2013 Flavor & Fragrance Leaderboard

Industry leaders reflect on the past year and look ahead at the impacts of developing markets, health and wellness solutions, innovation investments, sourcing strategies, and more.

The global flavor and fragrance market is valued at an estimated $22.9 billion, compared to $21.8 billion in 2011 and $22 billion in 2010. Leffingwell notes that the strengthening dollar contributed significantly to the high current totals. Another number to watch is the percentage of the market represented by the sales results of the top 10 companies. In 2007, the top-ranked companies comprised 68.7% of the total market. Today, the top 10 flavor and fragrance companies comprise 75.8% of the total. These companies are finding new opportunities in emerging markets, value-added health and wellness solutions, backward-integrated supply chains, and other areas amidst ongoing industry consolidation and a more challenging regulatory environment.

Compare 2012 and 2013 Leaderboards

Read last year's Flavor & Fragrance Leaderboard feature at *www.perfumerflavorist.com/ffleaderboard*.

And so we are pleased to present *Perfumer & Flavorist* magazine's 2013 Flavor & Fragrance Leaderboard, a ranking of the top 10 companies (**see A Note on Rankings**) with select exclusive insights from key executives on the state and future of the industry.

A Note on Rankings

The 2013 Flavor & Fragrance Leaderboard rankings are based on sales data and estimates*—gathered by *Perfumer & Flavorist* magazine and John Leffingwell, who provided the majority of the tabulations and market share estimates.** Rank is based on U.S. dollar equivalents. Conversions are based on major currency rates as of Dec. 31, 2012, unless otherwise noted.

Leffingwell further notes:

"In 2012, based on comparison of major currency rates (on Dec. 31), the U.S. dollar had an increase of 2.5% against the Swiss Franc, gained 1.74% against the Euro and 4.74% vs the British pound, and increased 10% vs the Brazilian Real. The U.S. dollar had a decrease of 5.18% against the Japanese Yen, a decrease of 1% against the Chinese Yuan and a decrease of 3.3% against the Indian Rupee. However, comparing single points in time can be somewhat misleading as during the year major currency swings occurred, particularly in the E.U. countries due to the continuing economic instability.

For a few major companies (e.g., Mane, Givaudan, Symrise and Frutarom), 2012 was remarkably successful with some of the largest year-to-year gains in recent years. Overall, we estimate that the total market grew about 5% in U.S. dollars from 2011.

"Estimates for Takasago are based on projections from their first nine month sales for the fiscal year that ends March 31, 2013. The estimate for Firmenich is based on market conditions and historical performance. Final figures will be posted when available.

"It should be noted that with the acquisition by Kerry of Cargill Flavor systems in December of 2011 that Kerry Ingredients & Flavors possibly should be in the top 10. Similarly, with the acquisition by Wild Flavors of certain assets of A.M. Todd's operations in November 2011, Wild is rapidly becoming a major player. It should also be noted that Frutarom's Q2 and half-year 2012 press release estimated that Frutarom was the No. 7 company and Kerry was the No. 8 company."

** See individual rankings for details; sales volume includes preliminary estimates as of press time (March 15, 2013)*

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1 Givaudan

Geneva
2012 sales: CHF 4,257 million/$4,649.2 million
Estimated market share: 20.3%
CEO, Executive Committee Member: Gilles Andrier

First Person: Gilles Andrier

Gilles Andrier

Following the 2006 acquisition and integration of Quest into its business and a subsequent implementation of SAP, Givaudan has experienced "a very strong cycle of performance," Gilles Andrier tells *P&F*. "That was a major transformation for Givaudan … becoming the industry leader. The average growth we achieved since 2008 was the highest in the industry."

Andrier attributes this success to several key pillars of growth. Emerging market sales once again presented expansion opportunities over the last year. In 2012, the flavor division reported strong results in the markets of Indonesia, Philippines and Thailand, India, China, Africa, Eastern Europe, Poland and Russia. The Middle East has also been a strong area for the flavor business. Meanwhile, new fragrance business and volume gains in developing markets have compensated for weakness in Europe and the United States.

"We continue to invest into developing markets," the CEO says. "About 90% of our investments over the next three to five years will be for the most part in Asia Pacific."

These investments will include the construction of new sites and the expansion of existing facilities. This will enhance the company's global footprint, which has helped drive growth, says Andrier.

Health and wellness solutions for food and beverage customers—particularly sweet and salt replacement—now account for more than 5% of the company's sales, according to Andrier. In addition, Givaudan has specifically grown by gaining market share with select clients and market segments.

All of these areas have benefited from what Andrier describes as "continuous investment in innovation."

"Givaudan spends more than 9% of its sales in research and development," he says. "That's very critical to make sure that we create appealing, sustainable, viable flavors and fragrances for consumers all around the world. That's the engine that will keep us ahead of the game. We are, for example, looking at innovation through the use of biotechnology."

"About 90% of our investments over the next three to five years will be for the most part in Asia Pacific."

The company has also increased its competitiveness via its sourcing strategy.

"Over the past years, we have continuously accelerated our collaboration with local suppliers to ensure the sustainable sourcing of a variety of natural raw materials," says Andrier. "Through long-term partnerships with suppliers worldwide, we can better drive the quality of naturals and reduce our exposure to market volatility and product availability."

Andrier considers sustainability as a key aspect of the company's business strategy, with the sustainable sourcing of raw materials being one important component. "In our long-standing sourcing heritage, we have built up communities around the products we are sourcing, investing in partnerships and advancing the economic and social conditions of the communities in which we operate," he says.

These programs have already involved producers in Costa Rica, Madagascar, Indonesia and other locales, thereby securing stable sourcing for critical materials such as, benzoin, tonka beans and vanilla.

