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International Flavors & Fragrances, Inc. (IFF) CEO Andreas Fibig on Q3 2019 - Earnings Call Transcript

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Q3: 11-04-19 Earnings Summary

Press Release *Slides*

EPS of $1.53 beats by $0.01 | Revenue of $1.27B (39.64% Y/Y) misses by $-23.96M

Earning Call Audio

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International Flavors & Fragrances, Inc. (NYSE:IFF) Q3 2019 Earnings Conference Call
November 5, 2019 10:00 AM ET

Corporate Participants

Michael DeVeau - Head of Investor Relations

Andreas Fibig - Chairman and Chief Executive Officer

Richard O'Leary - Executive Vice President and Chief Financial and Officer

Conference Call Participants

Mark Astrachan - Stifel

John Roberts - UBS

Mike Sison - Wells Fargo

Lauren Lieberman - Barclays

Gunther Zechmann - Bernstein

Faiza Alwy - Deutsche Bank

Adam Samuelson - Goldman Sachs

Heidi Vesterinen - Exane

Jonathan Feeney - Consumer Edge

Brett Hundley - Seaport Global

James Targett - Berenberg

Operator

At this time, I would like to welcome everyone to the IFF Third Quarter 2019 Earnings Conference Call. All participants will be in a listen-only mode until the formal question-and-answer portion of the call. [Operator Instructions]

I would now like to introduce Michael DeVeau, Head of Investor Relations. You may begin.

Michael DeVeau

Thank you. Good morning, good afternoon and good evening, everyone. Welcome to IFF's third quarter 2019 conference call. Yesterday evening, we distributed a press release announcing our financial results. A copy of the release can be found on our IR Web site at ir.iff.com. Please note that this call is being recorded live and will be available for replay.

Please take a moment to review our forward-looking statements. During the call, we'll be making forward-looking statements about the company's performance, particularly with regard to our outlook for the fourth quarter and full year 2019. These statements are based on how we see things today and contain elements of uncertainty.

For additional information concerning the factors that can cause actual results to differ materially from our forward-looking statements, please refer to our cautionary statement and risk factors contained in our 10-K filed on February 26, 2019, and our press release all of which are on our Web site.

Today's presentation will include non-GAAP financial measures, which exclude those items that we believe affect comparability. A reconciliation of these non-GAAP financial measures to their respective GAAP measures is set forth in our press release that we issued yesterday and is on our Web site.

With me on the call today is our Chairman and CEO, Andreas Fibig; and our Executive Vice President and CFO, Rich O'Leary. We'll start with prepared remarks, and then take any questions that you may have.

With that, I would now like to introduce Andreas.

Andreas Fibig

Thank you, Michael.

On the call today, I would like to provide comments on our third quarter financial results and give an update on our integration progress. Once finished, I will ask Rich to give a more in-depth financial review of our business performance and provide an update on our outlook for the balance of the year. Then, we will take any questions that you may have.

Let me start by saying that positive momentum is building at IFF. In the third quarter, we delivered a sequential improvement in our combined currency neutral top-line growth rate. Scent continued to perform well, growing low digits disclosed in all regions and nearly all categories.

On a standalone basis, Frutarom sales increased 5% including the net contribution of activations and divested businesses. Organically, tastes were flat in the third quarter, a sequential improvement from the second quarter results with an improvement across many subcategories.

In taste, our win rates remain at a high level, however, performance continued to be impacted by volume erosion primarily with multinational customers. It should be noted that on a two-year basis, growth remain solid when we factor in the 7% growth we achieved in the year ago period.

We are pleased to also report a continued improvement in profitability as we drove a 60 basis point improvement and adjusted operating profit margin ex-amortization as we deliver productivity savings in our core business and benefits from an acquisition-related synergies. Our integration efforts, Frutarom are progressing well. Cost synergies continued to be a source of strength as we achieved approximately $30 million for the first nine months of 2019 and now expect to deliver approximately $50 million for the year significantly ahead of all $40 million estimate that we announced last quarter.

We also substantially completed our review of the Russia and Ukraine allegations as well as a second aerial view of Frutarom operations in certain other jurisdictions including those that we deem as high-risk. These reviews supplement our prior global compliance and initiatives that we've conducted subsequent to the closing of the Frutarom transaction. While I will speak in more detail in a moment, I want to state that we have confirmed in this investigation the total affected sales represents less than 1% of IFF and Frutarom combined net sales for 2018. And that the impact of the reviews including the cost associated with them to-date have not been and are not anticipated to be material to IFF's financial conditions or results of operations.

In addition no evidence has been uncovered suggesting that any of these compliance methods had any connections to the United States.

Finally, as we look to the fourth quarter, we have started strong as all three segments grew mid single digits in October as a continuation of this trend, we believe our full year 2019 sales and adjusted EPS excluding amortization will finish in line at the low-end of our previously stated guidance range.

