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PRESENTATION

Operator

At this time, I would like to welcome everyone to the International Flavors & Fragrances fourth-quarter and full-year 2015 earnings conference call. (Operator Instructions). I would now like to introduce Michael DeVeau, Vice President, Global Corporate Communications and Investor Relations. You may begin.

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

Thank you. Good morning, good afternoon, or good evening, everyone. Welcome to IFF's fourth-quarter and full-year 2015 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. Please note that this call is being recorded live and will be available for replay on our website.

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 our outlook to the first quarter and full-year 2016. These statements are based on how we see things today and contain elements of uncertainty. For additional information concerning the factors that can cause actual results to differ materially from forward-looking statements, please refer to our cautionary statement and risk factors contained in our 10-K.

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

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 the call with prepared remarks and then take any questions that you may have. With that, I would now like to introduce Andreas.

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

Thank you, Michael. I would like to start with an executive overview of our operational performance for the full year. Then I want to provide an update on the progress we are making in terms of our long-term 2020 strategy. Once finished, I will ask Allison to cover our financial results in greater detail, including a comprehensive review of our fourth quarter, cash flow statement, and cash return to shareholders. Then we will both provide commentary as it relates to our outlook for 2016 and finish by taking any questions that you may have.

Starting with a financial review of our consolidated results for the full-year 2015, I'm pleased to report that currency-neutral sales grew 5%, which encompasses 6% growth in flavors and 4% growth in fragrances. Overall, topline growth benefited from a two percentage-point contribution from the acquisition of Ottens Flavors and Lucas Meyers Cosmetics.

In addition, our organic business, which grew 3% on a currency-neutral base, continued to benefit from strong new win performance, particularly in fragrance compounds, as sales related to new wins finished above our five-year average.

For the full-year 2015 and on a currency-neutral basis, consolidated adjusted operating profit increased 8% and adjusted operating profit margin expanded by 50 basis points as a result of our sales growth, the benefit associated with cost savings and productivity initiatives, mix gains related to acquisitions, and lower incentive compensation expense. This improvement in operating profit, when combined with a more favorable effective tax rate and a reduction of shares outstanding, led to an 11% increase in our currency-neutral adjusted EPS in 2015.

While I am pleased with our results on a full-year base, I'm not satisfied with our topline performance in the fourth quarter. That is driven by a combination of a challenging year-over-year comparison due to an additional week of sales or the 53rd week in 2014, a concentrated effort by some of our larger customers to manage inventories in advance of year-end, a portfolio rationalization of one of our largest fragrance ingredients' customers, and an increased economic pressure in key emerging markets, such as China.

We did not perform as well as we would have expected. Alison will go through the specifics in greater detail in a moment.

Before doing so, I want to highlight the strategic progress we have made as it relates to our Vision 2020 strategy. Since the communication of our strategy in June 2, 2015, we have taken steps to deliver on our ambition to achieve target market leadership, defined by number one or number two market share positions in key markets, categories, and customers.

Within the emerging markets, we've identified the Middle East and Africa as an area of focus, given the robust economic trends and the impact on our consumer disposable income in the future. I'm happy to report even as we are very early in our journey that for the full year Middle East and Africa we are up 14% on a currency-neutral basis.

Similarly, with fragrance compounds, China grew high single digits as the local teams continued to leverage our long-standing presence and in-depth consumer knowledge to win both global and regional customers.

Consumer fragrances continued its mid to high single-digit growth trend in 2015, and within that segment, homecare, an area of focus for us, grew high single digits for the full year on a currency-neutral basis, led by double-digit growth in Latin America.

In flavors Latin America, we delivered 16% currency-neutral sales growth, driven in part by key customers and our proprietary delivery systems.

In 2015, in North America we believe we are now the number two flavors company with our acquisition of Ottens Flavors, which will be adding approximately $60 million in annual sales to our business.

