

INTERNATIONAL FLAVORS & FRAGRANCES INC  
Form 10-K  
February 26, 2013  
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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-K**

þ ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2012

OR

· TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the transition period from to

Commission File Number 1-4858

**INTERNATIONAL FLAVORS & FRAGRANCES INC.**

*(Exact name of registrant as specified in its charter)*

**NEW YORK**

*(State or other jurisdiction)*

**13-1432060**

*(I.R.S. Employer Identification No.)*

*(of incorporation or organization)*

**521 WEST 57TH STREET, NEW YORK, N.Y.**

*(Address of principal executive offices)*

**10019**

*(Zip Code)*

**Registrant's telephone number, including area code (212) 765-5500**

**SECURITIES REGISTERED PURSUANT TO SECTION 12(b) OF THE ACT:**

**Title of Each Class**  
Common Stock, par value  
12 1/2¢ per share

**Name of Each Exchange on Which Registered**  
New York Stock Exchange

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**SECURITIES REGISTERED PURSUANT TO SECTION 12(g) OF THE ACT:**

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendments to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act.

Large accelerated filer  Accelerated filer  Non-accelerated filer  Smaller reporting company

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

For the purpose of reporting the following market value of registrant's outstanding common stock, the term affiliate refers to persons, entities or groups which directly or indirectly control, are controlled by, or are under common control with the registrant and does not include individual executive officers, directors or less than 10% shareholders. The aggregate market value of registrant's common stock not held by affiliates as of June 30, 2012 was \$4,464,067,732.

As of February 12, 2013, there were 81,490,148 shares of the registrant's common stock, par value 12 $\frac{1}{2}$ ¢ per share, outstanding.

**DOCUMENTS INCORPORATED BY REFERENCE**

Portions of the registrant's proxy statement for the 2013 Annual Meeting of Shareholders (the IFF 2013 Proxy Statement) are incorporated by reference in Part III of this Form 10-K.

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**PART I**

*When used in this report, the terms IFF , the Company , we , us and our , mean International Flavors & Fragrances Inc., and its subsidiaries.*

**ITEM 1. BUSINESS.**

We create, manufacture and supply flavors and fragrances for the food, beverage, personal care and household products industries either in the form of compounds or individual ingredients. Our flavors and fragrances compounds combine a large number of ingredients that are blended, mixed or reacted together to produce proprietary formulas created by our perfumers and flavorists. Utilizing our capabilities in consumer insight, in research and product development ( R&D ), and in creative expertise, we collaborate with our customers to drive consumer preference for our customers brands. This collaboration in turn helps bolster our customers market share and grow equity in their brand portfolio.

The global market for flavors and fragrances has expanded consistently, primarily as a result of an increase in demand for, as well as an increase in the variety of, consumer products containing flavors and fragrances. The flavors and fragrances market is part of a larger market which supplies a variety of ingredients and components that consumer products companies utilize in their products. The broader market includes large multinational companies and smaller regional and local participants which supply products such as seasonings, texturizers, spices, enzymes, certain food related commodities, fortified products and cosmetic ingredients. In 2012, we achieved sales of approximately \$2.8 billion, making us one of the top four companies in the global flavors and fragrances sub-segment of the broader ingredients and compounds market. Within the flavors and fragrances sub-segment of this broader market, the top four companies comprise approximately two-thirds of the total estimated sales. We believe that our diversified business platform consisting of expansive geographic coverage, a broad product portfolio and a global and regional customer base, positions us to achieve long-term growth as the flavors and fragrances markets expand.

With operations in 32 different countries worldwide and approximately 5,700 employees, we collaborate with our customers to serve consumers in more than 100 countries. We operate in two business segments, Flavors and Fragrances, with sales to customers in the four regions set forth below:

<b>Region</b>	<b>% of 2012 Sales</b>
Europe, Africa, Middle East	32%
Greater Asia	27%
North America	25%
Latin America	16%

We believe that significant future growth for the flavors and fragrances industry, and for our business, will come from the emerging markets (which are all markets except North America, Japan, Australia, and Western, Southern and Northern Europe). Our focus on emerging markets reflects the fact that over the past five years our local currency growth rate in emerging markets has significantly outpaced that of developed markets. The emerging market local currency growth rate in 2012 was 8%. IFF has a strong commitment to emerging markets. We have had operations in some of the largest emerging markets for multiple decades, such as India, in which we began operations in 1931. As a result of these established operations, sales in emerging markets represented 47% of 2012 sales, up from 46% in 2011. As our customers in emerging markets grow their businesses, they will have the ability to leverage our long-standing presence and our extensive market knowledge to help drive their brands.

In addition to our geographic diversity, we believe we have a diversified product portfolio that helps to provide us stability in challenging economic environments. In 2012, our Flavors business represented 49% of our sales while our Fragrances business represented 51% of sales. During 2012, our 25 largest customers accounted for 53% of our sales. Sales to the largest customer accounted for 11%, 11% and 10% of our sales in 2012, 2011 and 2010, respectively. These sales were largely in our Fragrances business.

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For financial information about our operating segments and the geographic areas in which we do business, please see Note 12 of our Consolidated Financial Statements included in this Form 10-K.

