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PRESENTATION

Operator

At this time, I would like to welcome everyone to the International Flavors & Fragrances first-quarter 2016 earnings conference call. (Operator Instructions) I would now like introduce Michael DeVeau, Vice President, Global Corporate Communications and Investor Relations. You may begin.

Michael DeVeau - *International Flavors & Fragrances Inc. - VP-Global Corp. Communications and IR*

Thank you. Good morning, good afternoon, and good evening, everyone. Welcome to IFF's first-quarter 2016 conference call. Yesterday evening, we distributed a press release announcing our financial results. A copy of the release can be found on our IR website at ir.iff.com. Please note that this call is being recorded and will be available for replay.

Please take a moment to review our forward-looking statements. During the call we will be making forward-looking statements about the Company's performance, particularly with regard to the outlook for the full-year 2016. These statements are based on how we see things today, and contain elements of uncertainty. For additional information concerning factors that can cause actual results to differ materially from forward-looking statements, please refer to our cautionary statement and risk factors contained in our 10-K filed on March 1, 2016 and our press release that we filed yesterday, all of which are on our website.

Today's presentation will include non-GAAP financial measures which exclude those items that we believe affect comparability for a reconciliation of these non-GAAP financial measures to their respective GAAP measures as set forth in our press release. With me on the call today is our Chairman and CEO, Andreas Fibig, and our Executive Vice President and CFO, Alison Cornell. We will start with prepared remarks and then take any questions that you may have.

I would now like to introduce Andreas.

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

Thank you, Michael. I would like to start with an executive overview of our operational performance for the first quarter. Then I will provide an update on the progress we are making in terms of our long-term Vision 2020 strategy. Once finished, I will ask Alison to cover our financial results in greater detail, including specifics on each business unit as well as our cash flow statement and outlook for the remainder of the year. Then I will provide some concluding remarks and we will finish by taking any questions that you may have.

I am pleased with how we started 2016, given the volatile global operating environment, and against our strong year ago growth comparison. Currency neutral sales were 6%, which was comprised of 5% growth in Flavors and 8% growth in Fragrances. On a consolidated basis, our topline growth benefited by approximately 4 percentage points related to the contribution of our recent acquisitions of Ottens Flavors and Lucas Meyer's Cosmetics. Our organic business, which had stronger performance than we anticipated, [was] 2% on currency neutral basis. The driver of our performance can be attributed to improved volume trends versus what we have experienced in the fourth-quarter 2015.

In addition, we also benefited from an increased contribution of commercial performance as new win growth was strong, particularly in fragrance compounds.

From a profitability perspective, we strategically reinvested and our business was [intended to be] delivering 7% currency neutral adjusted operating profit growth and a 20 basis point expansion in adjusted operating profit margin. The driver for our profit improvement was strong gross profit performance, driven primarily by volume growth, the benefits of productivity initiatives, and contribution of acquisitions. Currency-neutral EPS improved 11% as we gained additional leverage on a more favorable effective tax rate and a reduction in shares outstanding.

With respect to Vision 2020, we continue to make progress each quarter. Differentiation through innovation is crucial to our success.

With that in mind, I am happy to report that one of our key R&D focus areas, delivery systems, continue to be a growth driver in the first quarter. In Fragrances, the strong trends on encapsulation-related sales continued as currency-neutral sales improved high single digits, led by Fabric Care and Toiletries.

In the first quarter, Fabric Care grew high single digits on a currency-neutral basis with all geographies posting strong growth, led by a double-digit increase in North America and high single-digit growth in EME and greater Asia.

In Flavors, another key focus area for us is modulation as sales of our sweeteners and savory modulation portfolio continue to post strong growth, improving strong double digits on a currency-neutral basis, led by Savory, Dairy and Beverage. This is further proof that our innovative solutions are allowing us to meet our customers' demands for healthier and better-for-you products.

In the first quarter, we also commercialized two new flavor molecules and one new natural sweetness modulator to give our Flavors more novel technologies to build winning solutions for our customers. We continue to see accelerated growth in the areas where we are targeting market leadership positions. In North America, we saw 11% currency-neutral increase in the first-quarter 2016, driven by our recent acquisitions and strong growth in Fragrances. Within North America Fragrances, consumer Fragrance improved single-digits and Fine Fragrance grew double digits, led by strong new win performance.

