

International Flavors & Fragrances

Big steps in the right direction, but still dealing with soft pricing power

Reiterate Rating: NEUTRAL | PO: 83.00 USD | Price: 76.78 USD

Moving in the right direction but staying Neutral

We are incrementally more constructive on IFF, as we're seeing several steps in the right direction. These include the hiring of a very experienced CEO who is also familiar with some of IFF's assets, the halving of the dividend which in our view was sorely needed to address the company's leverage and minimize the need for potentially valued-destructive divestments, and the planned re-focus on gaining share, growing volumes, and repurposing R&D/capex and other spending (which is already at a higher level) to deliver higher returns. However, IFF is still facing [a key concern of ours, lack of pricing power](#). This issue appeared in the 2024 guidance, with price/cost likely to be negative despite expectations of a volume recovery after a ~5% decline in 2023. As such we opt to stay-Neutral rated with an unchanged PO of \$83.

Lowering 2024-25 estimates

IFF's '24 guide was quite light with EBITDA of \$1.9-2.1bn vs expectations of \$2.1bn+. Volume recovery is expected to be modest at 0-3%, but the key issue is that the projected 2.5% price decline should more than offset any cost deflation benefits. We are trimming our 2024E revenues to \$11.07bn vs guidance of \$10.8-11.1bn, and estimate EBITDA of \$2,054mn (down from \$2,144mn previously). We believe that the earnings outlook could have some upside from additional deflation, especially as ag prices have seen sharp declines since December. Our 2024E EPS is lowered to \$3.85 from \$4.20, for a 15% y/y growth. We are also lowering our 2025E EBITDA (\$2.25bn from \$2.31bn) and EPS (\$4.50 from \$4.65) and introduce our 2026 estimates of \$2.4bn and \$5.05.

3x leverage by 2025 with divestitures

We believe that the dividend cut, saving ~\$400mn annually, goes a long way in helping IFF delever. One of our key concerns was that the prior distribution was siphoning all of the company's FCF, leaving divestments as the only way to pay down debt. Such an approach comes with disadvantages in our view, weakening the company's earnings power and, to the extent some high-quality businesses are being divested, negatively impacting IFF's business mix. Now, we believe that there is a credible path to 3.5x net debt/EBITDA by 2025 without any additional asset sales, while more divestitures should allow for a full delevering to ~3x.

Estimates (Dec) (US\$)	2022A	2023A	2024E	2025E	2026E
EPS	5.54	3.34	3.85	4.50	5.05
GAAP EPS	(7.22)	(10.00)	1.92	2.15	5.05
EPS Change (YoY)	-2.5%	-39.7%	15.3%	16.9%	12.2%
Consensus EPS (Bloomberg)			3.87	4.47	4.95
DPS	3.20	3.24	1.60	1.60	1.60
Valuation (Dec)					
P/E	13.9x	23.0x	19.9x	17.1x	15.2x
GAAP P/E	NM	NM	40.0x	35.7x	15.2x
Dividend Yield	4.2%	4.2%	2.1%	2.1%	2.1%
EV / EBITDA*	12.0x	14.9x	14.3x	13.1x	12.2x
Free Cash Flow Yield*	-0.5%	4.8%	2.9%	5.1%	5.6%

* For full definitions of *IQmethod*SM measures, see page 5.

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Refer to important disclosures on page 6 to 8. Analyst Certification on page 4. Price Objective Basis/Risk on page 4.

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Timestamp: 22 February 2024 08:46AM EST

22 February 2024

Equity

Key Changes

(US\$)	Previous	Current
2024E Rev (m)	11,344.3	11,070.6
2025E Rev (m)	11,776.5	11,476.4
2026E Rev (m)	NA	11,843.4
2024E EPS	4.20	3.85
2025E EPS	4.65	4.50
2026E EPS	NA	5.05
2024E DPS	3.24	1.60

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Stock Data

Price	76.78 USD
Price Objective	83.00 USD
Date Established	16-Jan-2024
Investment Opinion	B-2-8
52-Week Range	62.11 USD - 97.49 USD
Mrkt Val (mn) / Shares Out (mn)	19,600 USD / 255.3
Free Float	99.9%
Average Daily Value (mn)	169.99 USD
BofA Ticker / Exchange	IFF / NYS
Bloomberg / Reuters	IFF US / IFF.N
ROE (2024E)	6.7%
Net Dbt to Eqty (Dec-2023A)	63.9%
ESGMeter TM	High