### **Strategic Priorities**

We are focused on generating sustainable profitable growth in our business and positioning our portfolio for long-term growth. We believe we can improve our long-term business performance and increase shareholder value by leveraging our geographic reach, strengthening our innovation platform and maximizing our portfolio. The key elements of these strategic priorities are the following:

**Leverage geographic reach:** Our strong geographic reach allows us to capture the benefits of attractive population growth and wealth creation in emerging markets which represents a key component of our growth plan. In emerging markets, strong GDP growth and a significant expansion of the middle-class consumer are expanding the demand for better-flavored and fragranced consumer products. To support this trend, we have made significant investments in emerging markets. Since 2008, we have opened five state-of-the-art creative centers in Shanghai, Sao Paulo, Moscow, Mumbai and Delhi. In 2012 we opened a new manufacturing facility in Singapore and expect to open our new flavors facility in China in the first half of 2013. Both of these manufacturing facilities are part of our \$100 million investment in the growing region of Asia. In 2012, we also announced a \$50 million investment in building out our facility in Gebze, Turkey to add capacity in the region. We expect that the emerging markets will represent a greater percentage of our sales than the developed markets by 2015, as we estimate that growth potential in these markets is more than twice the expected growth in the developed markets.

**Strengthen innovation platform:** We continue to focus on creating innovative and distinctive products that drive consumer preference for our customers' brands. We have been strengthening our platforms by leveraging our knowledge of consumer trends to drive technological developments and external collaborations to better anticipate and address consumers' future needs. We anticipate that this renewed focus will be instrumental in driving customer growth, as our consumer-centric innovation will allow our customers to win in the marketplace and drive market share gains. To capture these opportunities in Flavors, we are focusing on key taste modulation technology to provide consumers with our healthier solutions without a change in the taste quality. In Fragrances, we are focusing on ingredients, including our naturals portfolio, and delivery systems.

**Maximize portfolio:** We believe in a disciplined, analytical approach toward value creation to maximize our portfolio and drive profitability. We have identified opportunities where we can accelerate our performance by further leveraging our advantaged portfolio and implementing solutions to fix less attractive areas. These solutions include appropriate pricing actions, greater efficiency in our supply chain, aligning resources behind our advantaged portfolio, and, in some cases, phasing out some low margin sales activities as was the case in 2012 within our Flavors business unit.

### **Our Product Offerings**

#### ***Flavors***

Flavors are the key building blocks that impart taste in processed food and beverage products and, as such, play a significant role in determining consumer preference of the end products in which they are used. While we are a global leader, our Flavors business is regional in nature, with different formulas that reflect local taste and ingredients. As a leading creator of flavor compounds, we help our customers deliver on the promise of delicious and healthy foods and drinks that appeal to consumers. Our Flavors compounds are ultimately used by our customers in four end-use categories: (1) Savory, (2) Beverages, (3) Sweet, pharmaceutical and oral care ( Sweet ), and (4) Dairy. We create our flavors in our regional creative and technical centers that allow us to satisfy local taste preferences, while helping to ensure regulatory compliance and production standards. We also manufacture a limited amount of flavor ingredients for our use in developing flavor compounds.

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*Savory* We produce flavors which are used in soups, sauces, condiments, prepared meals, meat and poultry, and potato chips and other savory snacks.

*Beverages* We create flavors for juice drinks, carbonated beverages, flavored waters and spirits and have creative expertise dedicated to beverage flavor systems.

*Sweet* We create innovative flavor concepts and heat-stable flavors for bakery products, as well as candy, chewing gum and cereal which each have distinctive sweet tastes. For pharmaceutical and oral care products, we produce flavors for products such as toothpaste and mouthwash and have the expertise to create flavors that work well while masking the active ingredients that make these products effective.

*Dairy* We offer a complete range of value-added compounded flavors for all dairy applications, including yogurt, ice cream, cheese, cream and butter flavor. We also offer a wide range of quality vanilla extracts and a variety of flavor solutions that build on our understanding of vanilla.

We develop thousands of different flavors for our customers, most of which are tailor-made, and we continuously develop new formulas in order to meet changing consumer preferences and customer needs. Consumers, especially those in developed markets such as the United States and Western Europe, are increasingly seeking to focus on products which promote health and wellness. They want food and beverage products that are good for them, but which taste good. Our objective is to capture a significant share of this shift in consumer demand by capitalizing on the ability of our naturals and proprietary ingredients and taste modulation technology to provide consumers with healthier solutions without changing the taste experience of the food or beverage. For example, we are using sweetness modulation technology, in combination with our blend of natural sweeteners, to produce flavors that allow end-use products to have a reduced sugar content without affecting taste. Our sodium modulation technology, which we began rolling out in 2012, reduces the salt content in consumer products while at the same time maximizing taste by enhancing the flavors of other ingredients.

We are also developing sophisticated flavor profiles in our CulinEssence program to bring authentic culinary flavors to our customers. The success of our recent launches of new culinary chicken and beef flavors was a direct result of this program.

## ***Fragrances***

We are a global leader in the creation of fragrances. Our fragrances are a key component in the world's finest perfumes and best-known consumer brands, including fine fragrance, beauty care, fabric care, personal wash and home care products. Our Fragrances business consists of Fragrance Compounds and Fragrance Ingredients.