Leveraging our long-standing presence and in-depth consumer knowledge, we are focused on the Middle East and Africa as a growth driver. In the first quarter, we achieved strong growth across both Flavors and Fragrances to deliver a double-digit improvement on a currency neutral basis. The mid to high single-digit growth trends we have seen in recent years in Consumer Fragrances continued into the first quarter of 2016.

Within that segment, Home Care, a strategic area of focus for us, grew mid-single digits on a currency neutral basis led by double-digit growth in Latin America. In Flavors Latin America, we delivered 8% currency-neutral sales growth or 14% on a two-year average basis, based on our continued success leveraging innovation with key customers.

We continue to position ourselves to be a customer's partner of choice and to go [with] supplier. In the first quarter, IFF focused more on Cosmetics, won a Silver Innovation Award at the In-Cosmetics Conference held in Paris for Miniporyl. For those of you who have not had a chance to experience this product, Miniporyl is an active ingredient which is extracted from a red clover flower and is a natural pore minimizer designed to rebalance skin conditions responsible for pore enlargement. Because of our continued commitment to sustainability and focus on weaving it into all aspects of our business and corporate culture, we are rated gold and ranked a top supplier by EcoVadis.

EcoVadis aims at improving environmental and social practices of companies by leveraging the influence of global supply chains.

During quarter 1, we also joined the World Business Council for Sustainable Development, which is an organization of forward-thinking companies that stimulate the global business community to create a sustainable future for business, society, and the environment. We are excited to be part of an organization that works together across sectors, geographies, and value chains to explore, develop and scale up business solutions to address the world's most pressing sustainability challenges.

In line with our focus on strengthening and expanding our portfolio, I am happy to report that our two recent strategic acquisitions continue to perform well. IFF/Lucas Meyer Cosmetics achieved double-digit growth on a standalone basis and IFF/Ottens Flavors posted solid growth for the quarter on a standalone basis, led by regional customers. We believe their performance is a good indication that we are putting our capital towards long-term value, creating opportunities.

Let me conclude by saying how pleased we are with the strategic progress that we have made so far this year. We look forward to building on this momentum as we progress through the balance of the year.

With that, I would like to turn the call over to Alison.

Alison Cornell - *International Flavors & Fragrances Inc. - EVP and CFO*

Thank you, Andreas. I would like to reiterate our strong financial performance for the first quarter. I am pleased that we are able to deliver sales growth of 6%, adjusted operating profit growth of 7%, and adjusted EPS growth of 11%, all on a currency-neutral basis.

Our performance can be attributed to improved volume trends, which we believe include the timing of orders from fourth quarter of 2015, the first quarter of 2016, and strong new win performance. I would like to also take an opportunity to provide commentary on our adjusted EBITDA, given M&A has become a larger component of our strategy and is a key indicator of comparison to our largest competitors.

We continue to see profitability and margin progression as our adjusted EBITDA grew 6% versus the prior year period, inclusive of currency. Adjusted EBITDA margin expanded a very strong 120 basis points, principally driven by volume leverage, the benefits of cost and productivity initiatives, and mix benefit resulting from the inclusion of IFF/Lucas Meyer Cosmetics, and IFF/Ottens Flavors.

Turning to business unit performance, Flavors currency-neutral sales increased 4% primarily driven by approximately 4 percentage points relating to the acquisition of IFF Ottens Flavors. It is important to note that this growth was on top of strong 9% currency-neutral growth in the first quarter of 2015. The improvement was led by high single-digit increases in North America, inclusive of our acquisition of IFF Ottens Flavors in Latin America, reflecting double-digit growth in Savory, Sweet, and Dairy.

Greater Asia posted low single-digit growth as increases in India and Thailand were more than offset by softness in China, although trends in China improved sequentially. Within greater Asia and on a category perspective, growth was driven by new win performance, particularly with relative strength in Dairy and Sweet. Europe, Africa, and the Middle East decreased 1% against 9% growth from the comparable year ago period as softness in Western Europe more than offset the strong high single-digit improvement in the Middle East and Africa.