As I reflect on the year in entirety and ignores that many moving parts both good and bad that have occurred, I am pleased to say that we are on pace to deliver solid top and bottom-line results. On a combined company and currency neutral basis, a testament of our industry, our exceptional business and unbelievable employees that make it happen. And as we build it stronger more competitive organization for the future 2019 provides the foundation grounded in resilience that gives us confidence and optimism for a journey ahead.

Now circling back to our third quarter 2019 financial performance, we delivered broad based improvements in sales profitability and cash flow. Our sales totaled approximately $1.3 billion, one of our highest in company history, on a combined basis, we saw a sequential acceleration in currency neutral sales growth as we grew 2% driven by activation and our scent performance. An absolute value, the additional Frutarom provided a very strong benefit to currency neutral adjusted operating profit excluding amortization, which increased 45% over the prior year period. This combined with margin improvement initiatives in acquisition synergies led to a 60 basis point expansion in just operating profit margin excluding amortization.

The net result was a benefit to cash flow generation where we achieved improvements in both operating and free cash flow.

Our integration efforts are well [Technical Difficulty] to deliver against our plan. We are currently strengthening our go-to-market approach with the expansion of our taste point model in key markets around the world as a blueprint for success. Our intent is to continue to serve the fast growing local and regional customers with a differentiated service model built on speed and agility to help them win in their marketplace.

In terms of cross-selling and integrated solutions they have already achieved approximately 14 million run rate sales and have identified greater than 800 projects in the pipeline representing approximately 110 million of sales. And while we are on track to deliver our stated target of 100 million by 2021, we expect that this number will only increase over time as we capitalize on our innovation pipeline, broad category exposure and vast customer base.

We continue to strive towards our ultimate operating model of scent, taste and nutrition and ingredients which will define organization moving forward. Talent and culture within the organization remains paramount as we execute our talent agenda to enhance our high performing corporate culture with extreme accountability, bias for action and effective collaboration.

We also continue to deliver strong cost synergies achieving 30 million through the first nine months based on our progress to-date and our expectation that savings benefits will continue to accelerate in the fourth quarter, we are now forecasting that we will achieve approximately 50 million in cost synergies in the year 2019. In terms of cash flow, our operating cash flow was strong up 181 million in the first nine months of 2019 compared to the previous year period.

We also improved our net debt to EBITDA ratio from 3.6x in the second quarter to 3.4x. As a reminder, debt repayment continues to be our number one priority in our capital allocation as we progress towards our net debt to EBITDA target of below 3x by the end of 2020.

As I just mentioned, we are further increasing our year one cost synergy target to approximately 50 million. With this, we are not expecting to deliver greater than 60% higher synergies in 2019 against our initial target of $30 million to $35 million. In the areas were we are focusing on our cost energy efforts. We continue to see significant progress against our goals. We are meaningful outpacing our original procurement savings target driven by purchasing power, [indiscernible] and tail spent.

We also have completed the closure of five plants and announced an additional eleven closures via our manufacturing network optimization program. Expanding our focus, we are driving operations, excellence initiatives to generate incremental savings. Some examples include logistics and packaging synergies which will benefit all of our segments.

Assessing what we are today, our team has done a very good work generating incremental savings. Looking at our one 145 million goal, I believe we are on track to over deliver upon this target further supporting the business and driving value for our shareholders.

As a follow-up to our complaints disclosure in the second quarter, I want to take a few moments to provide a more formal update. That's a reminder as disclosed last quarter during integration of Frutarom, we were made aware of allegation that two Frutarom businesses operating principally in Russia and Ukraine made certain improper payments to a number of customers. We are pleased to report that we have now substantially completed a robust review for the Russia and Ukraine allegations, we have substantiated the allegations and have confirmed that key members of Frutarom senior management at the time were aware of such payments.

As a result, we have taken appropriate remedial actions including replacing senior management in relevant locations and believe that such improper customer payments have stopped. We have also conducted robust secondary review of Frutarom's operations in certain other jurisdictions including those that are deemed high risk. These reviews supplement our existing global compliance initiatives that were implemented at Frutarom in connection with the closing of the Frutarom transaction. These secondary reviews were conducted with the assistance of outside legal and accounting firms, including Freshfields Bruckhaus Deringer and Deloitte. These reviews are substantially completed.

Following [indiscernible] review, we confirmed that the total affected sales represents less than 1% of IFF's and Frutarom's combined net sales for 2018. And that the impact of reviews including the costs associated with them to-date have not been and are not anticipated to be material to our results of operations or financial condition. In addition, no evidence has been uncovered suggesting that any of these compliance matters at any connection to the United States.

With that, I would like to turn it over to Rich to take you through our financial performance in more detail.

Richard O'Leary

Thank you, Andreas.