*Fragrance Compounds* Fragrance Compounds refers to our fragrance compounds that are ultimately used by our customers in two broad end-use categories, Fine Fragrance and Beauty Care and Functional Fragrances.

*Fine Fragrance and Beauty Care* We have created some of the industry-leading fine fragrance classics as well as cutting-edge niche fragrances, as evidenced by our number of top sellers and the success of our new launches. Within our Beauty Care product line, we provide our customers innovation in the hair care, toiletries and skincare categories to create new fragrance experiences for the consumer and increased brand loyalty for our customers.

*Functional Fragrances* We have three subcategories of products in which our fragrances are included: (1) Fabric Care, including laundry detergents, fabric softeners and specialty laundry products; (2) Personal Wash, including bar soap and shower gel; and (3) Home Care, including household cleaners, dishwashing detergents and air fresheners.

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*Fragrance Ingredients* We manufacture innovative, high-quality and cost-effective fragrance ingredients for internal use by our perfumers in our Fragrances business and for external use in preparation of compounds by our customers and other third parties, including our competitors. With

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over 1,200 separate fragrance ingredients, we believe that we lead the industry with the breadth of our product portfolio. We manufacture our ingredients through our global network of production facilities and continue to work to optimize our manufacturing processes. We believe that this network gives us the flexibility to make products in different locations while maintaining the same high and consistent standards of product quality. We will continue to invest in this business, particularly in the specialty chemicals component, while at the same time ensuring we maintain a cost-effective portfolio, particularly in the price sensitive commodities component.

Our perfumers have access to our large portfolio of innovative ingredients to support their creativity, which in turn provides our customers with a unique identity for their brands. We also create innovative delivery systems, including our (i) proprietary encapsulation technology, which consists of individual fragrance droplets which are coated with a protective polymetric shell to deliver superior fragrance performance throughout a product's lifecycle, and (ii) our exclusive polymer delivery system, PolyIFF, which is a solid fragrance technology that allows us to add scent to functional or molded plastic.

We believe that our in-house naturals facilities, led by Laboratoire Monique Rémy (LMR) in Grasse, France, is the industry standard for quality natural materials, offering decades of experience understanding natural products and perfecting the process of transforming naturals, such as narcissus, jasmine and blackcurrant bud, into pure absolutes that retain the unique fragrance of their origin.

We also collaborate with the leading art and fashion schools in the world to tap into the creative minds of the future leaders of fashion and design. We collaborate with writers, artists, film-makers and scientists to expose our perfumers to new and constantly evolving creative territories.

## **Core Competencies**

We focus on five core competencies that we believe enable us to (i) successfully provide our customers with superior products, (ii) drive productivity and efficiency gains, and (iii) improve our margins and our cash flow. In that regard, we strive to:

***Develop a deep understanding of consumers' preferences and values and branding.*** Through our Consumer Insights program, we have dedicated professionals working to understand consumer trends all around the globe. Our consumer and our marketing teams interpret consumer trends, monitor product launches, analyze quantitative market data and conduct several hundred thousand consumer interviews annually. Our sensory experts explore flavor and fragrance performance, the psychophysics of sensory perception (including chemesthetic properties such as warming, cooling and tingling), the genetic basis for flavor and fragrance preference, and the effects of tastes and aromas on mood, performance, health and well-being. Utilizing our proprietary statistical programs, we use this information to enable us to understand the emotional connections between a prospective product and the consumer. The ability to pinpoint the likelihood of a product's success translates into stronger brand equity for our customers' products, helping to produce increased returns and greater market share gains for our customers and us.

***Develop and utilize technology to create innovative solutions that drive brand success.*** We spend approximately 8% of our sales on the research, development and implementation of new molecules, compounds and technologies that help our customers respond to changing consumer preference. As a result of this investment, we have been granted over 235 patents in the United States since 2000, including 11 in 2012, and we have developed many unique molecules and delivery systems for our customers that are used as the foundations of successful flavors and fragrances around the world.

***Cultivate our creative expertise in collaboration with our customers.*** We have a network of creative centers around the world where we create or adapt the basic flavors or fragrances that we have developed in the R&D process to commercialize for use in our customers' consumer products. Our global creative teams consist of perfumers, fragrance evaluators and flavorists, as well as marketing, consumer insight, and technical application experts, from a wide range of cultures and nationalities. In close partnership



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with our customers' product development groups, our creative teams create the scents or tastes that our customers are seeking in order to satisfy consumer demands in each of their markets.

***Develop strong customer intimacy.*** We believe that understanding our customers' brands and their goals by supplying them with superior products accurately and on time, and our ability to be named a core list supplier, are key drivers of our future growth.

***Drive efficiency in all that we do.*** We focus on integrating our consumer insight, technology and creative expertise in a manner that we believe drives the necessary productivity and efficiency to improve profitability on a long-term basis. We believe that discipline in driving efficiencies is a significant factor in our ability to simultaneously enhance margins and cash flows while continuing to invest in our key growth initiatives.