Flavors currency-neutral segment profit grew approximately 1%, primarily resulting from the contribution of IFF Ottens Flavors and strong benefit from productivity initiatives.

Fragrances currency-neutral sales improved 8%, including approximately 4 percentage points associated with the acquisition of IFF Lucas Meyer Cosmetics, with all regions posting growth, led by a double-digit increase in North America and high double-digit growth in Latin America.

From a category perspective, Fine Fragrances improved 7% as a result of a very strong pipeline of new wins led by North America, which achieved strong double-digit growth, followed by mid single-digit growth in Europe, Africa, and the Middle East, and low single-digit growth in Latin America. Consumer Fragrances grew 6% with broad-based growth across all subcategories.

Technology-driven innovation in Fabric Care and Personal Wash contributed high single-digit increases.

Within Consumer Fragrances, on a geographic basis, all regions delivered growth, led by a double-digit increase in Latin America and a mid single-digit increase in North America, both on a currency-neutral basis.

Fragrance Ingredients sales were up 15%, driven primarily by the acquisition of IFF/Lucas Meyer Cosmetics. Our base Fragrance Ingredients business which, as a reminder, are the external sales that we do not use for our internal compound production, remains soft, reflecting continue challenging market conditions, as well as our prioritization of capacity to further strengthen our internal Fragrance compounds business, as evidenced by our mid-single-digit Fragrance compounds growth.

From a profit perspective, Fragrance currency-neutral segment profit was very strong, growing about 15% year-over-year, driven by robust volume growth, the benefits from cost of productivity initiatives, and more favorable mix. This performance led to over 130 basis points improvement in currency-neutral operating profit margin.

Our operating cash flow in the first quarter was $32 million compared with $31 million in the prior year period. Our core working capital levels were challenged, principally driven by the timing of payables. We expect this impact to normalize as we progress throughout 2016.

From a capital structure standpoint, we spent approximately $23 million in expenditures, and continue to believe we will spend approximately 5% of sales in 2016. As noted on our year-end call, this increase will principally be driven by capacity projects in greater Asia, primarily related to a new flavor manufacturing plant in China, which was disclosed on our Q4 conference call, and investments in technology expansion.

With regard to China, I would like to provide some additional commentary as it relates to our Fragrance Ingredients plant. We, as well as other chemical plants in the same industrial zone, received a request from the Chinese government to relocate our Fragrance Ingredients plant in Zhejiang. Currently, we are in discussions with the government regarding the intent, purpose and timing of the request of relocation.

If we are ultimately required to move, our Company and government authorities would need to agree upon the amount and nature of government compensation, including adequate timing and financial support. This is similar to a move required a few years ago, when we worked in partnership with the Chinese government to relocate one of our Fragrance Ingredients plants from one industrial park to another over an extended period, with minimal business impact. Please note that the relocation request is an evolving situation. We will continue to keep you updated.

Regarding cash return to shareholders, in Q1 we spent approximately $45 million on dividend payouts and $40 million on share repurchases. Given these levels and our outlook for the rest of the year, we expect to meet our total payout ratio objective of 50% to 60% of adjusted net income. Looking to the balance of the year, we continue to believe we can deliver attractive returns to our shareholders. While there are some indications that the global environment is marginally improved, we continue to remain cautiously optimistic with respect to achieving our previously stated financial guidance for 2016, given the persistent volatility in the market. As it is still early in the year, and we believe the first-quarter 2016 partially benefited from timing of orders from Q4 of 2015 to Q1 of 2016, we do not think it is prudent to extrapolate results.

In the second quarter, I would like to remind everyone that we are comparing to a low effective tax rate in the prior year period, where we benefited from the timing of an R&D tax credit. That benefit is not expected to repeat itself again this year.

As a reminder, for the full-year 2016, we expect 3.5% to 4.5% currency-neutral sales growth, including approximately 1.5 percentage points of contribution from the acquisitions of IFF/Ottens Flavors and IFF/Lucas Meyer Cosmetics. From an adjusted operating profit perspective, we expect to achieve 5% to 7% growth, inclusive of a 1.5 percentage point contribution from M&A. Currency-neutral adjusted EPS growth is expected to improve by 6.5% to 8.5%, led by modestly lower effective tax rate and the continuation of our share repurchase program.