Combined currency neutral sales grew 2 percentage points over the prior year driven by the contribution of acquisitions as well as growth in the scent division and a stabilization at Frutarom. From a profitability perspective, we're also pleased that adjusted operating profit margins excluding amortization improved 60 basis points year-over-year driven an increased emphasis on productivity savings and the benefit of acquisition-related synergies.

From a legacy IFF standpoint, we delivered very strong operating profit leverage with currency neutral adjusted operating profit up 6% and 1% top-line growth. As I have done in the last few quarters, I would also like to highlight the impact of emerging market pricing on our growth rates to better compare with our peers. As a reminder, for a variety of reasons many of our sales transactions in the emerging markets occur either in U.S. dollars or other hard currencies, for our indexed hard currencies, when we have to invoice in local market currencies.

When reporting our currency neutral sales growth, we exclude foreign exchange related price changes in emerging markets, but this is different from our peers. We believe our reporting standard provides investor with a truer assessment of underlying currency neutral growth especially when there are large emerging market valuations relative to the U.S. dollar or euro. However, it's important to help all of you understand our performance relative to our competition.

During the first nine months of 2019, the stronger USD environment plus significant emerging market devaluations year-over-year in several key markets had approximately a 2% currency impact, if we include emerging market pricing. You can see from the chart that three countries outlined represented less than 10% of scent and taste sales, but have significant devaluation.

Turning to business unit performance for the third quarter, in scent currency neutral sales grew 3% with growth in all regions and nearly all categories. Performance was strongest in fine fragrances strong mid-single digits led by robust growth in EMEA and Greater Asia.

Consumer fragrances grew low-single digits with increases in nearly all categories led by home care, hair care and fabric care. Fragrance ingredients was flat as price increases were offset by volume declines related to supply chain destocking.

Scent currency neutral segment profit was flat as the benefits of productivity initiatives and mix were offset by unfavorable price to input costs. We believe that the timing impact of raw materials between inventory and the P&L that we saw in Q2 reversed in the current quarter.

We are starting to see signs of raw materials easing, but the costs remain elevated given the 20% increases, experienced over the past two years. In taste, third quarter currency neutral sales declined approximately 2% against the very strong growth of 7% in the year ago period.

Growth was strongest in greater Asia with high single-digit growth, contributing to this growth for improvements in key markets such as Indonesia, India and China. However, as expected the volume erosion with multinational customers that we outlined last quarter continued into the third quarter offsetting growth. From a category perspective, it should be noted that performance was strongest in beverage and savory led by new win performance.

Despite a challenging pipeline, taste segment profit grew 4% on a currency neutral basis driven primarily by productivity initiatives and cost management. This focus to over 90 basis point margin improvement year-over-year

Before moving on to Frutarom, I want to share some additional context on taste. The fundamentals of this business remain quite strong. Our project pipeline and win rates are both up about 25% year-over-year. This bodes well for the future. As I just mentioned volume erosion worsened further in Q3 and is now more than 5x our three year average. However, I'm pleased to say that we have already begun to see this inflection in the fourth quarter of 2019 as new win contribution contributions time and volume erosion has begun to normalize.

In the third quarter Frutarom totaled of $364 million. On a standalone basis currency neutral sales increased 5% driven by the net contribution of acquisitions and divested businesses as organic sales remain constant. Performance was driven by growth in taste and savory both offset by some of the same dynamics that we shared in the second quarter with continued pressures in the F&F ingredients mostly notably citrus sauce and note natural products or solutions particularly raw material -- more material driven price declines in natural colors.

We are seeing growth stabilize in the third quarter and are expecting an improvement in the fourth quarter as we start to lap some of the transitory issues. I'll discuss this in more detail in a moment.

In terms of segment profit, the Frutarom division delivered $828 million and $68 million of profit excluding amortization, third quarter margin profile continues to be strong at 18.7%, if you exclude amortization. Margin continues to be strong driven by cost management and acquisition related synergies.

Turning to cash flow dynamics. Operating cash flow in the first nine months of 2019 was up significant from $202 million last year to $383 million this year. The performance was driven primarily by higher cash earnings, core working capital defined as inventories, accounts payable and accounts payable improved year-over-year with progress in all three metrics. Inventory still remain at elevated levels primarily due to raw material cost increases and safety stocks within the scent division. However, in the third quarter we saw a positive inflection and the levels are continuing to improve.

In the first nine months of 2019 CapEx as a percentage of sales was 4.2% driven by new plant and capacity investments, mainly in [indiscernible] as well as creative centers and integration related investments. For the full year, we continue to believe that CapEx as a percentage of sales will be between 4.5% and 5% of sales. Bringing this all together, we had a strong $123 million increase in free cash flow in the first nine months of 2019.