### **Research and Product Development**

We consider our research and product development infrastructure to be one of our key competencies and we focus and invest substantial resources in the research and development of new and innovative compounds, formulas and technologies and the application of these to our customers' products. Using the knowledge gained from our Consumer Insights program, we strategically focus our resources around key research and development platforms that address consumer needs or preferences, or anticipate a future preference. By aligning our resources around these platforms, each program is ensured the proper support and focus so that it can be further developed and eventually be accepted for commercial application.

We maintain four research and development centers around the world, at which we employ scientists and application engineers to support (i) the discovery of new materials, (ii) the development of new technologies, such as our delivery systems, (iii) the creation of new compounds and (iv) the enhancement of existing ingredients and compounds. In our 22 creative centers around the world, including our newest facilities in Shanghai, Sao Paulo, Mumbai, Moscow and Delhi, teams of flavorists and perfumers work with our customers' product development groups to create the exact scent or taste they are seeking. In 2012, we employed about 1,150 people in research and product development activities. We spent \$234 million, \$220 million and \$219 million, or approximately 8% of our sales, in 2012, 2011 and 2010, respectively, on R&D and product development activities.

Our ingredients research program discovers molecules found in natural substances and creates new molecules that are subsequently tested for their fragrance or flavor value. To broaden our offering of natural, innovative and unique products, we seek out collaborations with research institutions and other companies throughout the world. We have created a number of such collaborations that strengthen and broaden the pipeline of new and innovative products we intend to launch in the coming years. For example, we are working with Evolva, a biotechnology firm, on the development of a sustainable source for natural vanillin.

The development of new and customized flavor and fragrance products is a complex process calling upon the combined knowledge of our scientists, flavorists and perfumers. Scientists from various disciplines work in project teams with the flavorists and perfumers to develop flavor and fragrance products with consumer preferred performance characteristics. The development of new flavor and fragrance compounds requires (i) in-depth knowledge of the flavor and fragrance characteristics of the various ingredients we use, (ii) an understanding of how the many ingredients in a consumer product interact and (iii) the creation of controlled release and delivery systems to enhance flavor and fragrance performance. To facilitate this process, in 2011, we formed a scientific advisory board comprising five expert scientists that provides external perspectives and input on our research and development programs.

Development of new flavors and fragrances is driven by a variety of sources including requests from our customers, who are in need of a specific flavor or fragrance for use in a new or modified consumer product, or as a result of internal initiatives stemming from our Consumer Insights program. Our product development team

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works in partnership with our scientists and researchers to optimize the consumer appeal of the flavor or fragrance. It then becomes a collaborative process between our researchers, our product development team and our customers to perfect the flavor or fragrance so that it is ready to be included in the final consumer product.

In addition to creating new flavors and fragrances, our researchers and product development teams advise customers on ways to improve their existing products by adjusting or substituting current ingredients with more readily accessible or less expensive materials or modifying the current ingredients to produce an enhanced yield. Often this results in creating a better value proposition for the consumer.

Our flavor and fragrance formulas are treated as trade secrets and remain our proprietary asset. Our business is not materially dependent upon any individual patent, trademark or license.

## **Supply Chain**

We have an integrated supply chain from raw material sourcing through manufacturing, quality assurance, regulatory compliance and distribution, which permits us to provide our customers with consistent quality products on a timely and cost-effective basis.

*Procurement.* The ingredients that we use in our compounds are both natural and synthetic. We purchase approximately 9,000 different raw materials from about 2,200 domestic and international suppliers. Approximately half of the materials we purchase are naturals or crop related items and the other half are synthetics and chemicals. Natural ingredients are derived from flowers, fruits and other botanical products as well as from animal products. They contain varying numbers of organic chemicals, which are responsible for the fragrance or flavor of the natural product. The natural products are purchased in processed or semi-processed form. Some are used in compounds in the state in which they are purchased and others after further processing. Natural products, together with various chemicals, are also used as raw materials for the manufacture of synthetic ingredients by chemical processes. Our flavor products also include extracts and seasonings derived from various fruits, vegetables, nuts, herbs and spices as well as microbiologically-derived ingredients. We manufacture most of our synthetic ingredients for use in our fragrance compounds as well as for sale to others.

While we purchase a diverse portfolio of raw materials, about 80% of our spending is focused on approximately 800 materials, which allows us to leverage our buying power with suppliers. In order to ensure our supply of raw materials, achieve favorable pricing, and provide timely transparency regarding inflationary trends to our customers, we continue to be focused on (i) implementing a forward buy strategy, (ii) entering into supplier relationships to gain access to supplies that we do not have, (iii) implementing indexed pricing, (iv) reducing the complexity of our formulations, and (v) evaluating whether it is more profitable to buy or make an ingredient. We are also concentrating on local country sourcing with our own procurement professionals.

*Manufacturing and Distribution.* We have 29 manufacturing sites around the world that support more than 36,000 products. Our major manufacturing facilities are located in the United States, the Netherlands, Spain, Great Britain, Argentina, Brazil, Mexico, Australia, China, India, Indonesia, Japan and Singapore. Our supply chain initiatives in developing markets are focused on increasing capacity and investments in key technologies, while we focus on consolidation and cost optimization in mature markets. In addition to our own manufacturing facilities, we develop relationships with third parties that permit us to expand the technologies, capabilities and capacity that we can access to serve our customers.