Over the course of the year, we also made strong progress against our innovating first pillar, as we believe our robust technology pipeline is critical to building greater differentiation and ultimately accelerated growth. In Quarter 4, we commercialized two additional captive fragrance ingredients molecules, bringing our total output to four in 2015. In addition, [the cost of food and crystal fizz], which I spoke about last quarter, in Quarter 4 we commercialized Amber Tonic and [cool wood]. Both molecules are strong performers in all applications and give our perfumers the competitive edge when creating the next great fragrance for our customers.

We are proud of these accomplishments as we successfully doubled our annual fragrance ingredients molecule output average. We believe this is very critical in terms of differentiation and it provides us with greater confidence in our growth ambitions going forward.

The strong trends in fabric care and beverage continued in the fourth quarter, driven by our industry-leading encapsulation technology in fragrances and proprietary delivery system in flavors. The growth trend of encapsulation-related sales continued in 2015 as currency-neutral sales improved midteens, led by fabric care and homecare. For the full-year 2015, fabric care grew high single digits on a currency-neutral basis, with all geographic markets posting strong growth, led by double-digit growth in EAME and Latin America.

Leveraging our success in fabric care, we developed a new capsule in 2015, which will allow us to expand this critical encapsulation technology into personal care categories, such as hair care and body wash.

Sales of our sweetness and savory modulation portfolio continue to produce strong results, increasing double digits in 2015. The categories where we had the most success were savory, dairy, and beverage, as our innovative solutions are allowing our customers to meet the demands of consumers who are primarily looking to reduce sugar and salt.

Building on those strengths, we also commercialized two natural taste modulators in 2015. A vision of these modulators will further strengthen our capabilities and it provides our flavors the more competitive palates from which it builds winning solutions for our customers.

In addition to the strides we have made from a market share and innovation perspective, we've also made progress in our never-ending quest to become our customers' partner of choice. In December, we launched our refreshed branding where we unveiled the new website, purpose statement, visual identity, and tone of voice, all of which are geared towards showcasing IFF's vision, imagination, and innovative focus for customers, employees, and, of course, shareholders.

I'm proud of the recognition we have received from our customers in 2015. Over the course of the year, we won the North America innovation award with one of the largest flavors customers, which recognizes partners for their thought leadership. In addition, Estee Lauder presented us with their Suppliers Excellence Award, an achievement designed to acknowledge their top-performing business partners.

Also, Lucas Meyer Cosmetics, who we acquired in August, won the 2015 In-Cosmetics Asia Gold Award for best active ingredient innovation and best functional ingredient. More recently, they also received first prize at the first cosmetic ingredients show of 2016.

When it comes to sustainability, at IFF we will not accept the status quo. We believe it is foundational to our Vision 2020 business strategy, which is while we are committed to embedding sustainability throughout our business practices and our corporate culture, as you can see on the slide, 2015 was a very successful year in terms of accomplishment.

While the first three pillars focus on leveraging or improving our existing capabilities and infrastructure, the fourth pillar -- strengthening and expanding the portfolio -- aims to support our organic business through M&A partnerships and collaborations. During the second and third quarter of 2015, we completed two acquisitions, one focusing on growing our market share in North America and one focusing on expanding into new adjacencies which have strategic value. Both acquisitions in 2015 have performed well and are ahead of our business case in terms of sales growth and margin enhancement. We believe that performance is a good indication that we are allocating capital towards long-term value-creating opportunities.

Overall, I'm pleased with the progress we have made from a strategic perspective and I'm committed to continuing this momentum as we move through 2016.

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

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

Thank you, Andreas.

Given the softness that we experienced in the fourth quarter, I want us to reconcile to what we communicated on our third-quarter conference call to actual Q4 results. On November 11, we stated that we expect to have moderate currency-neutral sales growth in the fourth quarter, with organic sales flat to down slightly in Q4. At that time, as shown in the chart, currency-neutral sales on an organic basis was up 2% in October. As we moved through November, our growth trajectory continued, with currency-neutral sales up nearly 3% for the month.

Then, unfortunately, our performance in December came in softer than we expected. While we knew we faced a strong year-ago comparison that included an extra week of sales, which we quantified to be 200 basis points in the quarter or approximately 600 basis points in the month of December, there were a few other factors that further pressured results.