Before turning to our outlook for the remainder of the year, allow me to bridge our expected full year 2019 organic growth to our long-term growth aspiration of 5% to 7%. In '19, we've been impacted by two specific challenges, one in our taste segment and the second in our Frutarom segment.

Starting with our combined organic growth, we expect to finish 2019 at approximately 2% organically. As we communicated throughout the year, we had been impacted by higher than normal volume erosion on our core taste business, particularly with multinational customers. The impact of this on our consolidated growth is approximately a 0.5 on a full year basis.

At Frutarom, the combination of the transitory issues we outlined including citrus source, natural colors, trade and marketing as well as the compliance investigation had approximately 1.5 adverse impact on our top-line growth relative to expectation. If we adjust for these items, our normalized, combined organic growth would be approximately 4% this would be in line with the long-term organic growth guidance we communicated at our Investor Day in June this year. Then, when you layer on approximately a percentage point of cross-selling benefits which we will see a significant ramp up in 2020 and a percentage point from additional M&A, similar to the one percentage point we achieved in 2019 you get to 6% which is the mid-point of our long-term range of 5% to 7%.

Looking at the cadence of our growth in 2019 combined company currency neutral sales, inclusive of M&A has improved sequentially from Q2 to Q3. And while we're early in the fourth quarter, we do expect the improving sales trend to continue up mid-single digits in Q4. As noted by Andreas, the start to Q4 puts us on a trajectory to see this level. We are seeing a strong rebound in taste as volume rose and is normalizing and we are targeting positive growth at Frutarom as we began to lap several of the isolated issues I mentioned a moment ago.

Taking into account our year-to-date performance and if the strong start to Q4 sales trends continue, we expect to be at the low-end of our previous guidance range for sales and adjusted EPS excluding amortization. Delivering upon the low-end of our previous guidance represents very good results in a challenging year with currency neutral sales growth of approximately 3% and adjusted operating profit ex amortization, increasing mid-single digits both on a combined basis. The operating leverage is even more pronounced in the second half, in excess of 3x times.

With that, I'd like to turn the call back over to Andreas.

Andreas Fibig

Thank you, Rich.

As we look ahead, there are several potential near term catalysts that we believe will provide tailwinds. From a sales perspective, taste volumes are starting to rebound as Rich just mentioned, which we expect to increase mid-single digits in quarter four as destocking ends. In scent, we will capitalize on a 450 million incremental excess via additional three global coreless assuming we only achieve our fair share that can provide a couple of percentage points of growth over the next few years.

And Frutarom we expect to see improving cleanse as Q3 was better than Q2 and Q4 was expected to be better than Q3. Then as we cycle transitory issues which highlighted [indiscernible] to our mid-single digit trend. To compliment this cross selling benefits are expected to trade approximately 100 million by the end of 2021.

From a profitability perspective, we expect to benefit from acquisition related cost synergies. 2019 have already had great success achieving 50 million savings for the full year and expect the incremental benefits, we will be no less than an additional $50 million in 2020 as we are internally targeting more.

At the core, we will also deliver on the 100 million productivity initiatives we outlined at our Investor Day. About one-third will be achieved in 2019, two-thirds coming in 2020 and 2021. And finally, we're starting to see signs of raw material deflation following a 20% increase we experienced over the past two years.

Translating this into go forward financials, we continue to expect to deliver 5% to 7% currency neutral sales growth and a 10% plus in adjusted EPS excluding amortization, including both cross selling benefits and bolt-on acquisitions.

In summary, the third quarter was a quarter of good progress, with positive momentum building. We delivered a sequential improvement in growth and achieved adjusted operating profit margin expansion excluding amortization via synergies, productivity and cost management.

We are confident in our execution of our integration plan and in turn have to live at increased cost synergies in year one. We have started quarter four strong and given this trend, we are reconfirming our full year 2019 financial guidance.

Looking beyond 2019, we have strong value creation opportunities via many near term catalysts. I'll pause forward is clear deliver strong value creation for all of our stakeholders, the growth acceleration, margin expansion and a successful integration.

With that operator, we are now happy to take questions.

Question-and-Answer Session

Operator

[Operator Instructions] We'll go first to Mark Astrachan with Stifel. Please go ahead. Your line is open.

Mark Astrachan

Yes. Thanks. Good morning everybody. I guess a few questions. So, maybe just start the commentary about the strong start to the fourth quarter. I guess what gives confidence that you can sustain the improvement through the quarter, last quarter sequentially worsened through the quarter. So what gives confidence that this time is different? And I guess two, if you're talking about October being better, you've got the extra week at the end of the quarter, so then by definition wouldn't the number be materially better for the fourth quarter? I guess maybe, can you reconcile some of that for us, and then, also confirm whether Frutarom is like-for-like in that it's excluding the three days at the beginning of the quarter that weren't in the base.