ESGMeter is not indicative of a company's future stock price performance and is not an investment recommendation or rating. ESGMeter is independent of BofA Global Research's equity investment rating, volatility risk rating, income rating, and price objective for that company. For full details, refer to ["BofA ESGMeter Methodology"](#).

iQprofileSM International Flavors & Fragrances

iQmethodSM – Bus Performance*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Return on Capital Employed	4.9%	3.9%	4.6%	5.4%	6.1%
Return on Equity	7.3%	5.3%	6.7%	7.8%	8.6%
Operating Margin	16.1%	13.2%	14.2%	15.6%	16.5%
Free Cash Flow	(107)	936	560	995	1,091

iQmethodSM – Quality of Earnings*

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash Realization Ratio	0.3x	1.7x	1.1x	1.3x	1.3x
Asset Replacement Ratio	0.4x	0.4x	0.5x	0.5x	0.5x
Tax Rate	16.2%	21.5%	20.0%	20.0%	20.0%
Net Debt-to-Equity Ratio	58.9%	63.9%	56.7%	52.0%	46.3%
Interest Cover	6.0x	4.0x	4.5x	5.2x	5.8x

Income Statement Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Sales	12,425	11,479	11,071	11,476	11,843
% Change	6.6%	-7.6%	-3.6%	3.7%	3.2%
Gross Profit	4,115	3,749	3,680	3,996	4,254
% Change	-0.1%	-8.9%	-1.8%	8.6%	6.4%
EBITDA	2,455	1,980	2,054	2,253	2,401
% Change	1.2%	-19.3%	3.7%	9.7%	6.6%
Net Interest & Other Income	(310)	(426)	(339)	(340)	(325)
Net Income (Adjusted)	1,412	853	985	1,152	1,293
% Change	4.6%	-39.6%	15.5%	16.9%	12.2%

Free Cash Flow Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Net Income from Cont Operations (GAAP)	1,412	853	985	1,152	1,293
Depreciation & Amortization	1,179	1,142	1,137	1,120	1,105
Change in Working Capital	(1,050)	485	(170)	(82)	(95)
Deferred Taxation Charge	NA	NA	NA	NA	NA
Other Adjustments, Net	(1,144)	(1,041)	(863)	(666)	(662)
Capital Expenditure	(504)	(503)	(530)	(530)	(550)
Free Cash Flow	-107	936	560	995	1,091
% Change	NM	NM	-40.2%	77.7%	9.6%
Share / Issue Repurchase	0	0	0	0	0
Cost of Dividends Paid	(810)	(826)	(410)	(410)	(410)
Change in Debt	(44)	(286)	0	0	0

Balance Sheet Data (Dec)

(US\$ Millions)	2022A	2023A	2024E	2025E	2026E
Cash & Equivalents	493	709	989	574	305
Trade Receivables	1,818	1,726	1,697	1,817	1,875
Other Current Assets	5,121	3,858	3,886	3,916	3,953
Property, Plant & Equipment	4,203	4,240	3,372	3,341	3,339
Other Non-Current Assets	23,772	20,445	19,877	19,336	18,804
Total Assets	35,407	30,978	29,820	28,985	28,276
Short-Term Debt	597	885	885	885	885
Other Current Liabilities	3,131	2,873	2,702	2,790	2,810
Long-Term Debt	10,373	9,186	8,486	7,486	6,536
Other Non-Current Liabilities	3,533	3,392	2,956	2,820	2,684
Total Liabilities	17,634	16,336	15,029	13,981	12,915
Total Equity	17,773	14,642	14,791	15,004	15,361
Total Equity & Liabilities	35,407	30,978	29,820	28,985	28,276

* For full definitions of iQmethodSM measures, see page 5.

Company Sector

Chemicals-Specialty

Company Description

IFF is specialty chemical company and a market leader in the global flavors and fragrance industry. The company specializes in creating flavor and scent compounds which it markets to consumer products companies for use in food, beverage, perfume and broader consumer and consumer cleaning markets. The company ended the year of 2023 with revenues of \$11.5bn with revenues broadly distributed across global markets.

Investment Rationale

The new management has kicked off its initiatives to fix underperforming, underinvested, and historically mismanaged businesses. We suspect there is a lot of opportunity here, but much of the benefits appear to accrue in the medium-term, leaving growth muted in 2023. However, with shares off considerably given the poor earnings and cash flow outlook, we see valuation as more balanced and rate shares Neutral accordingly.