First, in flavors, we experienced unprecedented fluctuations in terms of customer order patterns. While traditionally we have good visibility around the commercialization of products and our customers' recurring order patterns, we ultimately are dependent on our customers in terms of launches and inventory levels. In December, we unexpectedly experienced several large flavors customers reducing their overall order intake, which impacted results.

This was also the case in consumer fragrances, where customers did not reorder at the same level as they did in the year-ago period, excluding the 53rd week impact.

In fragrances, our ingredients business remained under pressure as one of our largest fragrance ingredients customers continued to rationalize their product portfolio. In Q4, the impact was even more pronounced, which further pressured results.

And lastly, we continued to see pressure in flavors in China, partly due to a weaker economic environment, but also some lost business relating to the manufacturing issues we faced earlier in the year.

In light of our challenging currency-neutral sales growth, we still managed to deliver strong adjusted EPS growth. In the quarter, acquisitions contributed approximately 4 percentage points to overall growth.

There are two areas that I want to highlight in terms of our topline in the quarter. The first is Latin America flavors, where we continue to benefit from our industry-leading delivery system technology and take market share from our competition. Also in Latin America, fine fragrance has returned to growth in the fourth quarter, as volume erosion appears to be normalizing and we continue to win new business as we significantly outperform the market.

From a profit perspective, consolidated adjusted operating profit on a currency-neutral basis increased 3% and adjusted operating profit margin expanded 40 basis points, as gross margin expansion, the benefits of productivity initiatives, M&A, and reduced incentive compensation fueled results. Below the line, currency-neutral adjusted EPS increased 9%, thanks in large part to a lower adjusted effective tax rate, down 210 basis points, and an 830,000-share reduction in shares outstanding as a result of our share repurchase program.

Despite the softer-than-expected sales and operating profit performance in Q4, we still delivered a solid financial performance on a full-year basis. Currency-neutral sales improved 5%, currency-neutral adjusted operating profit grew 8%, and currency-neutral adjusted EPS increased 11%.

From a cash flow perspective, our core working capital levels continued to show improvement year over year as a percentage of sales, as our five-quarter rolling average figure through the end of Q4 was down 40 basis points to approximately 28.7% of our 2015 annual sales. Much of our gains came from higher payables as a result of the concentrated effort to improve our days payables outstanding. On a full-year basis, our DPO increased by nine days to 54 days from 45 days a year ago.

Operating cash flow from operations at the end of the fourth quarter was $434 million, including an incremental $24 million pension contribution. Excluding the incremental portion of the pension contribution, adjusted operating cash flow would have increased to $458 million, or 15.2% of adjusted operating cash flow as a percentage of sales.

Capital expenditures for the year finished at $101 million, or approximately 3.3% of sales, as we continue to make investments to support our growth initiatives, principally as we finished our plants in Turkey and Indonesia. CapEx in 2015 came in below original expectations as the timing of several vendor payments will now occur in 2016. As a result, we expect 2016 CapEx will increase to around 5% of sales, as we plan to make incremental investments for manufacturing in a new flavor site in China and to improve our site in India.

For cash returned to shareholders, dividend payments in 2015 were $160 million. This is a direct result of a 20% increase in August as our intention was to provide a more competitive yield, approximately 2%, while simultaneously balancing our growth objectives. Supplementing our dividend and remaining flexible to pursue M&A opportunities, we spent $122 million in share buybacks. Over the course of the year, we've repurchased approximately 1.1 million shares and lowered our diluted shares outstanding to 80.4 million shares.

When combining both dividends and share repurchases, we achieved a 66% total payout ratio of adjusted net income, exceeding our targeted range of 50% to 60% and significantly ahead of prior year. Looking ahead, for 2016 we can reiterate our targeted total payout ratio range of 50% to 60%.

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

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

Thanks, Alison.

As we look ahead to 2016, I want to provide an assessment of our vantage point as we stand here today. Basically, there are four key themes that we believe are relevant when planning our financial growth for 2016.