Andreas Fibig

Okay, Mark. Good morning, first of all. It's Andreas. Let me get started. So from the visit visibility point of view, we have already five weeks, which I think is good. We see what we have in the order book and we have in particular on the taste side, very, very strong win rates. So, these are the things which make us confident for the first quarter. And as you just mentioned, we have the 53rd week as well. So, all-in-all we see good development starting into the first quarter. And in particular we are happy about taste, that we had a couple of quarters which were not going so well. Certainly, again, a very, very strong comparison last year, but that's turning the corner quite rapidly and absolutely in the right direction, but Rich might add to that.

Richard O'Leary

Yes, Mark. I think you are right. If you recall, the comment I made was that as the trend continues through the end of the quarter, we're on target to exceed the mid-single-digit, which includes the 53rd week. So and doing that would enable us to get to the low-end of the guidance.

Mark Astrachan

And on Frutarom piece, so that excluded in the fourth quarter numbers?

Richard O'Leary

It's the standard 445, and excludes the M&A also.

Mark Astrachan

Got it. Okay. And then, thinking about 2020, I realize it's early and you may not want to want to talk about it, but I guess just a couple of puts and takes to it. So, you've got a bunch of headwinds in terms of things that you're lapping, like the extra week, incentive, comp reset, hedge gains FX, et cetera.

So it seemed like, maybe it's a little harder to get to the longer term earnings algorithm for next year, unless sales growth accelerates, I guess a, is that directionally a reasonable way to think about it, and then, b, from a currency neutral sales growth, obviously it's a longer way off. But, directionally, how should we think about the commentary you just gave about the bridge from the 2% fiscal '19 organic to this normalized growth of six next year, which would seem like you need a little bit to go right to get to.

Andreas Fibig

Look, we Mark we have a lot of positives and I actually believe we will start in the next year was quite a bit of tail wind. Let me talk about it. The first one is, is certainly that we see that the tastes volumes are rebounding very, very strongly. So that's one which is really important because it has direct us down in 2019 then we have now these more core lists with our scent business which gives us access to 450 million in incremental sales potential. And we see that we have already won some businesses with these customers this year, which will then materialize next year. So, that's another an important move for more forward. We are lapping some of the Frutarom transitory challenges like citrus source for example.

And then, the brush share case so that that's a good thing as well and thing which talked always to it that we can see a good mid single digit gross for the assets from mid, mid of next year. So that's good. And what we do makes me very optimistic is that we see the first nice cross-selling wins. We have this as an extra budget line in. We have a very, very strong pipeline of more than 800 projects already, which is really, really, really good. And on top of it, if you take a very close look to the cost synergies, we are very happy what the organization has delivered this year in particular on procurement savings because procurement is so important because it doesn't distract the organization from anything. And we're delivering all cost savings in general this year of 50 million, which is way above what we had expected and we call this at tailwind into 2020 as well.

Then the usual core productivity programs which are running. And then, we see some tailwind on the [indiscernible] as well. So that's, I think these are a lot of very strong positive scoring are going forward. Certainly hedging in FX might be a bit of a headwind, but it all depends on the currencies develops, but Rich, you might comment on that.

Richard O'Leary

Yes. Look, I think Mark, there are -- as you said, I think when you look at absolute year-over-year, there's going to be some headwinds from currency. We don't have the 53rd week. So that could be, 50, 60 basis point headwind year-over-year. We do get the benefits from cross-selling. I think the fundamentals are strong and I think that's what we feel good about. As I said and as Andreas mentioned, is how I said on the last call. I think it's going to be more towards the middle of next year when we lap some of these transitory issues. So I'm not ready to say we're going to get to the 60% next year because I think we have clearly some transitory issues we have to work through. But the foundation solid and I do think the long-term, our beliefs are that the long-term growth potential is there and that view hasn't changed.

Operator

And we'll take our next question from John Roberts with UBS. Please go ahead.

John Roberts

Thank you. I'm looking at slide 15, in the 1.5% sales headwind from transitory issues in Frutarom, I think that's about 20 million or that would've been about a 5% sales headwind to the Frutarom segment sales. So, as a way to think about this is an underlying business trends for Frutarom, excluding these headwinds is mid single digit currently. And do we get that that should accelerate to be above the corporate average sale? Are you still consider Frutarom to be one of the highest growth longer term segments in the company?

Richard O'Leary

Yes, John. I think it's, look at, you look at the underlying mix of businesses and the categories. That's the right way to think about it that it's an above average grower. Once we cycle through that those transitory issues, some of which will continue into next year. But yes, that's, that's consistent with our view.

Andreas Fibig

We have seen a couple of these segments within the legacy Frutarom business like inclusions where we have good double-digit growth and we believe that this will continue going forward.

John Roberts

Thank you.

Operator

And we'll take our next question from Mike Sison with Wells Fargo. Please go ahead.