"Being the largest [flavor and fragrance company], we consume the largest amount of natural ingredients," says Andrier. "We take our role very seriously to source these naturals in a responsible way and to contribute to preserving their diversity in a world where—going forward—materials will be under much more pressure. The world has to feed about 9 billion people in 2050. Obviously the priority will be growing corn and wheat, rather than roses or jasmine. Sustainability for us also means conserving water and energy."

Sustainability also encompasses talent management and people development. The scale of Givaudan and its diversity of clients, markets and geographies are "natural hedges" in a sometimes volatile industry, says Andrier.

"The diversity of our people is a big part of the culture of Givaudan," he adds. "We work with a huge number of different brands for different types of consumers and geographies. Our perfumers, flavorists and the people responsible for consumer understanding need to represent the diversity of the market. We continue to invest in our perfumery school, we train flavorists; we invest into perfumers and flavorists from Latin America and Asia Pacific. That's a very strong asset of Givaudan moving forward, because the world of taste and smell will continue to be diverse—that's the beauty of our industry. The intimacy that we build with our clients is extremely important because the end-point consumers value the taste and the smell of consumer goods more than any other criteria. It's extremely important to reflect that with our clients … to build the best products for the market."

Meanwhile, consolidation will continue to determine the number of players in the flavor and fragrance space. "If you look at the history of this industry over the last 20 or 30 years, it has further consolidated," says Andrier. "What is interesting is you have very few new, from-scratch entrants in our industry. This is an industry that is extremely demanding in terms of the cost of doing business. You have to reach out all around the world to sell to international and global clients and the huge diversity of customers. To be a strong player in this industry requires a lot of investment, basic knowledge and expertise. For example, we source more than 10,000 ingredients from around the world. That requires a lot of experience and knowledge in the industry. And there are increasing regulatory requirements, which have also raised the barrier to entry. If you look at the complexities of our supply chain, it's quite high. And then you must look at the basic research, technologies and ingredients which help create flavors. I don't think any of those constraints or requirements will go away as long as the industry is very much focused on innovation. In all logic, the industry will continue to consolidate. How long will it take? I don't know."

Looking ahead, flavors and fragrances—excepting fine fragrances—comprise about 80% of Givaudan's business. These areas will continue to grow based on expansion in developing markets, says Andrier.

"What's challenging today, certainly, is the fine fragrance market, which is growing at a much slower rate," the CEO explains. "It's growing very fast in Latin America. Latin America, relative to its size, consumes a lot of fine fragrances. When you look at Western Europe and the United States, this is more challenging. Working with our clients, we need to attract the consumers and make fine fragrance exciting again and viewed as a true sensory experience. We need to view fine fragrance in a more segmented way, from luxury to mass market. Rethinking the fine fragrance market is an exciting challenge for the years to come."

2 Firmenich

Geneva
Estimated sales: ~2,770 million CHF/$3,025.2 million (accounting period: July 1 to June 30)
Estimated market share: 13.2%
CEO and Director: Patrick Firmenich

As with other key players in the industry, Firmenich has increasingly focused on the sustainability of its supply chains by going to the source and working with local growing communities. By its own count, the company purchases and processes more than 1,000 natural products from 170 botanical families from suppliers in more than 50 countries. A supply chain of this magnitude increasingly requires involvement at-source.

Recently, the company began commercializing Bourbon vanilla that has been sourced from farms in Madagascar to help a local vanilla bean cooperative of more than 1,300 farming families from 38 villages earn Rainforest Alliance certification.

"We are committed to the long-term sustainability of our vanilla producers and supply chain; economically, socially and environmentally, and believe that our customers value this commitment," said Aldo Uva, president of Firmenich Flavors.

Meanwhile, Firmenich CEO Patrick Firmenich recently visited Haiti to build upon the company's long-term commitment to farmers in Haiti who cultivate high-quality vetiver in the region of Les Cayes in the south of the country. In Haiti, more than 30,000 small-scale farmers cultivate vetiver in hillside fields, providing an important source of income. In 2010, Firmenich made a commitment under the Clinton Global Initiative platform to work with vetiver farmers in Haiti to ensure the sustainable production of vetiver oil. In 2012, at the Rio+20 Earth Summit, Firmenich announced the formation of an official partnership with the Swiss Development and Cooperation Agency (SDC) in further support of vetiver farmers in Haiti.

Partnership goals of the Firmenich project include: improving agricultural methods and training, recreating dynamic ecosystems around the concerned farming communities, providing better access to education, water, hygiene and nutrition; and offering opportunities to local communities through job creation and supplementary income for both women and men by diversifying crops and supporting entrepreneurial business ventures.

Firmenich, together with Haitian partner Agri-Supply, have planted lime, bitter orange and ylang-ylang seedlings to provide farmers with diversified crops. Firmenich selected the rural agricultural village of Débouchette in the Les Cayes region to pilot its sustainability work. Débouchette is the largest area in Haiti producing high-quality vetiver.

"Many of our ingredients come from small holder farmers," said Firmenich. "Ultimately, our products connect consumers with communities around the world. We are committed to sourcing and making these connections in a sustainable way."

Patrick Firmenich; read Firmenich's insights into renewable ingredients on Page 16.

Meanwhile, Firmenich has agreed to expand its collaboration with Amyris Inc. to develop and commercialize renewable ingredients for the flavors and fragrances market. Outside of existing Amyris relationships, the new collaboration agreement gives Firmenich exclusive access to the Amyris technology platform for the F&F market in exchange for significant funding over the next six years. Exact amounts of the funding weren't immediately disclosed.

Under a previous agreement established in November 2010, Firmenich funded Amyris's research and development to produce up to three F&F ingredients, with an initial fragrance oil targeted for commercialization in early 2014. Under the new agreement, Amyris and Firmenich will jointly select additional target F&F ingredients that Amyris will develop and manufacture. Firmenich will market and distribute any ingredients resulting from the collaboration exclusively in the F&F market. The companies said they will "both share in the economic value derived from the sale of these ingredients."