From an economic perspective, there's a lot of fluidity around the world. While the developed markets of the US and western Europe appear to be improving slowly, in the emerging markets the volatility we experienced in the second half of 2015 continues. Large markets, like China, appear to be decelerating and Brazil continues its decline. These two markets account for approximately [15]% of our total sales.

With regard to multinational consumer product companies, volume expectations seem to be muted, as many organizations appear to be focused on improving margins while taking pricing actions in emerging markets to protect profitability. Fortunately, regional players continue to exhibit stronger volume trends, whether it be in the US or in the emerging markets.

This economic uncertainty has led to sharp declines in hard commodities such as oil, which is beneficial in terms of costs. This large decline in petrochemical should help in terms of input cost, although we continue to see naturals, such as vanilla and citrus, remaining elevated.

Finally, in terms of foreign exchange, the US dollar continues to strength against world currencies. This continues to be a challenge for most multinational companies based in the US, both in terms of translation and transaction exposure.

With all that as context, we are preparing ourselves for even more challenging conditions, given the higher level of economic uncertainty and the more cautious volume outlook of consumer packaged goods companies. We expect 3.5% to 4.5% currency-neutral sales growth, including approximately a 1.5 percentage-point contribution on the acquisitions of Ottens and Lucas Meyer. From an organic perspective, growth is expected to be largely driven by consumer fragrances, as well as Latin America and EAME and flavors.

From an operating profit perspective, we expect to achieve 5% to 7% growth, inclusive of the contribution of M&A. This improvement should be a result of gross margin expansion and productivity initiatives, but more than offset the resetting of our annual incentive compensation program and investments in our strategy 2020, both of which Alison will touch on in a moment.

Currency-neutral EPS growth is expected to improve by 6.5% to 8.5%, led by a modestly lower effective tax rate and the continuation of our share repurchase program.

Longer term, we continue to believe that over the 2016-2020 horizon we can deliver our Vision 2020 financial targets. We believe our emphasis on building greater differentiation, specifically in R&D, should ultimately lead to higher growth rates in the years to come.

And in light of the recent instability in the financial markets around the world, I want to take a moment to reemphasize that IFF is a diversified and competitively advantaged organization. Whether you analyze our portfolio by category, region, or customer, the breadth and diversity of our portfolio is great and our innovative solutions are key components of consumer staple products that enjoy long-term growth stability.

We believe that our management team, as well as all IFF employees, are capable of executing on our strategy 2020, to deliver long-term value for our shareholders. As we communicated at our recent investor day, we continue to believe that we can deliver organic currency-neutral growth -- term targets of 4% to 6% growth, 7% to 9% operating profit growth, and 10% EPS growth over the course of 2016 to 2020.

With that, I would like to ask Alison to provide some additional remarks on our profitability outlook and foreign exchange exposure.

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

Given the many moving parts, I wanted to provide additional insight and transparency into our expected profitability goal for 2016.

In the table, we anchored on full-year 2015 adjusted operating profit and built out a reconciliation to bridge to 2016 operating profit. Starting with the second bar, you will note that we expect approximately a 4.5 percentage-point headwind related to the resetting of our annual incentive compensation program.

For those of you who are not familiar, we at IFF are highly incentivized to deliver on our financial commitments. From time to time, there are variations in incentive compensation, as it is based on our performance relative to our annual plans. If we achieve our full-year financial targets, which are comprised of currency-neutral sales growth, gross margin as a percentage of sales, and absolute level of operating profit, and working capital as a percentage of sales, we will receive 100% of our designated payout. Should we overperform or underperform our annual plan, our incentive compensation is adjusted higher or lower, respectively.

Since in 2015 we underperformed on a few components of our plan, our payout was below 100%. Now, as we reset our targets in 2016, we budget for 100% payout, which ultimately is a driver behind the year-over-year variance.

In the third bar, we've identified the incremental investments we are making in Vision 2020. These are critical strategic investments -- for example, R&D, application and commercial, geared toward delivering our long-term strategic and financial objectives. As we communicated at our investor day, we committed to self-fund our reinvestment opportunity.