Given the fluctuations in foreign exchange rates, I would also like to address the impact of currency on our financial results. While our currency-neutral guidance has not changed, we have updated our guidance to reflect the movement of the US dollar to other world currencies since the beginning of the year. As I have discussed in the past, the euro is clearly the largest driver in terms of our currency basket, representing approximately 35%

of our profit exposure. Previously, we expected the devaluation of the euro versus the US dollar to represent approximately 4 out of our original 5 percentage point headwinds to profit in 2016.

Now, given that euro/USD exchange rate in Q1, the fact that we are hedged approximately 75% at [114] in 2016, and assuming a spot rate of [113], we expect about a 3 percentage point impact from the euro as our expected weighted average exchange rate for 2016 is [113.5] versus our average rate of [125] for 2015.

The rest of the currencies within our basket have improved versus our original guidance, and now are expected to effectively offset one another on a profitability basis. As such, we expect currency to have a 2 percentage point impact on sales versus 2.5 previously assumed. We expect a 3 percentage point impact on operating costs and EPS should current rates remain constant for the balance of the year.

The increased volatility in the duration of the currency movements continues to have a significant impact on the reported results. We measure the impact of currency on various fronts, including translation and transaction impact, as well as timing effects associated with our supply chain and inventory movements.

We recognize that there are potentially different approaches that can be used to measure this impact, and that the methodology differs amongst our industry and peer group. We regularly review our methodology to determine if either a more refined or simpler approach is warranted in order to ensure that we provide investors increased insight to our underlying operating performance, greater alignment with how the business is run, or information that is more usable for comparison purposes.

While we are in the process of our current review, we believe that if we were to adopt a different methodology, it would likely have a positive impact on our currency neutral adjusted operating profit growth in 2016.

With that, I would now like to turn the call back over to Andreas for some closing remarks.

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

Thank you, Alison. In summary, I am pleased with how we started off the year. Financially, the entire organization collectively achieved strong results, as evident by our (technical difficulty) sales growth, 7% adjusted operating profit growth, and 11% adjusted EPS growth, all on currency-neutral basis.

As Alison just commented, we are on a pace and have increased confidence to achieve our previously stated currency-neutral financial guidance for 2016. Simultaneously, we continue to be focused on the execution of Vision 2020 as we believe our emphasis on building greater differentiation and accelerating profitable growth will create incremental shareholder value over the long term.

With that, I would now like to open up the call to questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Mark Astrachan.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Appreciate the color on the benefit to the first-quarter results from the 4Q weakness in terms of some of the pull forward or push back. I guess modeling wise, is there anything we should be aware of that would impact the two-year stack in sort of thinking about how the second-quarter trend would be shaping up?

And if you don't want to specifically comment on that, how do we think about progression relative to 4Q/1Q levels through 2016 would be helpful.

Alison Cornell - *International Flavors & Fragrances Inc. - EVP and CFO*

From a second-quarter perspective, we do not plan to comment on second quarter. If you think about the fourth quarter, fourth quarter especially if we neutralize for the 53rd week, was abnormally low. We did have relative strength in the first quarter. Our volumes improved sequentially. We had strong commercial performance.

But, despite that, as you look at the relatively low performance in Q4 to Q1, we do think that it was impacted. So with respect to Q2, we think it's too early to talk about it as we are only one month in and especially given the volatility in our customer order pattern. Having said that, though, we do expect growth to accelerate as we progress throughout the year and remain committed to our guidance.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Great, and just a follow-up on that, if you look at the two-year CAGR average 4Q 2015 to 1Q 2016, it is somewhere in the high 2's. So, I guess the question is, A, that is relative to 2% to 3% that you have talked about for the year organically. But in that context, what does it say about the current in-demand general in terms of what you see from a customer standpoint, maybe even specifically comment on global versus local/regional. You have talked about that dynamic in the past. And then, if you could tie it into the acceleration needed to get back to your long-term targets of 4% to 6% would be helpful.

