, smaller size (to LYB), and higher leverage, but think the company's discount to both peers (and the BBB Corp Index) could decrease, over time, as the business executes on its de-leveraging plan and ratings improve. Notably, should a Pharma Solutions sale and/or other significant divestitures be announced, we think spreads could rally further and potentially trade inside LYB / EMN (and near the BBB Corp Index). As a result, we upgrade our issuer-level and bond-level recs on IFF to OW from MW as spreads likely tighten to reflect a credit friendly shift in capital allocation priorities and encouraging commentary around asset sales.

*Separately, we share a summary of IFF's full 4Q23 earnings release later in this report which we found to be relatively credit neutral outside of capital allocation.

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High Grade Credit
United States
Chemicals

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International Flavors & Fragrances Inc (IFF)

Key Data	2022A	2023A	2024E
Operating (US\$ mm)			
Revenues	12,440	11,479	10,923
Adj EBITDA	2,453	1,980	1,992
Balance Sheet (US\$ mm)			
Cash	493	709	636
Total Debt	10,970	10,071	8,909
Net Leverage (x)	4.3	4.7	4.2

Source: Company filings & BofA Global Research.

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IFF Earnings Summary (4Q23)

On Tuesday evening, International Flavors and Fragrances (IFF) reported 4Q23 adjusted earnings of \$0.72/share, modestly below the Bloomberg consensus estimate of \$0.74/share. Adjusted EBITDA of \$461mm was down 19% q-o-q but above consensus of \$447mm.

Cash flow and credit metrics

Cash from operations of \$644mm (including a \$647mm working capital inflow) covered capex of \$113mm and dividends of \$207mm. There were no share repurchases during the quarter. Credit stats improved q-o-q led by modestly lower net debt: total debt/LTM adj. EBITDA = 5.1x (5.3x in 3Q23), net debt/LTM adj. EBITDA = 4.7x (4.9x) and LTM adj. EBITDA/LTM interest expense = 5.2x (4.4x).

Capital allocation

IFF reduced its dividend by ~50% to \$0.40/share (payable April 10) to enable faster deleveraging and provide improved financial flexibility. Management remains committed to IG credit ratings and returning net leverage to 3.0x. The company hopes to reach its leverage target by YE24 and expects to make “very good progress” this year. As of YE23, IFF reported adjusted net leverage of 4.5x.

Asset sales

IFF continues to pursue portfolio optimization actions with proceeds to be used for debt reduction. On its earnings call, management noted that its dividend cut does not change its divestiture strategy or timeline (though not provided). IFF also stated that targeted divestitures will be the biggest driver of achieving its de-leveraging goal. As a reminder, Bloomberg reported in late October that IFF was exploring a sale of its Pharma Solutions business, a sale that could be worth up to \$3.5b (according to Bloomberg). Separately, IFF maintained plans to close the sale of its Lucas Meyer Cosmetics business (announced October 2023) in 1Q24 (unchanged).

1Q24 guidance

IFF guided 1Q24 EBITDA of \$475-500mm (consensus of \$507mm).

FY24 guidance

In FY24, IFF expects sales of \$10.8-11.1b (consensus of ~\$11.4b), adj. EBITDA of \$1.9-2.1b (consensus of ~\$2.15b), free cash flow pre-dividend of ~\$500mm (includes \$200mm of one-time cash uses, consensus of \$842mm pre-dividend), and capex of ~\$540mm (consensus of \$525mm). The company guided volumes to grow between 0-3% y-o-y with improved trends across most of its portfolio. Pricing is expected to decline ~2.5% y-o-y due to reductions in Functional Ingredients and Fragrance Ingredients from lower input costs and competitive dynamics.

Segment Overview

- **Nourish:** 4Q23 adj. EBITDA was \$165mm, up 3% y-o-y on a currency neutral basis, led by price increases and productivity gains.
- **Health & Biosciences (H&B):** 4Q23 adj. EBITDA was \$162mm, up 35% y-o-y on a currency neutral basis, led by volume growth, price increases, and productivity gains.
- **Scent:** 4Q23 adj. EBITDA was \$108mm, up 34% y-o-y on a currency neutral basis, led by volume growth, price increases and productivity gains.
- **Pharma Solutions:** 4Q23 adj. EBITDA was \$26mm, down 13% y-o-y on a currency neutral basis, due to lower volumes which offset pricing and productivity gains.

Valuation & risk

Int. Flavors (IFF)

International Flavors & Fragrances Inc. (IFF) is a creator & manufacturer of food, bev, health & biosciences, scent & pharma solutions.

Operational underperformance and elevated leverage have been a focal point for IFF's credit story. The company remains committed to IG credit ratings and returning net leverage to 3.0x which management hopes to achieve by YE24. IFF has taken steps to fix its balance sheet following the announced sale of its Lucas Meyer business (\$810mm) in 2023, approx. 50% dividend cut at 4Q23 earnings, and commitment to sell additional assets. As a result, we view a downgrade to HY for IFF as unlikely and think de-leveraging is manageable. Looking ahead, we think IFF's credit story has significant support from its announced dividend cut and encouraging commentary around additional asset sales. Compared to peers, we see upside to IFF's spreads vs liquid / low-BBB producers, as well as the BBB Corp Index. We therefore think spreads likely tighten near-term and provide an OW rec on the name.