Stock Data

Average Daily Volume 2,213,954

Quarterly Earnings Estimates

	2023	2024
Q1	0.87A	0.38E
Q2	0.86A	0.57E
Q3	0.89A	0.57E
Q4	0.72A	0.40E

Exhibit 1: IFF Income Statement Summary

We see EPS returning to ~\$5 by 2026

Net Sales	2022	1Q23	2Q23	3Q23	4Q23	2023	1Q24E	2Q24E	3Q24E	4Q24E	2024E	2025E	2026E
Nourish	\$6,829	\$1,653	\$1,564	\$1,449	\$1,394	\$6,060	\$1,439	\$1,397	\$1,453	\$1,386	\$5,674	\$5,901	\$6,078
Scent	2,301	608	592	615	578	2,393	614	552	592	546	2,304	2,350	2,421
Health & Bioscience	2,324	513	522	518	528	2,081	554	553	534	539	2,179	2,267	2,357
Pharma Solutions	971	253	251	238	203	945	230	231	243	209	913	959	987
Total	12,425	3,027	2,929	2,820	2,703	11,479	2,837	2,733	2,821	2,679	11,071	11,476	11,843
Adjusted EBITDA													
Nourish	1,176	208	181	178	165	732	188	226	215	186	815	947	1,027
Scent	423	105	117	131	108	461	95	94	110	95	395	414	447
Health & Bioscience	634	131	145	150	162	588	153	159	161	171	644	675	702
Pharma Solutions	222	59	67	47	26	199	52	63	51	34	200	217	225
Total	2,455	503	510	506	461	1,980	488	542	538	486	2,054	2,253	2,401
D&A (Ex-Deal Related Amortization)													
Adjusted EBIT	452	105	115	122	120	462	119	119	119	119	477	460	445
Adjusted EBIT	2,003	398	395	384	341	1,518	368	423	419	367	1,577	1,793	1,956
Interest Expense	336	111	116	110	43	380	104	102	102	45	353	348	335
Other Income	-27	4	-4	-29	75	46	-5	-5	-5	1	-14	-8	-10
Profit Before Tax	1,694	283	283	303	223	1,092	269	326	322	321	1,238	1,453	1,632
Adjusted Net Income	1,412	222	219	227	185	853	214	260	257	255	985	1,152	1,293
Diluted - Adjusted EPS (Cash basis)	\$5.54	\$0.87	\$0.86	\$0.89	\$0.72	\$3.34	\$0.84	\$1.01	\$1.00	\$1.00	\$3.85	\$4.50	\$5.05
Deal-Related Amortization	2.18	0.52	0.52	0.51	0.50	2.05	0.48	0.48	0.48	0.48	1.93	2.35	2.35
Adjusted EPS	\$3.35	\$0.35	\$0.34	\$0.38	\$0.22	\$1.28	\$0.35	\$0.53	\$0.52	\$0.51	\$1.92	\$2.15	\$2.70
Sales Growth													
Nourish	9.0%	-4.5%	-14.0%	-14.9%	-11.6%	-11.3%	-13.0%	-10.7%	0.2%	-0.6%	-6.4%	4.0%	3.0%
Scent	2.1%	3.9%	2.1%	4.1%	6.1%	4.0%	1.0%	-6.7%	-3.8%	-5.6%	-3.7%	2.0%	3.0%
Health & Bioscience	-0.2%	-22.4%	-21.5%	1.2%	8.6%	-10.5%	8.0%	6.0%	3.0%	2.0%	4.7%	4.0%	4.0%
Pharma Solutions	20.0%	1.6%	2.9%	-7.4%	-8.1%	-2.7%	-9.0%	-8.0%	2.0%	3.0%	-3.4%	5.0%	3.0%
Total	6.6%	-6.2%	-11.4%	-7.9%	-4.5%	-7.6%	-6.3%	-6.7%	0.0%	-0.9%	-3.6%	3.7%	3.2%
Adjusted EBITDA Margin													
Nourish	17.2%	12.6%	11.6%	12.3%	11.8%	12.1%	13.1%	16.2%	14.8%	13.4%	14.4%	16.0%	16.9%
Scent	18.4%	17.3%	19.8%	21.3%	18.7%	19.3%	15.4%	17.1%	18.7%	17.4%	17.1%	17.6%	18.5%
Health & Bioscience	27.3%	25.5%	27.8%	29.0%	30.7%	28.3%	27.6%	28.8%	30.1%	31.7%	29.5%	29.8%	29.8%
Pharma Solutions	22.9%	23.3%	26.7%	19.7%	12.8%	21.1%	22.5%	27.3%	21.2%	16.3%	21.9%	22.6%	22.8%
Total	19.8%	16.6%	17.4%	17.9%	17.1%	17.2%	17.2%	19.8%	19.1%	18.1%	18.6%	19.6%	20.3%

Source: Company Reports and BofA Global Research Estimates

BofA GLOBAL RESEARCH

Price objective basis & risk

International Flavors & Fragrances (IFF)

Our \$83 price objective is based on the average of our 2024 Price to pro forma EPS multiple and a three-stage DCF analysis. The former utilizes a 20x P/E, just ahead of the 10-yr average of 19.5x, as the company is in a recovery phase. The three-stage DCF model is similarly predicated on pro-forma results and uses WACC of 7.1% and terminal growth rate of 2.5%.