Alison Cornell - *International Flavors & Fragrances Inc. - EVP and CFO*

I think if we step back, coming into 2016 we noted that our organic business would be softer than our long-term targets overall given the macroeconomic conditions, customer order volatility, eliminated volume growth from our customers, as indicated. Having said that, if we bifurcate first half versus second half, we expect our growth to accelerate throughout the year as we exit our 2016 business based on additional access to new business, strong new win performance that we know that we already have, that will manifest itself in the second half and also, the benefits that we are seeing from our innovation, continued benefit.

And so, feel good as we exit 2016, going into 2017 and believe that we are on target to deliver our long-term targets that we indicated.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Thank you.

Operator

Lauren Lieberman, Barclays Capital.

Lauren Lieberman - *Barclays Capital - Analyst*

First, I was wondering if you could comment though, overall on the market growth trends. Throughout last year, acknowledging it was very choppy, there were points at which you felt that local customers were still kind of performing relatively well in their consumption was up versus the global. So, where do you think things sort of stand now in terms of market growth?

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

This is Andreas. Thank you for the question and unfortunately, we believe that the global environment is still pretty volatile and choppy, as you were saying, because we see in some areas of the world -- we see actually very good growth trends. We just came back, Alison and myself, from the Middle East and Africa. We see good double-digit growth in the region despite the political unrest.

We have other areas, for example in China, where we are seeing basically a slowdown in growth.

So you see from the geographic point of view, it's very volatile at the moment and even in the US, it is not super consistent, what we are seeing. On top of it, we see differences in between the different categories.

Let me give you an example. If you look, for example, to modulation, our sweetness modulation, that's something which is certainly facilitating our growth, because we see more countries moving in towards a sugar [taste]. UK just did it. South Africa is going to bring to do it.

So that is something which is driving growth in the category. But in other categories, we don't see as much growth because it goes against it.

So, it's a very complex picture, and that's the reason why we say we really have to deal with that kind of volatility around the globe. So, we believe that the market probably has a growth for Flavors and Fragrances between 2% and maybe 3%, but that is very much on the high end. On the active Cosmetics, we still see much higher, higher growth trends between let's say 5% and 6%.

So it's a pretty difficult picture at the moment.

Lauren Lieberman - *Barclays Capital - Analyst*

Okay, and then, if you could offer a little bit more color on North America Flavors performance, both excluding Ottens, organic still down as expected. But, at what point do you think that turn -- I believe there have been some big wins on sweetness modulation around this time last year, so maybe we are starting to lap tough comp.

And then also on Ottens I think the language in the deck changed, that previously you have been talking about the business growing double-digit, and now it is sort of, quote, solid. So, anything that changed there would be helpful as well.

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

Let's talk about the organic business first. We believe it will change in the second half of the year, so that is very, very clear. And (technical difficulty) Ottens is still performing, let's say above our business case, and we have actually pretty tough comps here as well on the Ottens business. And what we have said before is that we see, in particular with the customer base we have with this business, a higher growth rate than with some of our more bigger and more established customers.

Lauren Lieberman - *Barclays Capital - Analyst*

Okay, and then just one last one, if I may. Latin America was just very strong seemingly across the board. So -- and in the press release, anyway, you didn't specifically mention Beverages. I believe that had been -- the beverage encapsulation had been a driver of the Flavors growth there. So, if you can talk anything more specifically about what has driven Latin America to be so strong in obviously such a very tough macroeconomic environment would be great.

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

Yes, absolutely. So we still see it in the Beverage category for us on the Flavors side, and we are actually pretty proud, because it looks like this category in particular is a certain delivery system for powders.

It is helping us because it facilitates growth in a population category which is lower middle class and lower income, which is really helping us to drive our growth there. And we see it basically on the modulation as well. And here again, the scene comes back. I just touched on with the sweetness modulation. So, replacement of sugar and the helping with sweetness modulation is something which is a big trend and which helps us with our sales in the category.

Lauren Lieberman - *Barclays Capital - Analyst*

Okay, thanks so much.

Operator

Mike Sison, KeyBanc Capital Markets.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Nice start to the year. Any thoughts on when you think Flavors can sort of turn the corner in total for currency-neutral sales growth this year, excluding acquisitions?

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

It is second half very, very clearly.

Mike Sison - *KeyBanc Capital Markets - Analyst*

And back to the kind of normal growth rates we've seen historically, and what's driving that?