Mike Sison

Hey guys. Nice quarter. In terms of the Frutarom effect on earnings, that it was 1.5% hit on sales. What was the hit on earnings or EPS, which, where do I look at it? And does that come back with higher leverage, longer term? Is that you got more cost savings and synergy to support that growth?

Richard O'Leary

Yes. From an overall profitability standpoint, if you include the synergies, it's not a hit, right? I mean from an exclusive of the borrowing cost and the cost of capital. But from a growth standpoint, we move forward some of these businesses that we're cycling through that we've talked about in the past, citrus source, the trade and marketing, some of the compliance related stuff, our lower margin is lower than average margin profiles compared to the overall Frutarom level. So, so as we've cycled that, there's a -- actually a favorable pickup going forward. So I think, overall, it's not that much of a drag in terms of from a P&L standpoint. Great. Thank you.

Mike Sison

Great. Thank you.

Operator

Our next question comes from Lauren Lieberman with Barclays. Please go ahead.

Lauren Lieberman

Thanks. Good morning. So, I noticed in the Q, you talked about raw material headwinds persisting for the next two quarters. I think even partially offset by cost savings. So does that imply that margins will be under pressure for the next two quarters 4Q and 1Q?

Richard O'Leary

I think for me, Lauren, we have to think about is that they're still at elevated levels. I mean, I think we're starting to see some signs of stabilization. As I look at sort of the net of input cost to raw material -- pricing of raw material costs, they were definitely a negative for the first half of the year. Q3 were basically breakeven and I expect it to be slightly favorable in Q4.

Andreas Fibig

Yes. And what helps us as well as that Nicholas and his business unit have done a good job to keep let's say take some structural cost outs to be very competitive in this field and that's helping here as well.

Lauren Lieberman

Okay, great. And then, Rich, it wasn't in the Q, what was the incentive comp tailwind for the quarter because that'll help off with modeling next year.

Richard O'Leary

Between $5 million and $10 million.

Lauren Lieberman

Okay. All right, great. And then, if you can talk also just North America taste point, I was just curious kind of your thoughts on why that business has slowed because I felt like that was sort of an advantageous model you'd put together. And so any commentary you can offer would be really helpful.

Andreas Fibig

Yes, absolutely. And that's a very, very good point. We have seen it in that very quarter, but it's already rebounding strongly in the fourth quarter. I would say it's a transitory topic for the quarter driven by vanilla in a sense that some of the customers went from a natural vanilla to more the one and the synthetic solutions, which is good from a profitability point of view, but not so good from the sales point of point of view. And we see now a good start into the quarter. So I would not interpret too much into it. The concept stays and the concept survives. So, we are doing very well here..

Operator

We'll take our next question from Gunther Zechmann with Bernstein. Please go ahead.

Gunther Zechmann

Hey, good morning guys. Thanks for taking my questions. Just a few to run through please. The overall synergies with Frutarom, you kept unchanged a hundred million revenues of a three years, 145 million cost synergies. You speak very confidently about achieving or overachieving those targets. What makes you hold on to the numbers that you originally came with then? Or what would trigger you to actually raise the synergy target? That's number one.

The second one is on the mid-single-digit growth that you've seen in October. Just wanted to clarify that this is local currency sales growth rather than organic. And is a drive that in Q4 you should have just about over percentage planned of consolidation gains on the revenue line as well. And then within my one question, very briefly, it just CapEx 2020, what should we expect? Thanks.

Richard O'Leary

Let me just make sure I get the three different items in the question, Gunther. So, first let me start with October. It is currency neutral organic growth, so it excludes the M&A and that's the results through the first five weeks of Q4. In terms of CapEx next year, I would expect this to be around 4.5% plus or minus, we're still working through that, but it's the peak year in terms of '19 to '20 as we've talked about. We're finishing up a couple of the key investments in Asia, India and Indonesia. We've got the probably the peak of the integration CapEx. And then, from there we all move down pretty quickly into 2021 going forward along the lines of the 3.5% that I've talked about previously.

In terms of the synergy guidance, just keep in mind, where are we seeing the traction and where we've -- over-delivered in 2019 is really on the procurement side. I think we're very, very confident in our ability to deliver that. Obviously that, plateaus and I think we still have a lot of work to be done next year, particularly around the footprint and the site integration work. So it's a little bit early for me to raise the target from the 145, as I said in my comments, I think it puts us on a trajectory to do that, but I'm not ready to declare victory.

Operator

Thank you. We'll go next to Faiza Alwy with Deutsche Bank. Please go ahead.

Faiza Alwy

Yes. Hi. Good morning. So a couple of questions. I guess, first, if I look at some of your competitors and how they're doing, it seems to me that they haven't seen the type of volume erosion that you have this year and accepting that there seems to be a turn in October, but I wanted to see if you had any thoughts on why that is. And what can you do to align yourselves more with those that are winning?