In the fourth bar, you can see that we are aggressively attacking our cost base to not only cover our incremental investments, but also help to deliver on our short-term profitability objectives. In addition to our standard cost and productivity initiatives, which includes the likes of formula optimization, procurement savings, and manufacturing efficiencies, we identified incremental savings opportunities via our [fundly] journey programs.

During the fourth quarter, we established a series of initiatives that are expected to streamline our management structure, simplify decision-making and accountability, better leverage and align our capabilities across the organization, and improve our global manufacturing and operations network. As a result, the Company reported a pretax charge of approximately $8 million to cover severance and related costs associated with expected termination, a portion of which are subject to consultation [proxy].

The Company expects to realize pretax savings of $7 million to $9 million once fully implemented in the second half of 2017, half of which is expected to be realized in 2016, which is included in our 2016 guidance.

Separately, the Company recorded a charge of approximately $7 million associated with the acceleration from 2016 to 2015 of contingent consideration payments from the Aromor acquisition that was triggered by certain of the affected positions noted above. Then, the combination of our operational performance, inclusive of M&A, is expected to deliver 4% to 7% currency-neutral operating profit growth. We expect foreign exchange, which I will discuss in greater detail in a moment, will have a five percentage-point impact, bringing our reported operating profit to be flat to up 2% in 2016.

Before concluding, I would like to provide some additional insight into our foreign exchange exposure. Although 51% of our sales are to the emerging markets, not all of these sales are denominated in local currencies. For a variety of reasons, many of our sales transactions in the emerging markets occur either in US dollars or other hard currency or are indexed to hard currencies when we have to price in local emerging-market currency.

As you can see in this chart, of the 51% of our sales in 2015 that were to emerging markets, approximately 70% were denominated in US dollars or other hard currencies, leaving only 30% that are denominated in emerging-market currencies. As a result, our foreign-exchange exposure to emerging-market currencies is rather limited. This is important, especially as we continue to see the US dollar strengthen versus most emerging-market currencies.

Given that fact, it's clear that the [key of our] currencies have the most impact on our profitability. Starting with the top box, we've listed our profitability exposure. As we progress into 2016, while the Indian rupee, Japanese yen, Thai baht, and Australian dollar are presenting modest headwinds in terms of currency, the euro is clearly the largest driver. As you can see, the devaluation of the euro versus US dollar is expected to represent approximately four out of our five percentage-point headwind in 2016.

While we are hedged approximately 75% at [114] in 2016, the impact on profitability is about 2.5%, plus the year-over-year variance of the hedging benefit in 2016 versus 2015. To allow you to more accurately forecast the exchange-rate volatility, I've included our 2015 exchange rate, as well as our planning rate for 2016. We hope that by giving you these details you have greater visibility into our currency exposure, as you can calculate the percentage change in each specific currency and then multiply by the percentage of profit each currency represents.

I'd now like to turn the call back over to Andreas for some concluding remarks.

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

In summary, 2015 was a successful year for IFF. We were able to deliver solid financial performance, while also implementing our new Vision 2020 strategy, geared toward accelerating profitable growth, building greater differentiation, and maximizing shareholder value.

Our focus now continues to be on the execution of our strategy. In addition in 2015, we integrated two acquisitions, strengthened and further prioritized our R&D initiatives, achieved our sustainability objectives, grew our talent, and invigorated IFF's brand with the launch of our new purpose statement and enhanced branding elements, all of which helps spotlight our vision, imagination, and innovative focus.

Looking forward, we are committed to our long-term targets and continue to believe that over the 2016-2020 horizon we can deliver strong financial results. And while 2016 is more challenging in terms of the operating environment, we believe we can deliver solid financial results while simultaneously reinvesting in our business.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Mark Astrachan, Stifel.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Good morning, everybody. I wanted to ask on cost savings. So is the plan still to have the previously announced cost savings of 1% to 2% of sales fully reinvested back into the business, given what looked in the slide that Alison was walking through that there is a 2% benefit to EBIT growth embedded in 2016 guidance? In other words, does the benefit become a drag even in 2017?