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3 IFF

New York
2012 sales: $2,821.4 million
Estimated market share: 12.3%
Chairman and CEO: Douglas Tough

In yet another sign of F&F industry expansion into Asia Pacific, International Flavors and Fragrances Inc. (IFF) has opened a flavor manufacturing plant in Guangzhou that will commence commercial production in the third quarter of 2013. Located in the Guangzhou Economic and Technological Development District, the factory will supply flavors to regional and global food and beverage customers. The facility is part of a previously announced $100 million investment in Greater Asia and a key part of IFF's strategy to grow in emerging markets.

The roughly 205,000-square-foot site comprises sales and administration offices, laboratories, factory buildings and support services, and will manufacture all product types that the company currently makes in China, as well as spray dried flavors. Its projected annual capacity is about three times that of the existing manufacturing site.

"With the opening of our Singapore (pictured at right) and Delhi facilities in 2012 and our Guangzhou site in 2013, IFF is well-positioned to support our customers' growth now and into the future, both regionally and globally," said Doug Tough, IFF's chairman and CEO.

Meanwhile, the company and Evolving Holding SA have entered into pre-production phase to develop and scale-up, via a third party, natural vanillin for commercial application through a cost-effective, natural and sustainable route. The two companies are working to confirm scalability and yield targets through a yeast-based fermentation route during the pre-manufacturing phase.

This announcement follows one in June 2012 in which Evolva, which uses a biosynthetic technological approach, confirmed the achievement of the first milestone in this collaboration. The partnership between IFF and Evolva was originally signed and announced in January 2011.

"We are very excited about our collaboration with Evolva, an expert in the biotechnology field, on the development of a key flavoring ingredient that is used in IFF flavors and the potential to deliver a market product with industry significance that is operationally scalable," said Mark Dewis, IFF's vice president of research and development. "If the scale-up is successful, this innovative solution should provide a sustainable source for what has been a volatile raw material and should provide IFF customers with unique products."

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IFF Singapore.

4 Symrise

symrise
always inspiring more...

Holzminden, Germany
2012 sales: €1,734.9 million/$2,287.4 million
Estimated market share: 10%[a]
CEO: Heinz-Jürgen Bertram

Heinz-Jürgen Bertram

First-Person: Heinz-Jürgen Bertram

"Last year was another successful year for our company," says Symrise CEO Heinz-Jürgen Bertram. "The main drivers included our strong presence in emerging markets. For example, in Latin America we have expanded our presence by having a new research and applications lab, and our acquisition of Belmay Brazil."

That acquisition boosted Symrise's presence in the dynamic sales region of South America and expanded its existing offer of products in the application areas of fine fragrances, hair care and personal care.

"We have approximately 50% of our business in emerging markets, and we expect this share to continue to outgrow the rest of our business," says Bertram.

The CEO views the mix of the company's global, regional and local accounts, and balance among flavor, fragrance, wellness, well-being and beauty offerings, as additional key strengths. These, he says, are driven by "our addiction to innovation and creativity."

Symrise has supported this strategy by rounding out its portfolio with the purchase of the Brazilian Belmay business, followed by Trilogy Fragrances in the United States, and the remainder of Belmay's U.S. and international business. The Trilogy purchase, since renamed Symrise PureScents, adds expertise in natural products, particularly for consumers in established markets. The U.S. Belmay acquisition expanded its fragrance business with a focus on fine fragrances, personal care and air care, and grew its presence in North America.

Health and wellness and beauty segments also present great growth potential in the years ahead, says Bertram.

"In the emerging markets there is a big trend of an aging population that has an increasing awareness of healthy nutrition and beauty care," says the CEO. "In mature markets, more people can afford better and healthier nutrition and beauty [products]. That's why we focused our business on flavor *and* nutrition and on scent *and* care."

To support its efforts beyond mere flavor and fragrance, Symrise and Probi have expanded a joint research and development agreement for "new product solutions in the areas of food and beverages, cosmetics, dietary supplements and pharmaceuticals." The program will initially focus on oral care applications. Previously, Probi has developed gut and immune health probiotics.

"The capabilities will remain similar—creativity and innovation—but the playing fields will change a bit from only chemistry to more biotechnology and green chemistry," says Bertram.

To that end, Symrise is working with Swedish biotech firm Indevex on consumer health applications. The agreement includes the development of new product concepts through joint research.

Meanwhile, the company has addressed ingredient pricing volatility by increasing partnerships with menthol raw material supplier Lanxess and forming key partnerships at-source for naturals such as Madagascan vanilla.

"Backward integration is a key point for controlling the origin and quality of the material," says Bertram. "If you want to control safety and regulatory requirements of the products you deliver, you have to control the whole value chain. That entails backward integration. We felt very early on that this is where we want to go, in particular because there is a strong tendency toward more naturalness of ingredients. In order to control the origin and natural production of the materials, it is crucial to have backward integration to comply with regulatory requirements. Regulatory requirements aren't a threat, they're a challenge—challenges pose opportunities and we're leveraging these opportunities."

Bertram adds, "There will always be areas where we keep our strengths and where we will be sure we maintain our leading position—for example, oral care and menthol. We doubled our menthol capacity last year, and just announced we will continue to expand our menthol capacities."

Looking ahead, he says, "By 2020 we will grow our business by more than €1 billion in turnover. We will have more than €500 million EBITDA, and will continue to profitably grow our business. We also have detailed guidelines for sustainability. We take our message of *sustainable* growth seriously."