Richard O'Leary

No. I think from a big picture standpoint, we're on all the core list that we want to be on. And where it makes sense is to be on it beyond the coreless from an, from an economic standpoint. Certain of our customers are not performing as well. When you look at a two-year trend, for the first nine months of the year you adjust for the peer-based currency dynamic. We're very close to our largest competitor. So, I think we don't believe that we are fundamentally losing share and that we're performing well in the market and once we pass the transitory issue.

So, I think we're the best thing we're doing and we're focused on, is actually carrying on our plan. Andreas has talked about the opportunity we have going forward on the scent side in terms of nearly $450 million in core lists access, as, we progressed on that that provides real upside to the scent business. I talked about some of the commentary around. On the legacy taste business about the order book and win rates being up significantly year-over-year, that bodes well for the future. So, I don't know if there's -- look, we have to execute and battle every day and we compete every day. And that's what we're focused on.

Operator

Our next question comes from Adam Samuelson with Goldman Sachs. Please go ahead.

Adam Samuelson

Yes. Good morning everyone. I was hoping you could provide us a little bit more color on the taste kind of growth outlook and the confidence you just have there about that kind of returning in 2020 just given the performance this year, just you really think it's concentrated with the multinational customers and just categories where you feel your win-win. Win rates with suggested accelerations in the offing. Thanks.

Andreas Fibig

That's absolutely, look, listen, we will see the turnaround already in the fourth quarter. What we have seen in the first five weeks and what is in the order book looks, looks very, very strong and usually the business goes a little bit in [waves here] [ph] and we are not on the upswing right now. We see a good demand in many areas in particular in very innovative areas. We see it in, in the plant based proteins for example, which is becoming a really important driver of the business. We see that we have more of these solutions available. So the portfolio we inherited through Frutarom, which is helping as well. Some of it will be accounted in the cross selling and total solution space. So, we are actually very optimistic that this is going in the right direction and the team is thriving.

And what I just said for taste point is actually important as well because certainly the last quarter was not great for taste point, but we are seeing a good rebounding on this one with many of our core call customers and we see in particular also a good winning on the beverage side, which is very helpful. So all in all, all the signs are very, very positive on that business. And I think that the team is fairly optimistic and motivated for the next couple of quarters.

Operator

We will take our next question from Jeff Zekauskas with JPMorgan.

Unidentified Speaker

Good morning. It's [indiscernible] for Jeff. How are you? Hi. I have a on your productivity initiatives outside of Frutarom. Can you talk about like where you stand so far, so I think what you've announced is that you've picked like a $40 million charge in there, 190 positions to be eliminated and maybe like a total cost will be 20 million. So, there's some to go. So, where are you in terms of the program and what do you think the savings might be that you'll see from this year and next year?

Richard O'Leary

Yes. So I mean, it's, I would say we're on track to deliver the a hundred million that we've talked about remember there's different components of it. A big part of it is in the scent business, on the cost transformation line -- that part of it is in the early stages now. What you're seeing some of the charges for relate to on the scent side, the overhead, the realignment of the business, finance transformation is some what we're going through now. I think we're going to basically deliver probably a little less than a third this year and then the remaining two-thirds equally over 2020 and 2021.

Andreas Fibig

What is really exciting on this area as well as that the reason why we spent good amount of CapEx, this year is to modernize much of our manufacturing footprint where a lot of more OpEx and AI goes in, which will help us in the mid and long-term to a very competitive manufacturing costs in place. And that's helping as well. And that's what Rich said, because we have to finish up a couple of projects in Asia, which will have, we are just building the most modern and biggest flavors and fragrance manufacturing plant in India. We're doing something in China and in Indonesia. And also with the optimization of the footprint we bring in a lot of technology which will help us to come to a very, very competitive manufacturing costs.

Operator

We'll take our next question from Heidi Vesterinen with Exane. Please go ahead.

Heidi Vesterinen

Hi. Good morning. So, you had a new comment in the 10-Q highlighting potential risk of a goodwill impairment. What was your rationale for adding that comment this quarter and are you prepared to roll out impairments at this stage given the underperformance?

Richard O'Leary

Heidi, look as we go through the normal process at the end of the year, it's a required update in the disclosure. Look, at this point I consider it unlikely that we'll have impairment. And as I said earlier, we haven't changed our change, our view on the long-term impacts and potential of this business. So, I consider it unlikely.

Heidi Vesterinen

And then, if I could ask another one, another question from the 10-Q. So, you've also announced you've entered into a new factoring agreement. What explains the rationale for this and does this in parts, explain your confidence over cash flows?

Richard O'Leary

Yes. I think it's consistent with our plan. To me, I look at it as it helps us accelerate the de-leveraging plan the cost of capital to do the factoring on a short-term borrowing rates versus our long-term cost of capital rates. It's an attractive trade-off. And so, we're being opportunistic about that aspect.