And then, just more broadly on the same topic, does the current macro environment, which is clearly worse than it was in June 2015 when those original savings were outlined, require more cost savings to grow in line with long-term targets today?

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

Mark, thank you for the question. Let me start and then I hand over to Alison.

First of all, what we have started to be -- and you have seen it in the call in terms of pretty aggressive, let's say, savings targets to make sure that we have good cost base, which will help us going forward in the years to come as well. And we will take part of it to reinvest in particular in R&D because we believe we have to build differentiation and new molecules. And as I hopefully have shown you during the presentation that we have already some early successes in terms of our pipeline, just mentioning going from two fragrance to four fragrance and new patented molecules, which will help us to grow our base over the years to come.

I agree with you. The economic environment has worsened compared to, let's say, eight to nine months ago and that's the reason why we are cautious in terms of our outlook as well because the volatility is just very, very high right now. Let me hand over to Alison.

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

Hi, Mark. In addition to what Andrea said, the other thing that -- we are being very aggressive from a cost-cutting perspective. And what you see on the bridge chart that we provided from 2015 to 2016 is one of the items that we need to cover is our bonus reset back to 1X. So the cost-cutting is not only to cover the Vision 2020, but also to cover our bonus reset, and so we don't anticipate having that same issue as we move into 2017.

Operator

Mike Sison, KeyBanc.

Mike Sison - *KeyBanc Capital Markets - Analyst*

Hi, guys. Good morning. Andreas, when you think about 2016 and what you are hearing from your customers, is the slowdown in terms of the demand coming from less new-product starts? Is it basically just customers -- their customers not buying as much? Can you maybe touch on some of the underlying dynamics of what you are seeing in terms of the slowing in the markets?

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

Okay. Mike, thank you for the question. It's probably a bit of a long one in answer because a couple of the puzzle pieces we have to piece together.

So if we look, for example, to fine fragrance, we can say it was a good Christmas season, so we basically saw good performance here, so we [don't] expect that we see a restocking effect here, so that's the first part of the business.

We have a good project pipeline particularly on the fragrance component side and also on the flavors side, so we see that this is good and very, very solid. In compounds fragrance, I would see it even over the average we have seen before. So that's good.

On the flavors side, we see that projects are happening and we have projects that we have always executed by our customers, and it depends how, let's say, how much they are selling them of the product, especially on the category side.

On the geographic side, what we see is US and Europe are actually pretty okay and coming back. We see a bit of a softness in particular in some of the emerging markets, like China, and be sure to not forget that if we look at our customers, in particular the big CPG customers, that the outlook for volume is relatively muted.

The good thing is we don't see this with all of our regional and local customers, and as you know, our customer split is 50-50 with the big clients and the small ones. It's a bit of a long-winded answer, but there are really different pieces to be looked at for 2016. I hope that helps.

Operator

Lauren Lieberman, Barclays.

Lauren Lieberman - *Barclays Capital - Analyst*

Thanks. Good morning. Just first following up on that, my sense is that the CPG customers, that at least over the last six months -- I mean, their outlooks certainly haven't improved, but I don't really feel like there's been that much change in their outlook in terms of global market growth or volume growth. Maybe that it's not getting better as quickly as they had hoped, but it certainly doesn't sound to me like it's worse. So I'm wondering if you are also seeing end-market demand slow for those regional and local customers, that the macro is now trickling into total market demand, not just a bit of the share shift that you'd seen happening. So that was my first question.

The second was on the decision to invest in the new China flavor facility. How does that tie into the existing manufacturing plant -- or I guess there's two, but the one where you had kind of the emissions issues this summer? If you can just give us a little more color on that, it would be great. Thank you.

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

Let me start probably with the flavors plant first in China. We have made the decision that we will invest in the second plant. We plan to start groundbreaking at the end of the year and that will deliver us with, let's say, a backup plan for China for a market where we still believe we have to be present with a second plant for the volume. So that's actually on track.