Downside risks to our PO are a failed integration of the DuPont Nutrition & Biosciences business, a slower recovery in Fine Fragrance revenues, and additional COVID-19 related restrictions on the global economy.

Analyst Certification

I, Salvator Tiano, CFA, 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.

US - Chemicals Coverage Cluster

Investment rating	Company	BofA Ticker	Bloomberg symbol	Analyst
BUY				
	Air Products	APD	APD US	Steve Byrne, CFA
	Axalta Coating Systems	AXTA	AXTA US	Steve Byrne, CFA
	Bunge Limited	BG	BG US	Salvator Tiano, CFA
	CF Industries	CF	CF US	Steve Byrne, CFA
	Dow Inc	DOW	DOW US	Steve Byrne, CFA
	Eastman Chemical Co	EMN	EMN US	Salvator Tiano, CFA
	Element Solutions Inc.	ESI	ESI US	Steve Byrne, CFA
	Green Plains	GPPE	GPPE US	Salvator Tiano, CFA
	Huntsman Corp	HUN	HUN US	Salvator Tiano, CFA
	Linde	LIN	LIN US	Steve Byrne, CFA
	Linde	LINGY	LIN GY	Steve Byrne, CFA
	Nutrien	NTR	NTR US	Steve Byrne, CFA
	Olin Corp	OLN	OLN US	Steve Byrne, CFA
	PPG Industries Inc.	PPG	PPG US	Steve Byrne, CFA
	Sigma Lithium	SGML	SGML US	Steve Byrne, CFA
	The Mosaic Company	MOS	MOS US	Steve Byrne, CFA
NEUTRAL				
	Albemarle	ALB	ALB US	Steve Byrne, CFA
	Archer-Daniels-Midland Company	ADM	ADM US	Salvator Tiano, CFA
	Corteva	CTVA	CTVA US	Steve Byrne, CFA
	Ecolab Inc	ECL	ECL US	Steve Byrne, CFA
	International Flavors & Fragrances	IFF	IFF US	Salvator Tiano, CFA
	LyondellBasell Industries	LYB	LYB US	Steve Byrne, CFA
	Origin Materials	ORGN	ORGN US	Steve Byrne, CFA
UNDERPERFORM				
	Celanese Corporation	CE	CE US	Salvator Tiano, CFA
	DuPont	DD	DD US	Steve Byrne, CFA
	FMC Corporation	FMC	FMC US	Steve Byrne, CFA
	RPM International Inc	RPM	RPM US	Steve Byrne, CFA
	Sherwin-Williams Company	SHW	SHW US	Steve Byrne, CFA
	Westlake Chemical Partners, LP	WLKP	WLKP US	Steve Byrne, CFA
	Westlake Corp	WLK	WLK US	Steve Byrne, CFA

iQmethodSM Measures Definitions

Business Performance

Return On Capital Employed

Return On Equity

Operating Margin

Earnings Growth

Free Cash Flow

Numerator

NOPAT = (EBIT + Interest Income) × (1 – Tax Rate) + Goodwill Amortization

Net Income

Operating Profit

Expected 5 Year CAGR From Latest Actual

Cash Flow From Operations – Total Capex

Denominator

Total Assets – Current Liabilities + ST Debt + Accumulated Goodwill

Amortization

Shareholders' Equity

Sales

N/A

N/A

Quality of Earnings

Cash Realization Ratio

Asset Replacement Ratio

Tax Rate

Net Debt-To-Equity Ratio

Interest Cover

Numerator

Cash Flow From Operations

Capex

Tax Charge

Net Debt = Total Debt – Cash & Equivalents

EBIT

Denominator

Net Income

Depreciation

Pre-Tax Income

Total Equity

Interest Expense

Valuation Toolkit

Price / Earnings Ratio

Price / Book Value

Dividend Yield

Free Cash Flow Yield

Enterprise Value / Sales

Numerator

Current Share Price

Current Share Price

Annualised Declared Cash Dividend

Cash Flow From Operations – Total Capex

EV = Current Share Price × Current Shares + Minority Equity + Net Debt +

Other LT Liabilities

Enterprise Value

Denominator

Diluted Earnings Per Share (Basis As Specified)