Operator

We'll take the next question from Jonathan Feeney with Consumer Edge. Please go ahead.

Jonathan Feeney

Good morning. Thanks very much. Just let me start with a detailed, when you talked about acceleration in Frutarom for the first few weeks of October, can you confront that means it's growing organically, not just by acquisition, but growing organically where it was flat I think last quarter. Thank you. That's quick related…

How would roughly flat organic for last quarter have compared with your original plans when you laid out the 145 million synergy target? And I guess related to that and finally if there were any kind of, you've emphasized procurement as the main source of synergies and that makes a lot of sense, but is there any rationalization going on here in Frutarom that is effecting the growth rate where you're going in and getting rid of unprofitable or tail business and that's maybe slowing the business down versus what the kind of organic growth rates but the deal?

Richard O'Leary

No, John, I mean, you know, I think there's a couple of different pieces there. I think when you ask where the growth rates were and Q3 being flat versus our expectations obviously is below where we wanted it to be and where we expected to be. It's driven by some of the transitory issues that I talked about previously in terms of colors issue and in [NPS] [ph], the trade and marketing the citrus source businesses.

So, if I look at the core taste part of the business as you call on a Q2 call, we talked about a very challenging June in the taste business, particularly in Europe. Some of that continued into Q3, but again, we've seen a good start to Q4 and than certainly higher where we saw in Q3 all for four regions in the taste of Frutarom as well as for the savory business. And that's why I think ultimately, we have the confidence in the structural capability of that business.

In terms of impacts related to integration, the reason why we're highlighting the procurement savings is that's really what's accelerating and what's changed. The biggest driver or difference in terms of our expected synergies -- that started the year at 30 to 35 and where we are now in 50. We're making -- we are on target and we are making good progress against the site rationalization you saw on -- I think it was Andreas' comments when we talked about the number of closes we've announced. So far and completed in the second half of this year. That will accelerate into 2020 and that's a big part of the driver of the increased synergies year-over-year between '19 and '20. I think from a, you get to the point about businesses that are -- on less attractive margin profile, profitability profile. I think that's more of a mix effect that we'll see going forward.

Operator

Our next question's from Brett Hundley with Seaport Global. Please go ahead.

Brett Hundley

Hey, good morning guys. Rich, I just wanted to go back -- just want to go back to the Heidi's question related to the -- your comment on the factoring agreement. Do you, do you see that pulling anything forward from Q4? What's normally a pretty big working capital quarter for you? And then, if I can just follow on with a separate question. Just going back to raw materials are we seeing any new synthetic production coming online out there that might help to combat some of the issues that we've seen in recent years? And does that play into some of your confidence about the go forward there? Thank you.

Richard O'Leary

Excuse me. For the first part on the working capital piece of it, it might have a small impact on what we typically did before, but it's not, it's not a huge program. I mean, I still expect to get the -- the improvement in Q4 that we typically see given the cyclicality and the way things operate in the fourth quarter. In terms of new capacity input costs, I think certainly the first thing is that we've seen, I'll say a stabilization of the supply chain. And that's the starting point. I mean if you think about what I talked about, Q2, Q1 was they were still a lot of volatility out there.

Inventory levels remain high on the scent business for us and our competition, but we are seeing signs that as I said, that it starting to stabilize and I think the industry as a whole is starting to rebalance inventories and get away from safety stocks. The talk that we saw some improvement in Q3 in terms of inventory levels coming down. I expect that to continue in Q4. There's new capacity coming on from VASF in the fourth quarter. I think some of the capacity that was out of the market because of the fires is coming back on. And I think that helps provide a trajectory going forward for us to reduce inventory levels. And provide, as Andreas said, we're starting to see some signs that we may have some easing next year or going forward.

Operator

Our next question is from James Targett with Berenberg. Please go ahead.

James Targett

Hi, good afternoon. I'm just one question for me, on the compliance update. Can you just confirm, you talk about being substantially complete when you do expect it to be complete and what's outstanding? Thanks.

Richard O'Leary

Yes. I mean we're substantially complete in terms of doing the investigation as in anything like this, there's things that have to -- we have to finish putting, resolving issues whether it's people that are on garden leave that have to then go through. But it's the normal sort of follow up and clean up that that has as a result of something like that.

Andreas Fibig

Yes. It's also cleaning up all of these documents we have screened. So, Deloitte and some of our legal partners here as well, I think in the first quarter we should be fine with that.

Operator

And ladies and gentlemen, this will conclude today's Q&A session. I'd like to return the calls of Andreas for final remarks.

Andreas Fibig

Thank you very much for all the good questions and the attendance here. And we will follow-up with was one-on-one sessions with many of you. Thank you. Take care.

Operator

And this does conclude today's program. You may now disconnect.