On our existing flavors plant, you know we had -- earlier last year, we had the odor issue and we have salted so far on the flavors side, so that's working. We are back with our manufacturing. But having said all that, that has cost us some business over the course of 2015.

Coming back to your first question, what we see is a deceleration of order patterns with our global customers and that's something which is certainly impacting the business. It depends, certainly, customer by customer and region by region, so we really have to go into more of a detail. But still for the smaller regional and local customers, it's -- I would say the assessment stage that you have a couple of companies which have passed their growth here, and that's actually good for us because we do significant business with these customers as well. I hope that helps.

Operator

Heidi Vesterinen, Exane.

Heidi Vesterinen - *Exane BNP Paribas - Analyst*

Hi, if you could go back to slide 10, please. I wondered if there's any chance you could break out how much growth you lost from each of the headwinds that you've identified, just to get some color on what had the most impact, please. Thank you.

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

This is Mike, Heidi. So on slide -- just to confirm, greater insight into Q4 2015 sales. So we will address it that way, just from a deceleration perspective. I think, Alison, the question was about, in the bullet points we have here, kind of a standard value associated to each one of them to show part of the [bigger issue] in the quarter.

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

I'd say from an attribution perspective, the 53rd week we said in the quarter accounts for a 200 basis-point deterioration, and of that, there's 600 basis points associated with the month of December, and then beyond that, in terms of timing of order patterns, that's about, I'd say, one percentage point, and then I'd say the difference between the portfolio rationalization, I'd say -- China flavors is maybe 1.2, and then the difference is the portfolio rationalization. So those are the big chunks that we tried to outline.

Operator

Faiza Alwy, Deutsche Bank.

Faiza Alwy - *Deutsche Bank - Analyst*

Yes, hi. Thank you. Good morning. So I have a couple of questions. The first question is, do you think you are losing share to some of your larger competitors? Because I know we talked about before how if you look at their organic growth, their definition is a little bit different than yours. But in talking to them, we've tried to quantify the difference, and it seems like they are doing a lot better than you, even on a two-year stacked basis, in various sort of geographies and categories.

And I'm particularly interested in China because they have been talking up China and telling investors that China is coming back and they are doing a lot better with the local regional players. So that indicates that you are losing share, so I just wonder if you can shed some light on that and if you are concerned about that.

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

Let me start and then hand over to Alison. Faiza, thank you for the question.

First of all, we don't believe that we are losing share. In contrary, we believe that we win share. Particularly in some of the major, major categories, we are actually very, very, very strong. If we factor in the year-ago comparison, so for the year, and we believe actually that going forward that this trend will continue. In particular regarding China, we see a slowdown in the economy, but maybe Alison might comment on this one as well.

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

So I'd say it's probably two pieces from China. We see a deceleration of orders and we think that initially had to do with our odor abatement issues that we experienced. But beyond that, our current pipeline is lower from a new brief perspective because we believe our clients are concerned a bit about not having a backup site in China and looked for alternative suppliers in the short term. We believe once we rectify that issue, there will be no issue from a volume perspective.

I think beyond that, I wanted to add to Andreas' comment about [achievement] on FX. Because the way that our clients or our competitors measure, they actually take the benefit of pricing in terms of their growth rate, and so it's not really an apples-to-apples comparison, as reported. So you need to essentially factor the results down by maybe one-third to have an apples-to-apples comparison. If you do that, you will see on a full-year basis we are in fact performing better than our competition.

The other distinction I wanted to make was when commenting in terms of China and share and briefs, the comment is in particular to flavors and not fragrance because we are growing in the fragrance space in China.

Operator

John Roberts, UBS.

John Roberts - *UBS - Analyst*

Good morning. Do we have any other contingent payments from Ottens or Lucas Meyer ahead, and is Aromor now fully paid for?

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

So to answer your question, no, there are no other contingent payments associated with any of that -- any of our acquisitions. And Aromor is fully paid for.

Operator

Jeff Zekauskas, JPMorgan.