[a]Symrise more precisely states its market share as 10.3%, based on its own market research. The company further values the flavor and fragrance industry at €16.9 billion:

- Europe, Africa, Middle East: €5.45 billion
- North America: €5.35 billion
- Latin America: €1 billion
- Asia Pacific: €5.1 billion

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5 Takasago

Tokyo
Estimated sales: ¥117,200 million/$1,353.6 million (accounting period: April 1 to March 31)
Estimated market share: 5.9%
President and CEO: Ritaro Igaki

First Person: Ritaro Igaki

Ritaro Igaki

Emerging Markets

Takasago Group is strengthening its base of business in the markets of emerging countries. In Southeast Asia, the growth rates of the flavor and fragrance industries have been high due to the economic growth of emerging countries such as Indonesia and Vietnam. Takasago Group has expanded its businesses in Southeast Asia at an extremely rapid pace that exceeds market growth. In order to keep the high business growth rate and establish a position in the Asian market from a medium to long-term viewpoint, we are conducting expansive investments in the flavor and fragrance businesses to improve productivity and enrich our research and development capabilities. As part of that expansion, we plan to start operating a new factory in 2013.

In the Indian market, we are establishing a new production site in the industrial complex of Chennai, Tamil Nadu. In the Indian flavor and fragrance market, it is expected that demand will grow significantly for fragrances used in cosmetics and toiletries, as well as flavors for beverages and confectionery products. At the new production site, we will improve our supply capacity, creativity, applications expertise, and research and development functions in order to offer added value to both global customers and local consumer markets.

Americas

As for the fragrance business in North America, we plan to strengthen our business systems by investing in new production facilities at our site in Harriman, New York.

We plan to secure sufficient productivity for future growth by installing cutting-edge equipment. We also plan to streamline our supply systems by integrating production and distribution processes. From now on, we will fortify our production systems to win the further trust of customers in

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the world's largest fragrance and flavor market and conduct our businesses successfully.

In Central and South America, we reinforced our production systems by renewing the office in Vinhedo, São Paulo, Brazil in 2012. To meet the needs of global firms, we will expand business opportunities in the burgeoning markets many clients have entered in this region.

Europe

With regard to our flavor business in Europe, we have enhanced our core capabilities. For example, we have improved our production facilities to allow for business expansion and made a prior investment to accommodate future growth. We have emphasized the importance of the securing of natural materials, and as the latest example of this, we developed the groundwork for a vanilla business by establishing a joint venture in Madagascar and securing a processing plant in Morocco.

Securing Natural Materials

As customers around the world are becoming nature-oriented, Takasago is focusing its energy on the securing of natural materials and the development of stable supply systems.

For coffee, we produce coffee extracts in collaboration with Dan Kaffe (Malaysia) SDN and, along with BHD in Malaysia, we can import coffee beans from any country. As for tea, we produce a variety of tea extracts, including oolong, at Xiamen Hua Ri Foods Industrial Co., Ltd. in China. We secure citrus oil from our Citrus Center in Florida and develop specialty products at the Citrus Research Center at Takasago International Corporation (U.S.A.).

As our latest project, our company founded Takasago Madagascar in 2013 through the joint investment with Ramanandraibe Export Co., which owns the largest vanilla farm in Madagascar, to establish a system for supplying our original high-quality, price-competitive vanilla flavor in a stable manner.

By securing natural materials globally as mentioned above, we will develop systems for supplying safe products that satisfy the needs of customers swiftly and stably.

Medium-term Plan

Takasago Group has developed a "New Takasago Global Plan" with the long-term vision of becoming a world-class scent manufacturer by 2020, the year in which we will commemorate the 100th anniversary of the establishment of our company. At present, we are engaged in the new medium-term business plan, "New Takasago Global Plan (GP-2)" (fiscal 2012–2014), as the second phase.

Medium-term management vision:

- We aim to conduct sustainable management based on the trust of customers.
- We improve profitability for long-term growth in 2020.

Takasago Group has operated businesses while accumulating a broad range of advantageous managerial resources that were differentiated through global networks. As an important basic strategy, we will develop a system for sharing these managerial resources in our corporate group and utilizing them more effectively. We will optimize our organization, production systems and other managerial resources; develop globally integrated management systems; and concentrate managerial resources so as to exert our strengths even further.

Based on the above-mentioned plans, visions and strategies, we aim to become an industry-leading international fragrance and flavor manufacturer by establishing our position in the global market and nurturing the Takasago brand while increasing profitability and customers.

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6 Mane

Le-Bar-sur-Loup, France
2012 sales: €638.4 million/$841.7 million
Estimated market share: 3.7%
President and CEO: Jean Mane

Mane SA has continued on its growth path, garnering $841.7 million in sales in 2012 as compared to $738.6 million (or €530.1 million) a year earlier. The company invests 9% of annual revenue in research and development.

Mane, which features 21 manufacturing sites and 37 research and development centers worldwide, has been continuing to reinforce its global presence over the past 12 months. It opened a new production plant in Sablé-sur-Sarthe, France in fall 2012, and launched its first research and development entity focused on meat industries in Noisiel, France. The company's €7 million investment in the new production plant is dedicated to the production of flavors, ingredients and additive blends for meat, fish, ready meals and snacks industries. The plant was extended and equipped with technology that manages cross-contamination issues. Mane doubled its existing plant area to install this new equipment, which now enables the plant to produce and store up to 7,000 tonnes of blends each year. The company said this investment is part of its initiative to address the requirements of the British Retail Consortium standards on all its production sites.

In addition, Mane has formed a partnership with France Protéines Services—a specialist in semi-finished products for processed meat—to develop Meat Pro, based in Noisiel. Serving clients throughout Europe, the Middle East and Africa, the team focuses on Mane's flavor extraction and encapsulation technologies, as well as flavors for complex formulations within the context of salt reduction, fat reduction or off-note masking programs.