Based on the regional nature of the Flavors business, and the concerns regarding the transportability of raw materials, we have established smaller manufacturing facilities in our local markets that are focused on local needs. Products within the Fragrances business are typically composed of compounds that are more stable and more transportable around the world. Consequently, we have fewer manufacturing facilities within our Fragrances business, which produce compounds and ingredients for global distribution.

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In 2012, we continued to invest in our facilities in emerging markets, opening a new liquid flavors and fragrances manufacturing facility in Singapore. In the first half of 2013, we expect to open a new flavors facility in Guangzhou, China, and to begin our first phase expansion in connection with our \$50 million investment in our existing flavors facility in Turkey.

### **Governmental Regulation**

We develop, produce and market our products in a number of jurisdictions throughout the world and are subject to federal, regional and local legislation and regulations in each of the various countries. Our flavor and many of our fragrance products are intended for the food, beverage and pharmaceutical industries, which are subject to strict quality and regulatory standards. As a result, we are required to meet these strict standards which, in recent years, have become increasingly stringent.

In addition, we are subject to various rules relating to health, work safety and environment at the local and international levels in the various countries in which we operate. Our manufacturing facilities throughout the world are subject to environmental standards relating to air emissions, sewage discharges, the use of hazardous materials, waste disposal practices and clean-up of existing environmental contamination. In recent years, there has been a significant increase in the stringency of environmental regulation and enforcement of environmental standards, and the costs of compliance have risen significantly. We expect that the trend of increased regulation and disclosure will continue in the future.

Our products and operations are subject to regulation by governmental agencies in each of the markets in which we operate; these agencies include (1) the Food and Drug Administration and equivalent international agencies that regulate the flavors and other ingredients in consumer products, (2) the Environmental Protection Agency and equivalent international agencies that regulate our fragrance compounds, (3) the Occupational Safety and Health Administration and equivalent international agencies that regulate the working conditions in our manufacturing, research laboratories and creative centers, (4) local and international agencies that regulate trade and customs and (5) the Drug Enforcement Administration and other local or international agencies that regulate controlled chemicals that we use in our operations. We have seen an increase in registration and reporting requirements concerning the use of certain chemicals in a number of countries. For example, in the continuing implementation of the EU REACH (Registration, Evaluation, Authorization and Restriction of Chemical Substances) regulations, we will be registering a number of chemical substances in advance of the next registration deadline of May, 2013.

### **Competition**

The flavors and fragrances market is part of a larger market which supplies a variety of ingredients and components that consumer products companies utilize in their products. The broader market includes large multinational companies or smaller regional and local participants which supply products such as seasonings, texturizers, spices, enzymes, certain food related commodities, fortified products and cosmetic ingredients. We, together with the other top three companies, represent approximately two-thirds of the total estimated sales in the global flavors and fragrances sub-segment of the broader market.

The market for flavors and fragrances is highly competitive. Based on annual sales, our main competitors consist of (1) the three other large global flavor and fragrance manufacturers, Givaudan, Firmenich and Symrise, (2) mid-sized companies, (3) numerous small and local manufacturers with more limited research and development capabilities who focus on narrow market segments and local customers and (4) consumer product companies who may develop their own flavors or fragrances. We, together with the other top three companies, represent approximately two-thirds of the total estimated sales in the global flavors and fragrances sub-segment of the broader market.

We believe that our ability to compete successfully in the flavors and fragrances market is based on (1) our understanding of consumers, (2) innovation, arising from the creative skills of our perfumers and flavorists and

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the technological advances resulting from our research and development activities, (3) our ability to develop products which are tailor made for our customers' needs, (4) the quality, reliability and cost effectiveness of our products, (5) the quality of our customer service, (6) the support provided by our marketing and application groups and (7) an understanding of the regulatory requirements in the markets in which our customers operate.

Large multinational customers, and increasingly, mid-sized customers, may limit the number of their suppliers, placing some on 'core lists', giving them priority for development and production of their new or modified products. To compete more successfully in this environment, we must make continued investments in customer relationships and tailor product research and development in order to anticipate customers' needs, provide effective service and secure and maintain inclusion on certain 'core lists'.

**Employee Relations**

At December 31, 2012, we had approximately 5,700 employees worldwide, of whom approximately 1,400 are employed in the United States. We believe that relations with our employees are good.

**Availability of Reports**

We make available free of charge on or through the Investor Relations link on our website, [www.iff.com](http://www.iff.com), all materials that we file electronically with the Securities and Exchange Commission (SEC), including our annual report on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, and amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, as soon as reasonably practicable after electronically filing such materials with, or furnishing them to, the SEC. During the period covered by this Form 10-K, we made all such materials available through our website as soon as reasonably practicable after filing such materials with the SEC.

You may also read and copy any materials filed by us with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549, and you may obtain information on the operation of the Public Reference Room by calling the SEC in the U.S. at 1-800-SEC-0330. In addition, the SEC maintains an Internet website, [www.sec.gov](http://www.sec.gov), that contains reports, proxy and information statements and other information that we file electronically with the SEC.

