

# CHEMICAL MARKET REPORTER

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## Executive Insights: Sensient Technologies

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A SERIES OF BOLT-ON acquisitions that diversified the company's portfolio into non-food areas and a strategy of globalization have put the colors, flavors and fragrances company Sensient Technologies Corp. on track to become a \$1 billion company this year. While flavors and fragrances still account for the majority of its sales, Sensient's non-food businesses in digital inks, specialty colors and cosmetics ingredients continue to see double-digit growth, helping to offset low growth in mature food and beverage markets.

Sensient started its transformation six years ago, when the company, formerly Universal Foods, took on the strategy of portfolio diversification and globalization. "When I first joined Universal Foods 16 years ago, we sold food products, such as cheese and frozen potatoes," says Kenneth Manning, Sensient's chairman, CEO and president. "We are no longer a food company, but rather our emphasis is on technology that supports our flavors, fragrances and colors businesses."

Sensient is organized into two major groups: colors, and flavors and fragrances. Last year, the flavors and fragrances group accounted for 62 percent of Sensient's sales or \$572.2 million. Its colors business accounted for the other 38 percent or \$346.5 million, and it is that part of the business that is driving the company's current growth.

The color group had revenues gains of 10.4 percent to \$278.6 million for the first nine months of 2003. In contrast, growth in the flavors and fragrances businesses was only 4.0 percent, mainly from outside the US, with revenues reaching \$443.2 million. The color group includes food and beverage colors, pharmaceutical colors and coatings, inkjet inks and specialty dyes used for display imaging and specialized printing applications, paper dyes and colorants, technical colors for various industrial applications, and cosmetic colors and ingredients.

"Many areas posted strong increases, particularly our newer areas of cosmetic colors, natural colors and digital inks as well as many of our foreign operations in flavors and fragrances," says Mr. Manning, in commenting on the company's third quarter performance. "However, our older businesses, particularly food and beverage colors in the US, showed disappointing results for the third quarter."

In its food colors business, Mr. Manning explains the competitive issues and current challenges for product diversification. "The market in the US continues to be plagued by a slowdown in product development by the major food and beverage

manufacturers as well as shorter product cycles," he says. "This has greatly slowed our strategy to sell more sophisticated color solutions to our customers and has intensified price competition in basic color areas such as Red 40, Yellow 5 and Yellow 6. The market can be expected to remain competitive in the US as long as the food and beverage manufacturers feel the profit pressures from the current slow economy."

In response, he says the company plans to re-enter lower



Kenneth Manning, Sensient's chairman, CEO and president.

end markets for basic colors that were primarily price driven. "We have also doubled the color food and beverage sales force with sales people that have extensive product training, which gives us the strongest sales force in that market."

The company will also continue to promote "more sophisticated color solutions," says Mr. Manning, and will broaden its technical services offering at its color service laboratory and new colors headquarters in St.

Louis, Mo. Since 1990, the company has invested over \$100 million to expand its St. Louis site.

Dating back to 1997, Sensient has used a series of acquisitions to build its colors business. The latest came in July with the acquisition of Barcelona, Spain-based Formulabs Iberica SA, a manufacturer and marketer of specialty inks primarily for ink-jet applications. Last year, Sensient acquired Cadre Inc., a Plainfield, N.J.-based producer of specialty ingredients, including surface-treated pigments for specialized cosmetic applications. Also in 2002, the company acquired ECS Specialty Inks and Dyes, a Lausanne, Switzerland-based producer and marketer of inks for specialty printing applications. Sensient also acquired, Syn-Tec GmbH, a German manufacturer of specialty dyes and chemicals for the imaging industry, which are used in organic light-emitting diodes (OLEDs). "We see the OLED market as an important growth area for the company," says Mr. Manning.

Those acquisitions followed two important deals in 2001. The first was the acquisition of the industrial dye business of Crompton Colors Inc., which expanded Sensient's industrial and paper colors businesses. Sensient also acquired Kimberly-Clark Printing Technology (also known as Formulabs), a manufacturer


of specialty inks for inkjet inks and industrial applications.

Sensient entered the inkjet inks market with the 1997 acquisition of Tricon Colors. SynTec, ECS and Formulabs operate as part of Sensient Imaging Technologies, which offers inkjet inks and specialty dyes and chemicals used for display imaging and specialized printing applications. Sensient Imaging Technologies is one of three groups within Sensient's technical colors division. The others are Sensient Paper Colors (paper dyes and colorants) and Sensient Industrial Colors (technical colors used for various industrial applications). These moves followed several earlier acquisitions to build its food colors business. In 2000, Sensient acquired Dr. Marcus GmbH, near Hamburg, Germany, to build its position in natural colors, and bought High Ridge, Mo.-based Monarch Food Colors, which manufactures colors for the food, pharmaceutical and cosmetic industries. In 1999, it made four additional acquisitions, the largest of which was Pointing Holdings Ltd., a manufacturer of colors, flavors and specialty chemicals, based in Northumberland, England. Sensient also purchased Les Colorants Wackherr, Paris, to strengthen its position in cosmetic colors. In natural colors, Sensient bought the assets of Quimica Universal in Lima, Peru, to expand its capabilities in carminic acid and annatto, two natural food colors. And the acquisition of the natural colors business of Nino Fornaciari fu Riccardo SNC, Reggio Emilia, Italy, complemented Sensient's 1998 purchase of Reggiana Antociani, another Italian natural colors maker. Those acquisitions broadened Sensient's offerings in anthocyanin, a natural red color. The 1997 acquisition of the food color business of Pyosa SA de CV, Monterrey, Mexico, strengthened the company's presence in Latin America. Sensient first started its color business in 1984, with the acquisition of Warner-Jenkinson.

In its flavors and fragrance business, Sensient acquired the flavors and essential oil operations of the Bremen, Germany-based C. Melchers GmbH & Company in 2002. The move provided Sensient with flavors for coffees and teas and essential oils, aroma chemicals and other formulations for flavor, cosmetic and fragrance applications from facilities in Germany, the US and China.

Last year marked the completion of the company's cost-reduction program, which began with facilities consolidation in its European flavors and synthetic colors operations and its domestic dairy flavors business. In all, Sensient achieved an annual cost-savings of \$20 million. Also, as part of its strategy to diversify away from certain food areas, the company divested its Red Star Yeast and Products division in 2001, selling it to Paris-based Lesaffre et Compagnie.

Aside from acquisitions, Sensient's Mr. Manning has set a deliberate course to build the company's sales and employee base outside the US. Now, roughly 55 percent of the company's sales are outside the US and two-third of its employees are based outside the US. The company's Asia Pacific division, headquartered in Singapore, umbrellas both the company's colors and flavors and fragrance activities in the region. The company maintains manufacturing operations in Guangzhou, China; Manila, the Philippines; Ibaragi, Japan; and Keysborough, Australia. The company plans to open its first manufacturing facility for flavors in Sao Paulo, Brazil, in the 2004-2005 time frame.

"We see expanding our geographic reach into emerging markets as key to our current and future growth," says Mr. Manning. "This, along with expansions to our product lines as well as attention to costs, provides a good foundation for sustainable growth." 



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