Mane also inaugurated the extension of the flavor production facility in its headquarters factory in Le-Bar-sur-Loup, France, investing €32.5 million in the site to significantly increase its production capacity; it also installed four additional units dedicated to macrocapsules.

In addition, Mane celebrated its 20 years of presence in Merida, Mexico in 2013. Mane Mexico unveiled its new sales offices in Merida, Yucatan, reinforcing its position on the Southeastern Mexico market and reflecting the recent incorporation of new elements to its team there.

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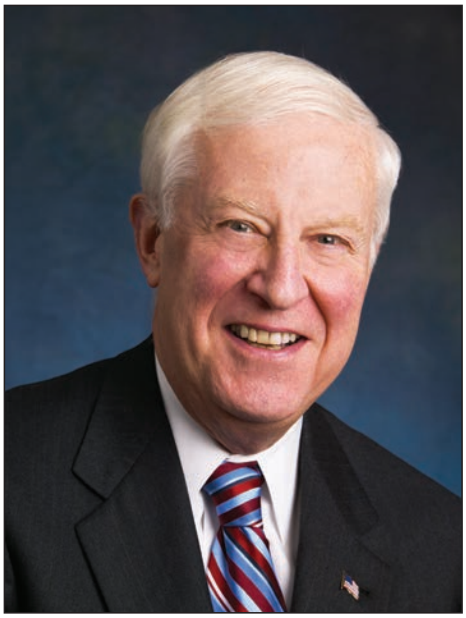
7 Sensient

Milwaukee/Chicago
2012 sales: $725.2 million[b]
Estimated market share: 3.2%
Chairman and CEO: Kenneth Manning


Kenneth Manning

It has been a busy year for Sensient. The flavor, fragrance and colors provider, which has managed to achieve record revenue and earnings for three consecutive years despite a tough economy, continues to move ahead with plans to help improve efficiency. It also announced plans to make a significant investment to build a new color and flavor complex in Johannesburg, South Africa, and plans to open a new color and flavor facility in Jundiaí, São Paulo, Brazil.

Sensient is launching a restructuring plan that could reduce its annual operating costs by roughly $10 million and will be relocating its flavors and fragrances group headquarters, technical groups and North American management to Chicago. It will also reduce headcount and consolidate several facilities throughout Europe and North America. It expects to reduce its global headcount by more than 200 employees, and consolidate several manufacturing sites during the next 12 months. Sensient said the changes won't impact its sales coverage, and is expected to result in more "efficient utilization of resources. "

For the full year 2012, Sensient's profit rose 2.8% to $123.9 million and revenue increased 2% to $1.46 billion. By segment, its flavors and fragrances group revenue rose 5.6% to $216.9 million for the fourth quarter and increased 2.1% to $875.3 million for the full year (see footnote for details). *P&F* magazine spoke with Paul Manning, Sensient's president and COO, in further detail about the company's main business drivers, its restructuring strategy and other key issues.

[b]According to Leffingwell: "In the 2012 10-K report Sensient began reporting F&F sales for Asia Pacific, China, and Central and South America areas that previously appeared in Corporate & Other. Special Note: However, for 2012, while the F&F sales do not include 'dehydrated products,' they do include 'intersegment' sales. They also include new figures for 2010 and 2011, which are not reflected in our past years' figures."

First Person: Paul Manning, President and Chief Operating Officer

Paul Manning

P&F: What are the key drivers of the company's business right now?

Manning: We specialize in colors, flavors and fragrances, and clearly there's a big drive toward natural ingredients. Consumers want to have ingredients that they would see in their own kitchen [such as] ingredients they recognize when they read them on a label. Natural ingredients are becoming increasingly popular for products geared toward children, and the trend certainly plays out with flavors. Natural colors and flavors are often produced through advanced extraction techniques. Not only are our extraction techniques state of the art, but we also use some very unusual raw materials, such as exotic botanicals, as natural ingredients. They have increasingly strong prospects across all of the segments: processed foods, beverages, dairy products. There is definite interest in the market. We have invested substantially in our company over the last few years so that we are positioned not only to provide technical expertise, but also all the infrastructure that's necessary to support our customers. Supply chain is a big consideration. Identifying the sources, developing new sources, being able to grow particular crops in certain regions where are our customers are and having multiple sources from multiple geographic regions and even different hemispheres is very important. We need to manage the challenge of diverse crops. Crops are different for each location and for each year: they never look the same and may not taste the same, so we have the expertise technically to standardize those products. What differentiates us substantially in the marketplace is our ability to standardize or normalize those products so that the consumer doesn't taste or see different quality just because it's a new crop year or seed from Africa instead of Guatemala.

P&F: Where are you making global investments?

Manning: Most recently, we've made substantial investments in Brazil. We bought our joint venture, which is a cosmetics joint venture. We also built a food colors and flavors plant about two years ago. We recently announced a new facility in South Africa in the Johannesburg area to service customers for flavors and colors. We invested in our existing plants in approximately 30 countries to maintain very high levels of GMP [Good Manufacturing Practice]. We completed a substantial investment and expansion in our Saint Louis facility for pharmaceutical coatings and natural colors. We have renovated and expanded our facilities in Europe, Germany, and Italy. So we really have a very strong footprint around the world. We are now increasing our footprint in areas like South Africa, which will cover the subcontinent of Africa as well as East Africa. We see a potential for expanding in areas like North Africa. We've [also] added locations throughout Eastern Europe and especially Turkey.

P&F: Where are you seeing the most rapid growth?

Manning: In Brazil, we're seeing very good growth. We're experiencing rapid expansion throughout South America on all our product lines: colors, flavors, fragrances and cosmetics. We still see very good long term growth in the U.S.; branded products are making a comeback, and there is continuing strength in private labels. We're certainly seeing big opportunities in the Far East and China and we are exploring opportunities in Indonesia and Malaysia as future growth markets.