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

I would say normal growth rate depends on how you define the normal, because what we are seeing is a bit of a slowdown in market, and I think that is what you hear from many of our competitors as well. The new normal might be, let's say, 2.5% market growth and we believe that we can outperform the market. But, the question is how much it is at the end. And we see certainly a softer trend in greater Asia, which is certainly driven by China, because remember, we had for many years high double-digit growth rates in China. And these times might be over.

Western Europe is certainly also not a super bright spot here. So, we are probably back to the new normal.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Okay, great. And then just one quick follow-up. Acquisitions seem to be have worked out well for you this year and just in general.

How is the environment, particularly in the Cosmetics [active]? That seems to be an area where there could be a lot of opportunity to buy attractive assets.

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

Yes, so first of all, we are very happy with the two acquisitions we did last year because they are performing very, very well and driving revenue growth.

So, when we look at M&A in general, we look what could provide technology to us, because we really believe that differentiation comes through technology and through innovation. So that is something.

We really look whether it could provide us access to customers and regions where we are right now not very well representative. And we are certainly looking at adjacencies. You just mentioned the active Cosmetics, and that is certainly one of the areas where we ventured in and where we want to build our position, first of all, through high organic -- double-digit organic growth, but through some more M&A activities here as well.

We are certainly screening the market as is usually, and we are conducting due diligence on a number of potential opportunities and, if it makes good sense, like last year, we are moving forward. And we certainly have a good financial discipline, but Alison might comment on that one.

Alison Cornell - *International Flavors & Fragrances Inc. - EVP and CFO*

Yes, so in addition to the strategic filters that Andreas went through, we also have a series of financial filters, one being EPS-accretive year one, and then economic profit positive in years 3 to 5.

So to the extent it meets the strategic filters in the financial filters, we would eventually move forward. But we do those things in tandem.

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

Yes.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Great, thank you very much.

Operator

Faiza Alwy, Deutsche Bank.

Faiza Alwy - *Deutsche Bank - Analyst*

I just wanted to talk about your trends to date, relative to what your guidance was three months ago. So, clearly you have exceeded your plan for the first quarter.

So, maybe if you could just go through what were the specific areas, whether it's countries or categories, where you exceeded your expectations for the first quarter. So, what was surprising to you on the upside?

Alison Cornell - *International Flavors & Fragrances Inc. - EVP and CFO*

So I think Fragrances clearly did well across all regions, all categories, all geographies. From a Flavors perspective, we had strength in Sweet, Savory, Dairy, but we had volume strength, volume leverage. Along with that from a bottom-line perspective, we also had cost productivity initiatives that benefited us. We also had net price to input costs favorability.

So but I think the main driver of our strength in the first quarter was clearly Fragrances. (multiple speakers) and consumer.

Faiza Alwy - *Deutsche Bank - Analyst*

Okay, what do you think drove that strength? Do you think it was more -- you know, was there recovery? Just the impact going from Q4 2015 to 1Q 2016 was just more than you had expected? Or was there something sort of underlying the market that drove that upside?

Alison Cornell - *International Flavors & Fragrances Inc. - EVP and CFO*

We think it's a number of things, so one item being the shift between -- of course, possibly timing between Q4 and Q1. Another is stronger commercial performance. So we had less erosion, combined with stronger commercial new win performance that contributed to the overall strength in the quarter.

Faiza Alwy - *Deutsche Bank - Analyst*

All right, thank you.

Operator

Heidi Vesterinen.

Heidi Vesterinen - *Exane BNP Paribas - Analyst*

You've been talking about how you report organic growth or currency-neutral growth differently from your peers, and I think this is what you are alluding to in Alison's last slide. If we were to adjust the 6% growth rate, in line with peers, do you know what that number might be?

Alison Cornell - *International Flavors & Fragrances Inc. - EVP and CFO*

So from an organic perspective, we don't have any exact calculations, but I would double it.

Heidi Vesterinen - *Exane BNP Paribas - Analyst*

For 12%? (multiple speakers)

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

Organic. (multiple speakers)

Heidi Vesterinen - *Exane BNP Paribas - Analyst*

Organic is double, okay, so 4%. (multiple speakers) And then would you have the equivalent number for full-year 2015?