A copy of our Corporate Governance Guidelines, Code of Business Conduct and Ethics, and the charters of the Audit Committee, Compensation Committee, and Nominating and Governance Committee of the Board of Directors are posted on the Investor Relations section of our website, [www.iff.com](http://www.iff.com).

Our principal executive offices are located at 521 West 57th Street, New York, New York 10019 (212-765-5500).

**Executive Officers of Registrant**

The current executive officers of the Company, as of February 26, 2013, are listed below.

Douglas D. Tough	63	Chairman of the Board and Chief Executive Officer
Kevin C. Berryman	54	Executive Vice President and Chief Financial Officer
Nicolas Mirzayantz	50	Group President, Fragrances
Hernan Vaisman	54	Group President, Flavors
Ahmet Baydar	60	Senior Vice President, Research and Development
Angelica T. Cantlon	61	Senior Vice President, Human Resources
Anne Chwat	53	Senior Vice President, General Counsel and Corporate Secretary
Francisco Fortanet	44	Senior Vice President, Operations
Richard A. O'Leary	52	Vice President and Controller

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*Douglas D. Tough* has served as IFF's Chairman and Chief Executive Officer since March 2010. Previously, he served as Chief Executive Officer and Managing Director of Ansell Limited, a global leader in healthcare barrier protection, from 2004 until March 2010. Mr. Tough joined the IFF Board in 2008 and served as its non-Executive Chairman from October 2009 until he became our CEO.

*Kevin C. Berryman* has served as our Executive Vice President and Chief Financial Officer since May 2009, and also served as a member of our Temporary Office of the Chief Executive Officer from October 1, 2009 until February 2010. Prior to joining us, Mr. Berryman served as Chief Financial Officer of Nestle Professional, Americas, a global foodservice manufacturer, from October 2008 to May 2009, and Senior Vice President, Group Controller of Nestle S.A., an international food and beverage company, from June 2006 to September 2008. Mr. Berryman was also Chief Financial Officer of Nestle Purina PetCare, a pet care company, from December 2001 to May 2006.

*Nicolas Mirzayantz* has served as our Group President, Fragrances since January 2007, and also served as a member of our Temporary Office of the Chief Executive Officer from October 1, 2009 until February 2010. Mr. Mirzayantz has also served as our Senior Vice President, Fine Fragrance and Beauty Care and Regional Manager North America, from March 2005 to December 2006, our Senior Vice President, Fine Fragrance and Beauty Care from October 2004 to February 2005, and our Vice President Global Fragrance Business Development from February 2002 to September 2004.

*Hernan Vaisman* has served as our Group President, Flavors since January 2007, and also served as a member of our Temporary Office of the Chief Executive Officer from October 1, 2009 until February 2010. From October 2004 to December 2006, Mr. Vaisman served as our Vice President, Latin America, and from January 2003 to September 2004, Mr. Vaisman served as our Regional Finance Director, Latin America Region.

*Ahmet Baydar* has served as our Senior Vice President, Research and Development since September 2010, and as our Vice President, Global Fragrance Research from February 2009 to August 2010. Prior to joining us, Dr. Baydar served as a Director of Shave Care and Integrated Shaving Systems at The Procter & Gamble Company, a branded consumer packaged goods company, from January 2006 to October 2007, and Vice President of R&D-Personal Care at The Gillette Company, a personal care products company, from August 2000 to January 2006.

*Angelica T. Cantlon* has served as our Senior Vice President, Human Resources since August 2009. Prior to joining us, Ms. Cantlon served as Senior Vice President-International Chief Administrative Officer of MetLife, Inc., an insurance and financial services company, from June 2005 to August 2009, and Senior Vice President-Human Resources Business Leader, of Metlife from September 1999 to June 2005.

*Anne Chwat* has served as our Senior Vice President, General Counsel and Corporate Secretary since April 2011. Prior to joining us, Ms. Chwat served as Executive Vice President and General Counsel of Burger King Holdings, Inc., a fast food hamburger restaurant company, from September 2004 to April 2011. From September 2000 to September 2004, Ms. Chwat served in various positions at BMG Music (now Sony Music Entertainment), including as Senior Vice President, General Counsel and Chief Ethics and Compliance Officer.

*Francisco Fortanet* has served as Senior Vice President, Operations since February 27, 2012 and as our Vice President, Global Manufacturing Compounding from January 2007 to February 2012. Mr. Fortanet has also served as our Vice President, Global Manufacturing from January 2006 to January 2007, our Regional Director of North America Operations from December 2003 to January 2005, the Project Manager of a Special Project in IFF Ireland from May 2003 to December 2003 and as our Plant Manager in Hazlet, New Jersey from October 1999 to May 2003.

*Richard A. O'Leary* has served as our Vice President and Controller since June 2009, our Interim Chief Financial Officer from July 2008 to May 2009 and our Vice President, Corporate Development from July 2007 to

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May 2009. Prior to joining us, Mr. O Leary served in various positions since 1986 at International Paper Co., a paper and packaging company, including, most recently, as Chief Financial Officer of International Paper Company (Brazil) from June 2004 to June 2007.