P&F: How are acquisitions impacting your business?

Manning: We make acquisitions that add a technical dimension to our business or expand a capability that we already have. If you look at the history of our company, we refined and built the company from acquisitions. Ten to 20 years ago we sold yeast, cheese and potatoes. Today we don't sell any of those products, so the company has been fundamentally redefined through acquisitions. Additional acquisitions will be a very intriguing way to develop new capabilities. Our acquisition program and approach are unique in that we seek to retain the founding entrepreneur. We offer access to capital, our global infrastructure, our sales people and technical resources. We've been able to make more than 20 acquisitions over the years because of this approach. We seek smaller companies that have a unique product, technology or geographic market as a key part to our acquisition strategy.

P&F: And you recently had a $125 million private placement (debt restructuring).

Manning: We have been successful in this economy in part because we have a very strong balance sheet. We manage the shareholders' money very carefully. We have a very low level of debt and a low level of debt to capital, which are important metrics to consider at a time when some other companies are financially struggling. Our private placement communicates to the market that banks have a very high level of confidence in our ability to continue to generate cash and [to] be successful in the future. We've had three consecutive record years during a bad economy, which suggests that we've established a business with the right infrastructure and the right strategy.

P&F: What prompted the restructuring strategy?

Manning: The balance sheet is very much in order, but we are always looking for opportunities to improve. Our restructuring strategy was the result of some very clear opportunities to consolidate business units and to make Sensient more efficient and ultimately more profitable for the shareholders. This was a program that we instituted in the first quarter, and we'll complete by the end of the year.

P&F: Why was now a good time to move North America operations to Chicago?

Manning: When I assumed my current role in October 2012, I saw tremendous potential in flavors both in terms of technologies and the global footprint, but we weren't necessarily executing particularly well. In the course of examining the business and ways to invigorate flavors in particular, I realized that we would need to move the business closer to our customers. Chicago is, by any standards, one of the food capitals of the world. Being able to access these companies is a key part of our growth strategy for flavors. When customers can easily visit our facility and interact with our developers and flavorists, new business develops quickly. I've seen this at the color group location in St. Louis. We spent about $20 million on our facility in St. Louis. Now when we have customers visit our facility, they learn more about our capabilities and want to work with us even more. We develop projects and other opportunities through these interactions. In Chicago, we will be much better positioned to interact with our flavor customers. Proximity to customers is important, but so is access to a wider talent pool. Chicago meets that goal. Given all of these food companies, it opens up the field. In our recruiting efforts we have been surprised at how many candidates are available. We see it as a real opportunity to advance the business. We anticipate that [the] flavors and fragrances group headquarters move will be completed by the end of this year ... To remain profitable and to continue to do well, we must have the right people. Whether it's a move to Chicago or continuing to build our staff in growth areas like Brazil and Africa, a high-quality staff is the differentiator. Technology is important, but you need quality people to meet customer demands and to make the business successful.

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8 Frutarom

Haifa, Israel
2012 sales: $618 million
Estimated market share: 2.7%
President and CEO: Ori Yehudai

Ori Yehudai

Frutarom Industries Ltd. is continuing to capitalize on the shift toward natural and health products, and its recent string of acquisitions have proved to be highly profitable.

For full-year 2012, the company which creates, develops, manufactures and markets flavors and fine ingredients for more than 10,000 customers in the food, beverage, functional food, flavor, fragrance, pharmaceutical, nutraceutical and cosmetic industries, said its net income surged 23.7% to $52 million, boosted by growth in emerging markets and its recent string of acquisitions, which contributed $115.5 million to sales (From 2011–2012, acquisitions included Aromco, Etol dd., Mylner Indústria E Comércio Ltda, Savoury Flavours Ltd., Christian Hansen Group, Flavor Systems International Inc., EAFI, Rieber & Søn and ASA). Revenue for the year jumped 19% to $618 million. In 2012, the company also significantly increased its activities in the flavors segment, its most profitable activity, to 74% of total sales, and accelerated its expansion into target markets with high growth rates, reflected in the 60% growth achieved in 2012 in the emerging markets of China and Southeast Asia, Central and South America, Central and Eastern Europe, and Africa. At the same time, rapid growth continued in Frutarom's flavor activities in the United States, increasing by 43% in 2012.

The company is also investing about $30 million into expanding operations, which includes building a center for research and development as well as innovation, and a manufacturing plant for taste and health natural products in Israel. Continuing on its solid growth path, Frutarom CEO Ori Yehudai told *P&F* that he expects the company will reach $1 billion in sales within the next three to four years.

First Person: Ori Yehudai

P&F: What have been the main growth drivers for the company over the past year?

Yehudai: Frutarom is the fastest growing company active in the area of taste solutions and fine ingredients. Our strategy is a combination of internal growth and acquisitions. Between January 2011 and January 2012 we did eight acquisitions. Together with nice internal growth, we achieved an increase of around $100 million in sales between 2011 and 2012. The growth came from a combination of internal growth, primarily in emerging markets between Asia, Latin America, Central and Eastern Europe, and Africa and fast growth in the U.S. market where we are growing at a double-digit rate over the last few years, excluding acquisitions, and of course the contribution of the eight acquisitions that we did.

Frutarom has a different portfolio compared with other large, very good flavor companies. We don't see ourselves as a pure flavor company. We see ourselves as a combination of taste solutions between many technologies that involve sweet flavor—a lot of savory solutions that include not only flavors, but also other factors [such as] the texture, color and functionality of product. And then we have, out of our taste solutions, a food solutions business where we include also fruit, vegetables and flavors in the metrics where we serve food solutions to the food industry. So this is 75% of our business. And 25% of our business involves favor ingredients and health ingredients, primarily naturals, [and] 80% of our products are in fine ingredients. By the way, two-thirds of our total business is natural ingredients and natural flavors, so we're very focused on natural solutions. In fine ingredients, we are one of the largest players in botanical extracts and special essential oils and other natural ingredients that go into taste solutions. On top of that, we're a very interesting fast-growing health ingredient business, again primarily naturals that go between natural pharmaceutical, nutraceutical and functional foods. This combination of the product portfolio is helping us to position ourselves as more of a solution provider than a pure flavor company. We're in the flavor business, but we see ourselves more as a solutions provider between taste and health, than a pure flavor company.