Michael DeVeau - *International Flavors & Fragrances Inc. - VP-Global Corp. Communications and IR*

It's roughly 5%. This is Mike, Heidi.

Heidi Vesterinen - *Exane BNP Paribas - Analyst*

Okay, great, thank you.

Operator

John Roberts, UBS.

John Roberts - *UBS - Analyst*

I apologize if this got asked earlier. I just jumped on the call late. But, some of your major customers have been implementing zero-based budgeting. Do you need to go to something like that model as well?

Alison Cornell - *International Flavors & Fragrances Inc. - EVP and CFO*

So, we as well are implementing a zero-based budgeting. We are in the early stages. We actually started -- I would say we dipped our toe in the water last year as we did in 2016 budget, but are moving forward with that on a broader scale in 2016.

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

So basically for the budget, John, this is Andreas, for the budget 2017.

John Roberts - *UBS - Analyst*

And then can you remind us of the split in business between local/regional customers versus global customers in both the Flavors and Fragrance segments? And was the gap in performance between those kind of two categories several percentage points difference in growth or was it much smaller than that?

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

It is actually the difference in growth -- I start with the last one, is smaller because we have seen one or two of our big customers was really, really good and nice growth rates in the first quarter. The business is still split by 50/50 roundabouts for us between the two categories, local regionals and global customers. And actually it is a split we really like, because as you well know, it is also the split in terms of emerging markets and mature market is 50/50. Flavors, Fragrances, almost a 50/50 relationship. That helps us in these volatile times actually to balance our business fairly well.

John Roberts - *UBS - Analyst*

Thank you.

Operator

[Sue Silke-Pruitt], JPMorgan.

Sue Silke-Pruitt - *JPMorgan - Analyst*

Do you have a sense for what the size of your sweetener modulation business is by now? Is it like in the tens of millions or is it larger than that?

Michael DeVeau - *International Flavors & Fragrances Inc. - VP-Global Corp. Communications and IR*

This is Mike. Let us come back to you on that. Traditionally, the way we have to go back on our systems to kind of proportionately allocate it to determine what the actual size is. We talked about our encapsulation side -- size on our CAGNY conference when we were in CAGNY this past February.

But on the modulation, we have to dimensionalize in terms of size. Let us come back for that one.

Sue Silke-Pruitt - *JPMorgan - Analyst*

Okay. And secondly, I was wondering if you knew how much favorable price cost contribution was to your gross margin.

Alison Cornell - *International Flavors & Fragrances Inc. - EVP and CFO*

So, from a net price input, it was very small. (multiple speakers) about 10 basis points.

Sue Silke-Pruitt - *JPMorgan - Analyst*

And my last question is, is the Lucas Meyer acquisition, does that contribute anything to EPS growth in the quarter? Or will it this year?

Alison Cornell - *International Flavors & Fragrances Inc. - EVP and CFO*

Yes.

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

Yes.

Alison Cornell - *International Flavors & Fragrances Inc. - EVP and CFO*

Yes, it's accretive.

Sue Silke-Pruitt - *JPMorgan - Analyst*

Okay, thanks very much.

Operator

(Operator Instructions) Lauren Lieberman, Barclays.

Lauren Lieberman - *Barclays Capital - Analyst*

I am glad I got back in. I did have a quick question about [vanillin]. I Know that the relationship with Evolva is changing. I believe they are kind of taking that back and it didn't -- the commercialization did not really go maybe as well as planned. It would be great if you could just articulate why. What are kind of the learnings from that experience, particularly as vanilla was cited as an area of potential cost inflation this year. Maybe just really interesting to learn about. Thanks.

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

We are taking the vanillin from Evolva for our own internal consumption, so not so much to sell it externally. And you are right. The vanilla prices are pretty high. We will see how the price trend will go on over time.

But I can't make projections right now for -- I think for the rest of the year we should be fine, because everything -- we have everything in stock we need. But we are covered. But for 2017, we will see how the price trend moves onward. It is hard to predict right now.

Lauren Lieberman - *Barclays Capital - Analyst*

And was the expectation that this is going to be -- what changed, I guess, in the expectation that this was going to be a product you could commercialize more broadly externally than is proving to be the case?