### **ITEM 1A. RISK FACTORS.**

*We routinely encounter and address risks in conducting our business. Some of these risks may cause our future results to be different sometimes materially different than we presently anticipate. Below are certain important operational and strategic risks that could adversely affect our business. How we react to material future developments, as well as how our competitors react to those developments, could also affect our future results.*

#### **Volatility and increases in the price of raw materials, energy and transportation could harm our profits.**

We use many different raw materials for our business, including essential oils, extracts and concentrates derived from fruits, vegetables, flowers, woods and other botanicals, animal products, raw fruits, organic chemicals and petroleum-based chemicals. Although raw materials cost increases moderated in 2012, they remain at elevated levels. Historically, we have experienced the greatest amount of price volatility in natural products that represent approximately half of our raw material purchases. Availability and pricing of these natural products, such as citrus and vanilla, can be impacted by crop size and quality, weather, alternative land use, and other factors which we cannot control.

If we are unable to increase the prices to our customers of our fragrance or flavor products to cover raw material and other input cost increases, or if we are unable to achieve cost savings to offset such cost increases, we could fail to meet our cost expectations and our profits and operating results could be adversely affected. Increases in prices of our products to customers may lead to declines in volume, and we may not be able to accurately predict the volume impact of price increases, which could adversely affect our financial condition and results of operations.

Similarly, commodities and energy prices are subject to significant volatility caused by market fluctuations, supply and demand, currency fluctuation, production and transportation disruption, and other world events. As we source many of our raw materials globally to help ensure quality control, if the cost of energy, shipping and/or transportation increases and we are unable to pass along these costs to our customers, our profit margins would be adversely affected. Furthermore, increasing our prices to our customers could result in long-term sales declines or loss of market share if our customers find alternative suppliers or choose to reformulate their consumer products to use fewer ingredients, which could have a long-term impact on our results of operations.

To mitigate our sourcing risk, we maintain strategic stock levels for critical items. However, if we do not accurately estimate the amount of raw materials that will be used for the geographic region in which we will need these materials our margins could be adversely affected.

#### **The current volatility in the global economy may adversely affect consumer spending and may negatively impact our business and operating results.**

Our flavors and fragrances are components of a wide assortment of global consumer products throughout the world. Since mid-2008, the global economy has experienced significant recessionary pressures and declines in consumer confidence and economic growth. These conditions led to economic contractions in the developed economies and reduced growth rates in the emerging markets. While some segments of the global economy appear to be recovering, the ongoing fiscal debt crisis in Europe and the austerity plans being adopted in many countries have, and may in the near future, increase unemployment and underemployment, decrease salaries and wage rates, increase energy prices and inflation or result in other market-wide cost pressures that will adversely affect demand for consumer products in both developed and emerging markets. Reduced consumer spending may cause changes in our customer orders including reduced demand for our flavors and fragrances, increased

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pressure to reduce the price of our flavors and fragrances and/or order cancellations. To the extent that the volatility in global economic conditions continue, our sales, profitability and overall operating results could be adversely affected.

### **We may not successfully develop and introduce new products that appeal to our customers or our customers may not accurately anticipate and respond to global consumer market trends.**

Our growth and performance largely depends on our ability to successfully develop and introduce new products and product improvements that appeal to our customers, and ultimately to global consumers. We must continually anticipate and react to, in a timely and cost-efficient manner, changes in consumer preferences and demands. We cannot be certain that we will successfully achieve our innovation goals, such as the development of new molecules, delivery methods and other technologies. We currently spend approximately 8% of our sales on research and development; however, such investments may only generate future revenues to the extent that we are able to successfully develop products that meet our customers' specifications, that can be delivered at an acceptable price and that are accepted by the targeted consumer market. Furthermore, there may be significant lag times from the time we incur R&D costs to the time that these R&D costs may result in increased revenue. Consequently, even when we have won a project, our ability to generate revenues as a result of these investments is subject to numerous economic and other risks that are outside of our control, including delays by our customers in the launch of a new product, poor performance of our third-party vendors, insufficient resources allocated by our customers to promoting the new product, anticipated sales by our customers not being realized or changes in market preferences or demands, and/or disruptive innovations by our competitors.

### **Failure to maintain the integrity of our raw materials, supply chain and finished goods may result in regulatory non-compliance, litigation costs, and harm to our reputation, all of which may adversely impact sales and our results of operations.**

The manufacture and sale of our products are subject to various regulatory requirements in each of the countries in which our products are manufactured and sold. In addition, we are subject to product safety and compliance requirements established by the industry or similar oversight bodies. We use a variety of strategies, methodologies and tools to (i) identify current product standards, (ii) assess relative risks in our supply chain that can impact product integrity, (iii) monitor internal and external performance and (iv) test raw materials and finished goods to minimize the likelihood of product or process non-compliance.

Gaps in our operational processes could adversely affect the quality of our finished products and result in a regulatory non-compliance event. If a product non-compliance event were to go undetected, it could subject us to customer claims, recalls, penalties, litigation costs and/or settlements, remediation costs or loss of sales. As our flavors and fragrances are used as ingredients in many products meant for human consumption, these consequences would be exacerbated if our customer did not identify the defect and there was a resulting impact at the consumer level. Such a result could lead to potentially large scale adverse publicity, recalls and potential consumer litigation. Furthermore, adverse publicity about our products, including concerns about product safety or similar issues, whether real or perceived, could harm our reputation and result in an immediate adverse effect on our sales, as well as require us to utilize significant resources to rebuild our reputation.