P&F: What regions are going to be your focus in the coming years?

Yehudai: In the last seven, eight years many of the acquisitions we made were in Europe. But in the last two or three years, we boosted the growth engine between the U.S. market, which is very, very important, and emerging markets. That's why the part of the emerging markets from our total sales grew from around 25% in 2010 to 36% in 2012. Our portion of the U.S. also grew substantially in the flavor business, so these are the main focus of growth.

P&F: Do you plan on any other major investments in flavor or fragrance right now as far as acquisitions are concerned?

Yehudai: We are involved with a very strong partner in the position of acquisitions. We have the same focus: growing the U.S. market and growing the emerging markets.

P&F: You mentioned the fast-growing health ingredient business. Do you have any projections out there about how you expect this business to grow from 2013–2015?

Yehudai: The part of natural ingredients is growing faster. We put a lot of investment into R&D and innovation between internal innovation and external innovation, including universities and collaborations with startups in developing specific unique solutions based on natural products for the food industry and the nutraceutical, pharmaceutical and cosmetic industries. We really built a vast portfolio of innovation that grows into the direction that the food industry is asking for meaning more clean label, natural ingredients, extracts and other ingredients that we produce … [as well as] less sugar, less salt, special solutions that we develop and sell to major food companies around the world including the United States.

[We're also] growing solutions that include not only flavor but also functional food ingredients such as natural omega-3 and many other natural ingredients.

P&F: How have you dealt with the impact of raw material costs?

Yehudai: I would have to say this impacted us quite negatively, and we suffered from some margin erosion between the last five or six years. Most of these years raw materials increased dramatically, by the way, more natural products than synthetic ingredients. As I mentioned, since two-thirds of our raw materials are naturals, it might affect us more than it affected the others. We hope that through a combination of improved purchasing and strengthening our purchase organization of raw materials some price increases will stabilize. [We] improved purchasing, improved efficiency in our operation and increased prices. We had to increase prices, of course.

P&F: Do you expect this trend to continue?

Yehudai: My personal feeling is that the prices of raw materials have stabilized. Since they are now at such a high level, and this economy is not really booming, my expectation is that prices will stabilize, and I hope to see more prices going down than going up.

P&F: Looking out over the next couple of years from 2013–2015, what do you think is going to be driving sales?

Yehudai: I think it's a combination of growing our market share in the emerging markets that are growing faster than the developed market, mainly Europe. So [we plan to] increase the proportion of both the U.S. and the emerging markets, continue to focus on taste and health solutions to our customers—many based on natural ingredients—and give full solutions that include taste and health. This will be the main focus of ours, of course, [and] acquisitions. We have a very strong pipeline. We did 32 acquisitions over the last 15 years. We had, last year, sales of close to $620 million. We expect to have $1 billion of sales within the next three to four years. This will be done through a combination of internal growth above [the] market where we are operating and additional acquisitions. I believe the main acquisition [options] will come between the United States and emerging markets.

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9 Robertet

Grasse, France
2012 sales: €395.6 million/$521.6 million
Estimated market share: 2.3%
Chairman and CEO: Philippe Maubert

Aiming to increase its market share by positioning itself in developed markets, this year Robertet opened a new fragrance compounding facility in Plan-de-Grasse, France. The company invested €27 million in a 12,000-square-meter facility which united the production, logistics and quality control operations of Charabot and Robertet. The operations are slated to produce 4,000—6,000 tons of fragrance annually and will conduct 1.5 million weighting acts per year, 90% of which will be automated. Robertet estimates the combined benefits will increase productivity by 50%. The company further discussed its business this year and commented to *P&F* magazine about its outlook for the years ahead.

First Person: Christophe Maubert, President, Fragrance Division, Robertet

On the main drivers for the company over the past year:

Maubert: Robertet has been making key investments in several strategic areas to both build our business and satisfy the needs of our customers around the world. From investing in our employees and making key new hires, to building brand new state of the art production facilities in various locations around the globe, to ensuring our natural ingredients are grown and sourced sustainably–all of our efforts are focused on two priorities: protecting the environment and delivering value to our clients. We continue to stand behind our innovative "Seed to Scent" technology with a new endeavor linked to our flavor division, which is launching in 2013.

On factors impacting the business:

Maubert: There continues to be pressure on the industry for full transparency of fragrance formulas, which threatens our trade secrets. We do not want to become a commodity business as that will truly be a disaster for the fragrance industry as a total. We proudly support the good science being conducted at our industry organizations, RIFM and IFRA, in their efforts to ensure the safety of our fragrances. Robertet is always seeking new ways to innovate with our technologies, from high-performance delivery systems to superior malodor counteraction and cost-efficient naturals. We know that technology innovation is a key path to protected growth not only for us, but for the industry as a whole.

On the impact of acquisitions throughout the industry and the possibility of further industry consolidation:

Maubert: Robertet is a family owned company and has been for five generations. Many of the recent consolidations and acquisitions have affected both larger and smaller companies, but Robertet will remain an independent company. We are proud of our long history in the ingredient, fragrance and flavor businesses.