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

It depends, actually, Lauren, on the price, because whenever we do -- in this industry, you know, when you do something in the biotech space, you try to get let's say stable supply to a certain price. And as the price of the raw material -- if the raw material is not any longer, let's say -- you can't buy enough, then the biotech version kicks in. Or, if the price really goes through the roof and you have a good manufacturing price in place. And that is what helps us to balance these kind of movements.

So, as soon as the price would go up even further, then there might be an opportunity to commercialize it. But that is not the case at the moment. So far it is basically -- it is the supplier backup solution.

Lauren Lieberman - *Barclays Capital - Analyst*

Okay, all right, thank you.

Operator

Heidi Vesterinen, Exane.

Heidi Vesterinen - *Exane BNP Paribas - Analyst*

So, Symrise's CEO was talking in an interview recently that M&A multiples are far too high and they are choosing to focus on CapEx. Are you still confident on your guidance of CapEx to sales falling through to 2020?

I wonder if you don't find any accretive deals, is there a scope to develop new technologies, or even enter adjacencies organically, or do you actually need to acquire to get into these new segments?

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

Yes, thank you for the question. I certainly can't comment on Heinz-Jurgen's comments here. But what is clear for us is that we had in the last couple of years we have invested a lot in CapEx. You know we have built new manufacturing plants in Indonesia and Turkey and China, and that helped us a lot. We have on our agenda at, as you well know, we have still India and a second plant in China. But that's basically built into our plan for the coming years.

So, we believe we might spend between 4.5% and 5% for the next 2 years, maybe 3 years on CapEx, and then CapEx will go down towards the maintenance levels of 3.5 percentage points. So, nothing has changed on our side.

In terms of the valuation of M&A targets, I agree they are usually high. But they were high last year as well, and we are very happy with the two acquisitions we have done. So I think it always depends what kind of targets you find, what kind of price you can close, and what kind of strategy you apply then afterwards to make the business grow.

So, I would be more optimistic that you still can find good targets, and you know we are not doing anything outrageous here. We really want to make sure that we are financially very disciplined with what we acquire.

Heidi Vesterinen - *Exane BNP Paribas - Analyst*

Thank you.

Operator

Mark Astrachan, Stifel Nicolaus.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Two questions unrelated; one, could you talk about the price cost relationship over the balance of the year in terms of what anticipated benefit you might get from pricing versus what potentially happens from an input cost standpoint? And then secondly on China, following up on the question -- I guess the last question, CapEx wise, so there has been a bunch of moving parts even since last June's Investor Day about goings-on in China. How much is incremental in terms of what the CapEx spend is going to be for potentially one, two new facilities? What is your current capacity utilization in that market? And how do you think about it when the dust settles in terms of what the ultimate number of facilities will be relative to what your needs are and relative to your competitors from a positioning standpoint?

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

Maybe I'll start with a very macro picture on China. First of all, what you see in China is nothing very specific to IFF. You have seen it through basically all of our competitors and many of our customers and other companies, so it seems to be the way you have to operate in China. That's number one.

Number two is that we have made the decision that whatever we do in China was exceptional of our ingredients plan for Fragrances. Everything is for the local demand. We are not going to export out of China. So we do basically our manufacturing in China.

I think that is important to know as well. It is not a big, let's say, export hub for us. And now Alison can talk about the financials.

Alison Cornell - *International Flavors & Fragrances Inc. - EVP and CFO*

Okay, so from -- you asked about incremental CapEx associated with China. At this point, it's $45 million that we have assumed. From a capacity utilization perspective it's about 50%. But we are considering the second site as more of a contingency or backup site, so that's essentially how we are using it as needed. Your first question in terms of price to cost input, we expect it to be favorable for the remainder of the year.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Okay, thanks, guys.

Operator

At this time I will now turn the call back over to Andreas.

Andreas Fibig - *International Flavors & Fragrances Inc. - Chairman and CEO*

Thank you very much for all of the questions, and in summary, I would say that we are on track for the year. We are on track for Vision 2020. Thank you again and talk to you soon. Bye-bye.

Operator

Thank you for joining today's conference. You may now disconnect.