### **A disruption in operations or our supply chain could adversely affect our business and financial results.**

As a company engaged in development, manufacturing and distribution on a global scale, we are subject to the risks inherent in such activities, including industrial accidents, environmental events, strikes and other labor disputes, disruptions in supply chain or information systems, loss or impairment of key manufacturing sites, product quality control, safety, licensing requirements and other regulatory issues, as well as natural disasters and other external factors over which we have no control. If any of these events were to occur, it could have an adverse effect on our business and financial results. In addition, while we have manufacturing facilities throughout the world, certain of our facilities are the sole manufacturer of a specific ingredient. If the manufacture of that ingredient were disrupted, the cost of relocating or replacing the production of an ingredient or reformulating a product may be substantial, which could have an adverse effect on our operating results.

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**The increase in demand for consumer products using flavors and fragrances has been driven by factors outside of our control, and if these factors do not persist our future growth could be adversely affected.**

Demand for consumer products using flavors and fragrances has been stimulated and broadened by changing social habits and economic growth, especially in emerging markets. Approximately 47% of our sales during 2012 were generated in emerging markets and we expect emerging markets to continue to significantly contribute to our future growth. Increasing consumer demand for products using flavors and fragrances is dependent on factors such as increases in personal income, dual-earner households, teenage population, leisure time, health concerns and urbanization and by the continued growth in world population, all of which are outside of our control. Changes in any number of external economic factors, or changes in social or consumer preferences, could materially adversely impact our results of operations. Accordingly, our future growth will depend upon the continued economic growth and development of consumer spending on products for which we supply the flavor or fragrance in these global markets.

**Our international operations are subject to economic, political and other risks that could materially and adversely affect our revenues or financial position.**

We operate on a global basis, with manufacturing and sales facilities in the United States, Europe, Africa and the Middle East, Latin America, and Greater Asia. During 2012, 77% of our net sales were to customers outside the United States and we intend to continue expansion of our international operations. As a result, our business is increasingly exposed to risks inherent in international operations. These risks, which can vary substantially by market, are described in many of the risk factors in this section and include the following:

governmental laws, regulations and policies adopted to manage national economic conditions, such as increases in taxes, austerity measures that may impact consumer spending, monetary policies that may impact inflation rates and currency fluctuations;

changes in environmental, health and safety regulations, such as the continued implementation of the European Union's REACH regulations, and the burdens and costs of our compliance with such regulations;

the imposition of tariffs, quotas, trade barriers, other trade protection measures and import or export licensing requirements, which could adversely affect our cost or ability to import raw materials or export our flavors or fragrances to surrounding markets;

our ability to anticipate and adapt our flavors and fragrances to local preferences;

risks and costs arising from language and cultural differences;

changes in the laws and policies that govern foreign investment in the countries in which we operate, including the risk of expropriation or nationalization, and the costs and ability to repatriate the revenue that we generate in these countries;

risks and costs associated with political and economic instability, corruption, and social and ethnic unrest in the countries in which we operate;

difficulty in recruiting and retaining trained personnel;

risks and costs associated with health or similar issues, such as a pandemic or epidemic; or



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the risks of operating in developing or emerging markets in which there are significant uncertainties regarding the interpretation, application enforceability of laws and regulations and the enforceability of contract rights and intellectual property rights. These factors may increase in importance as we expand our operations in emerging markets as part of our growth strategy.

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**Our foreign operations are subject to the U.S. Foreign Corrupt Practices Act and similar non-U.S. anti-bribery regulations. Non-compliance with such regulations could have a material adverse impact on our business, financial condition or results of operations.**

We are subject to the U.S. Foreign Corrupt Practices Act, or FCPA, which generally prohibits companies and their intermediaries from making improper payments to foreign officials for the purpose of obtaining or keeping business and/or other benefits, along with various other anti-corruption laws. In addition, we have manufacturing operations in some jurisdictions which pose potentially elevated risks of fraud or corruption or increased risk of internal control issues. As needed, we conduct internal investigations, control testing and compliance reviews to help ensure that we are in compliance with applicable anti-corruption and similar laws and regulations. We could be subject to inquiries or investigations by government and other regulatory bodies. Any determination that our operations or activities are not in compliance with the FCPA or similar international laws and regulations could expose us to significant fines, penalties or other sanctions that may harm our business and reputation.

**Our ability to compete effectively depends on our ability to protect our intellectual property rights.**

We rely on patents and trade secrets to protect our intellectual property rights. As part of our strategy to protect our intellectual property rights, we often rely on trade secrets to protect our proprietary fragrance and flavor formulations, as this does not require us to publicly file information regarding our intellectual property. From time to time, a third party may claim that we have infringed upon their intellectual property rights, or a third party may infringe upon our intellectual property. As a result of such third party claims, we could incur significant costs in connection with legal actions to assert our intellectual property rights or to defend ourselves from assertions of invalidity, infringement or misappropriation. For those intellectual property rights that are