On the company's outlook for 2013–2015:

Maubert: At Robertet we think globally and are also sure to act locally. From growing and sourcing naturals from key locations around the world to local market production, knowledge and expertise, we are constantly evaluating our resources to suit our customer needs. We can see that developing markets will continue to become increasingly important to our fragrance clients. And we expect that our business will shift toward these markets in the UAE [United Arab Emirates], Africa and Southeast Asia, so we are making sure we are properly positioned in these markets, as well as Latin and South America, to best support our customers. Consumers are seeking more and more transparency in the products they buy across all industries and segments. We are able to deliver complete transparency from the field to the fragrance with our "Seed to Scent" program. And with our 160 years of experience and knowledge working with naturals, we are well positioned to deliver the ultimate in quality and creativity to our fine fragrance accounts.

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10 T. Hasegawa

Tokyo
2012 sales: ¥44,386 million/$512.6 million
Estimated market share: 2.2%
President and CEO: Tokujiro Hasegawa

T. Hasegawa is aiming to capture the growing demand for flavor and fragrance driven by economic growth in China and Southeast Asia, as well as growth opportunities with multinational customers in the U.S. market.

In 2012, net sales for the year increased 0.3% to ¥44.4 billion from ¥44.2 billion a year earlier. The company said its consolidated sales of fiscal 2012 remained at the same level as the previous year and no acquisitions or major investments took place. Looking at sales by group, sales of T. Hasegawa Japan (non-consolidated) was almost unchanged at ¥39.18 billion compared to ¥39.23 billion a year earlier. Its flavors business slightly increased due to the increase in fruit compounds for yogurt. On the other hand, its fragrances business decreased due to the decrease in sales for household products. The company said its subsidiary in China slightly decreased due to the sales decline of flavors business, and its unit in the U.S. (flavors segment only) increased due to the contribution of new products.

Looking ahead, Tokujiro Hasegawa told *P&F* in a statement that the company plans for cost-cutting measures that improve production efficiency as well as streamline the distribution system, maintain optimum inventory levels and reduce inventory losses by utilizing the enterprise resource management system (ERP). The company also plans to make efforts to reduce overall expenses (overtime work, utility costs, etc.), and cultivate the new applications of flavors and fragrances. T. Hasegawa's focus areas for this segment include new areas such as non-alcoholic drinks (non-alcoholic beer and cocktail), alcoholic drinks, health food and food for medical use. The company also plans to offer flavors which can replace the natural food ingredients.

"For example, when the cost of the natural food ingredients increases, we can contribute to reduce our customers' cost by providing our flavor products to replace such ingredients," said Hasegawa.

Tokujiro Hasegawa reflected further on key areas that are impacting the industry and company.

On the impact of acquisitions throughout the industry and the possibility of further industry consolidation:

Hasegawa: Industry consolidation is not likely to happen in the Japanese domestic market, but it is possible in the overseas market. Given the maturity of the markets in the developed countries, cross-border acquisitions could take place to seek for the growth opportunities in addition to the organic growth.

On the outlook for 2013–2015:

Hasegawa: We are aiming to keep the sales growth rate to be higher than 3%, and operating income to net sales to be higher than 10% … [W]e try to achieve the plan by the growth in overseas markets while making steady profits in the Japanese domestic market.

Tokujiro Hasegawa

Strategies for the domestic market:

Hasegawa: The Japanese domestic market is maturing as a result of the aging population so we cannot expect the rapid growth in Japan. But since the domestic market accounts for 80% of our sales, it is essential for us to make steady sales and profits at the domestic market. In the Japanese domestic market, we are trying to achieve 1–2% of annual sales growth rate in mid-term by securing the current business, obtaining new business from the existing customers and cultivating the new applications of flavors such as non-alcoholic beer and cocktail, nutritional food, food for medical use, etc. Demand for nutritional food and food for medical use will increase as the population ages.

Strategies for the overseas market:

While we keep our domestic business profitable, a contribution of the growth in the overseas market is essential for our future growth. Our basic policy for globalization is to promote step-by-step globalization with human resources and funds effectively allocated. We have subsidiaries in the U.S., China and Thailand. So the first step is to cultivate the local markets of the U.S., China and Southeast Asia rather than spreading out worldwide. Then as the second step, we will expand our business network. But before we penetrate into the new markets, we have to make sure our current operations to be profitable on a continuous basis under the adequate management setup. We are at the first step right now so we are focusing on the U.S., Chinese and Southeast Asian market, trying to capture the diversified local tastes and preferences to offer tailor-made products.

First Person: Mark Bair, president and CEO, Americas (T Hasegawa)

Mark Bair

P&F: What have been the main drivers of the company's U.S. business over this past year?

Bair: Here in the United States our business continues to be driven by the savory segment of the flavor category. Our customers are focused on innovation which requires new flavors to create differentiation and consumer appeal.

P&F: How have ingredient costs and regulations impacted the business and results?

Bair: The regulatory environment continues to become more complex and demanding - especially in terms of the global marketplace and differences among countries. It requires us to stay current and knowledgeable about changing regulations and to anticipate regulatory changes that are on the horizon.

P&F: Are you expecting to make any acquisitions? How is consolidation impacting your business?

Bair: There is no doubt that consolidation will continue to occur within our industry. As part of a global enterprise celebrating its 110th anniversary in 2013, we continue to be well positioned to meet the evolving needs of our customers in the food and beverage industry well into the future.

P&F: In what areas do you expect to see growth for the company going forward?

Bair: We expect the beverage category will continue to grow through innovation, and we intend to contribute to innovation through our flavor offerings. At the same time, we will continue to apply our flavor expertise to savory flavor customers and to serving the needs of growing category segments within this space.

P&F: What is your outlook for 2013–2015?

Bair: Our outlook for 2013–2015 for the flavor business is optimistic. Consumer demand for culinary-inspired flavors, cross-over flavors from various regions of the world and artisanal flavors will continue to grow in food and beverage offerings. This trend, combined with our ability to meet those needs through superior flavor delivery, bodes well for future growth.

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