Risks: failure to meet de-leveraging targets, failure to achieve projected synergies/integrate the combined business, failure to execute on divestitures or divestitures well in excess of needs, competitors taking market share, ratings downgrades, and higher/lower-than-expected raw material inflation/deflation.

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I, Daniel Lungo, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers. I also certify that no part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or view expressed in this research report.

Security/Loan pricing

International Flavors & Fragrances Inc / IFF

	Amt		Ratings			Yield	Spread
Security		Maturity date	Moody's/S&P/Fitch	Price	Price date	(%)	(bps)
1.23, Senior, USD, 2025:B	1,000	01-OCT-2025	Baa3/BBB-/BBB	92.99	20-Feb-2024	5.86	113
1.832, Senior, USD, 2027:B	1,200	15-OCT-2027	Baa3/BBB-/BBB	87.96	20-Feb-2024	5.52	116
4.45, Senior, USD, 2028:B	400	26-SEP-2028	Baa3/BBB-/BBB	96.33	20-Feb-2024	5.36	106
2.3, Senior, USD, 2030:B	1,500	01-NOV-2030	Baa3/BBB-/BBB	82.04	20-Feb-2024	5.55	129
3.268, Senior, USD, 2040:B	750	15-NOV-2040	Baa3/BBB-/BBB	69.91	20-Feb-2024	6.18	168
4.375, Senior, USD, 2047:B	500	01-JUN-2047	Baa3/BBB-/BBB	74.96	20-Feb-2024	6.47	187
5, Senior, USD, 2048:B	800	26-SEP-2048	Baa3/BBB-/BBB	83.28	20-Feb-2024	6.35	176
3.468, Senior, USD, 2050:B	1,500	01-DEC-2050	Baa3/BBB-/BBB	65.80	20-Feb-2024	6.07	152

For pricing information refer to "Other Important Disclosures" below.

B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); CDS=Credit Default Swap; EP=Equity Preferred

Disclosures

Important Disclosures

Credit opinion history

International Flavors & Fragrances Inc / IFF

Company	Date ^{R1}	Action	Recommendation	
International Flavors & Fragrances Inc / IFF	31-Jan-2021		Overweight	
	12-Feb-2021	Downgrade	Marketweight	
	04-Mar-2021	Extended Review	NA	
	09-Jul-2021	Coverage Reinstatement	Overweight	
	23-Aug-2021	Restricted	NA	
	24-Aug-2021	Coverage Resumed	Overweight	
	13-Jan-2023	Downgrade	Marketweight	
	10-Mar-2023	Upgrade	Overweight	
Security	28-Nov-2023	Downgrade	Marketweight	
	31-Jan-2023		Marketweight	
	10-Mar-2023	Upgrade	Overweight	88.41
	28-Nov-2023	Downgrade	Marketweight	90.88
	31-Jan-2023		Marketweight	
	10-Mar-2023	Upgrade	Overweight	83.49
	28-Nov-2023	Downgrade	Marketweight	85.22
	31-Jan-2023		Marketweight	
	10-Mar-2023	Upgrade	Overweight	92.99
	28-Nov-2023	Downgrade	Marketweight	94.42
	31-Jan-2023		Marketweight	
	10-Mar-2023	Upgrade	Overweight	77.79
	31-Jan-2023		Marketweight	
	10-Mar-2023	Upgrade	Overweight	69.12
	28-Nov-2023	Downgrade	Marketweight	65.46
	31-Jan-2023		Marketweight	
	10-Mar-2023	Upgrade	Overweight	76.44
	28-Nov-2023	Downgrade	Marketweight	70.71
	31-Jan-2023		Marketweight	
	10-Mar-2023	Upgrade	Overweight	83.56
	28-Nov-2023	Downgrade	Marketweight	78.26
3.468, Senior, USD, 2050:B	31-Jan-2023		Marketweight	
	10-Mar-2023	Upgrade	Overweight	66.46
	28-Nov-2023	Downgrade	Marketweight	61.62

Table reflects credit opinion history as of previous business day's close.^{R1}First date of recommendation within the last 36 months, if for an issuer or within the last 12 months, if for a security or loan. The investment opinion system is contained at the end of the report under the heading "BofA Global Research Credit Opinion Key."

Pricing information in the table is provided for each action where available. In the case of bonds, loans, capital securities and equity preferreds, the price shown reflects the nominal cash price for the security; and in the case of CDS, the price shown reflects the spread, on the date of the relevant action.

B=Bond; L=Loan; CS=Capital Security (Not including Equity Preferred); EP=Equity Preferred; CDS=Credit Default Swap

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Corporate Credit Issuer Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R2}	Count	Percent
Buy	144	37.21%	Buy	119	82.64%
Hold	193	49.87%	Hold	163	84.46%
Sell	50	12.92%	Sell	37	74.00%

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