Jeff Zekauskas - *JPMorgan - Analyst*

Thanks very much. I have a question about your current assets. Your sales growth year over year was down 5%, but your receivables are up 9% and your inventories are up 4%, 4% and 9%. Why is that? And does that mean you have to really produce a lot less in the first quarter to get your inventories back in line?

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

A couple things, so we had the impact of acquisitions. That was one item related to that. We had an increase in inventories -- one associated with acquisitions, but also associated with the building of our Turkey and Indonesia plants where we ramped up over time and we expect to ramp that back down.

And then from a receivables perspective, we also had an additional DSO increase associated with the extra week of sales that we had in 2014 versus 2015. So those are, I would say, the big three moving parts.

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

There were a couple of events which will be not repeated in the current year, like the inventory from the acquisitions, for example.

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

Right.

Operator

John Roberts, UBS.

John Roberts - *UBS - Analyst*

Fragrance ingredients seems like it's stepping down again here. Do you think it will decline further sequentially, or is it going to stabilize quickly and we go through four quarters of difficult comps and then maybe we'll start to see some growth after we anniversary the step-down?

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

A very, very good, good question, and we have a lot of, let's say, focus on our fragrance ingredients business here.

First of all, let me say that it's around about 9% of our total sales and the majority of our production, so greater than 60%, is used for internal consumption, which is kind of a strategic vertical integration component of the segment's compounds business. And the base fragrance ingredients business was negative in [force], largely related to the portfolio (inaudible) by one -- actually, our largest fragrance ingredients customers, and that will be not repeated. So, we don't expect another big step-down coming our way.

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

Just to clarify, Q1 will continue to be challenged, and then you will see the lapse, if you will, that you spoke to in your question occur in Q2, and then we should be good from there.

Operator

Mark Astrachan, Stifel.

Mark Astrachan - *Stifel Nicolaus - Analyst*

Thanks for the follow-up. I'm curious what underlying assumption is embedded in your sales growth outlook for the overall flavor and fragrance category for 2016.

And then, just wanted to try to understand a bit on the progression as well. So I get it -- October and November are better, December worse sequentially, but that was sort of before some of the global markets started to do what they've done over the last six weeks. So curious to what you're seeing from a quarter standpoint and maybe how you think about progression of sales growth through the year to get to your guidance.

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

Okay, Mark. Let me start with the first piece on the market growth.

What we certainly see is the deceleration in the flavors market in general followed by 0.5% to 1%. The market on the fragrance side is kind of stable. That's what we see in the environment.

And let me comment on the first, let's say, the first quarter of 2016 is we started actually off the month, January, well, growing low single digits, but this is month of January and we remain cautious in the first quarter as we are comparing to our very strong year-ago period where we had the growth of flavors 9% and fragrances of 5%. So we had an okay start, but, as we said before, we have to be very cautious because the volatility is very high at the moment.

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

And to comment as well, we talked about changing order patterns from a client perspective. I'd say we are experiencing more volatile order patterns, and so our visibility is, I'd say, a bit lower than we've historically experienced.

Operator

Jeff Zekauskas, JPMorgan.

Jeff Zekauskas - *JPMorgan - Analyst*

If I could follow up, could you compare the pricing trends in the flavor business and the fragrance business? Sort of which pricing trend does better and which is worse, and just some rough idea of magnitudes. And then, secondly, the euro is now $1.13. So if the euro stayed at $1.13, how does that change your FX calculations for 2016?

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

So, let me start with your second question (multiple speakers) euro. We would see upside of a few million dollars in our forecast, based on an average rate of [105] for the year, and so it depends on how long the euro stays at $1.13 and really how it plays out across the year. But just assuming at this point it stays at that, it is a potential upside of a few million dollars.

Going to your first question in terms of flavors versus fragrance, I would say fragrance from a pricing perspective is more pressured on the ingredients side, where flavors, I'd say, has more opportunity to increase.

Operator

At this time, I will turn the call back over to Andreas for closing remarks.

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

Thank you very much for all the good questions, and I would like to close the call right now and wish you a good day. Thank you.

Operator

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