Shareholders' Equity / Current Basic Shares

Current Share Price

Market Cap = Current Share Price × Current Basic Shares

Sales

Basic EBIT + Depreciation + Amortization

iQmethodSM is the set of BofA Global Research standard measures that serve to maintain global consistency under three broad headings: Business Performance, Quality of Earnings, and valuations. The key features of iQmethod are: A consistently structured, detailed, and transparent methodology. Guidelines to maximize the effectiveness of the comparative valuation process, and to identify some common pitfalls.

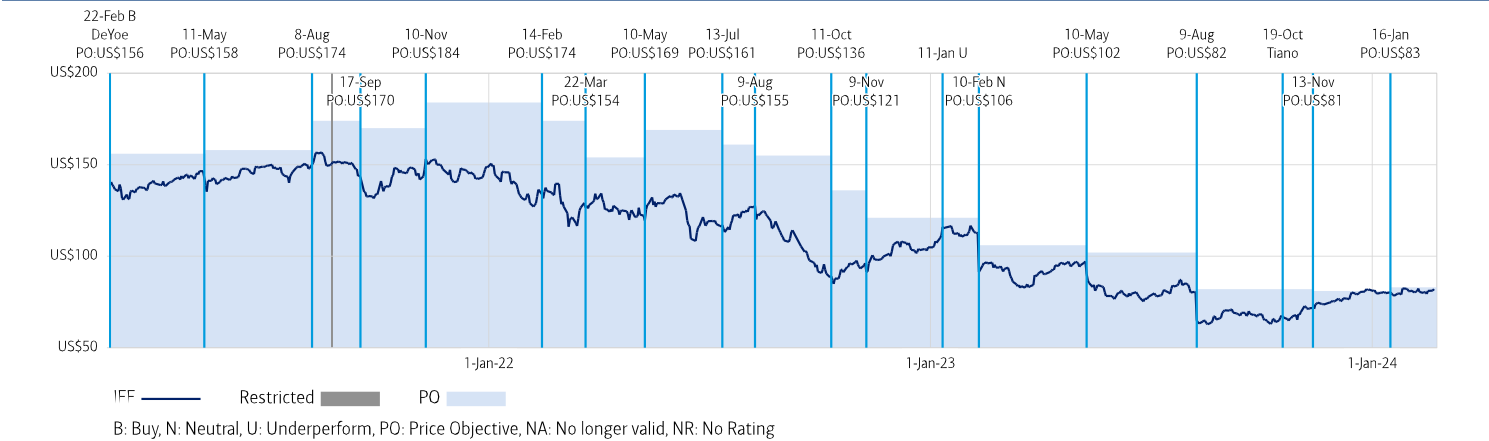
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Disclosures

Important Disclosures

Int Flav (IFF) Price Chart



The Investment Opinion System is contained at the end of the report under the heading "Fundamental Equity Opinion Key". Dark grey shading indicates the security is restricted with the opinion suspended. Medium grey shading indicates the security is under review with the opinion withdrawn. Light grey shading indicates the security is not covered. Chart is current as of a date no more than one trading day prior to the date of the report.

Equity Investment Rating Distribution: Chemicals Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	66	47.83%	Buy	33	50.00%
Hold	33	23.91%	Hold	16	48.48%
Sell	39	28.26%	Sell	20	51.28%

Equity Investment Rating Distribution: Global Group (as of 31 Dec 2023)

Coverage Universe	Count	Percent	Inv. Banking Relationships ^{R1}	Count	Percent
Buy	1895	53.62%	Buy	1083	57.15%
Hold	832	23.54%	Hold	454	54.57%
Sell	807	22.84%	Sell	383	47.46%

^{R1} Issuers that were investment banking clients of BofA Securities or one of its affiliates within the past 12 months. For purposes of this Investment Rating Distribution, the coverage universe includes only stocks. A stock rated Neutral is included as a Hold, and a stock rated Underperform is included as a Sell.

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Investment rating	Total return expectation (within 12-month period of date of initial rating)	Ratings dispersion guidelines for coverage cluster ^{R2}
Buy	≥ 10%	≤ 70%
Neutral	≥ 0%	≤ 30%
Underperform	N/A	≥ 20%

^{R2} Ratings dispersions may vary from time to time where BofA Global Research believes it better reflects the investment prospects of stocks in a Coverage Cluster.

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