INTERNATIONAL FLAVORS & FRAGRANCES INC
Form 8-K
January 25, 2006

SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 8-K

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

Date of report (Date of earliest event reported) January 25, 2006

INTERNATIONAL FLAVORS & FRAGRANCES INC.
(Exact Name of Registrant as Specified in Charter)

New York	1-4858	13-1432060
(State or Other Jurisdiction of Incorporation)	(Commission File Number)	(I.R.S. Employer Identification No.)

521 West 57th Street, New York, New York	10019
(Address of Principal Executive Offices)	(Zip Code)

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

Check the appropriate box below if the Form 8-K filing is intended to simultaneously satisfy the filing obligation of the registrant under any of the following provisions (see General Instruction A.2. below):

|_| Written communications pursuant to Rule 425 under the Securities Act (17 CFR 230.425)

|_| Soliciting material pursuant to Rule 14a-12 under the Exchange Act (17 CFR 240.14a-12)

|_| Pre-commencement communications pursuant to Rule 14d-2(b) under the Exchange Act (17 CFR 240.14d-2(b))

|_| Pre-commencement communications pursuant to Rule 13e-4(c) under the Exchange Act (17 CFR 240.13e-4(c))

Item 2.02. Results of Operations and Financial Condition

Attached and being furnished hereby as Exhibit 99.1 is a copy of a press release of International Flavors & Fragrances Inc. ("IFF" or the "Company") dated January 25, 2006 reporting IFF's financial results for the fourth quarter and twelve months ended December 31, 2005.

The discussion of the Company's historical results and its commentary regarding expected future results include and, where indicated, exclude the impact of sales and operating results attributable to certain non-core business disposed of in 2004, the impact of certain restructuring and other charges recorded in 2004 and 2005, the impact of the Company's repatriatization of certain extraordinary dividends from foreign subsidiaries under the American Jobs Creation Act of 2004, as well as the effects of exchange rate fluctuations. Such information is supplemental to information presented in accordance with generally accepted accounting principles (GAAP) and is not intended to represent a presentation in accordance with GAAP. In discussing its historical and expected future results and financial condition, the Company believes it is meaningful for investors to be made aware of and to be assisted in a better understanding of, on a period-to-period comparative basis, the impact of sales and operating results attributable to the businesses disposed of, the relative impact of the restructuring and other charges, the impact of such repatriatization of extraordinary dividends, as well as ongoing exchange rate fluctuations on the Company's operating results and financial condition. The Company believes that this additional non-GAAP information provides investors with an overall perspective of the period-to-period performance of the Company's core business. In addition, management internally reviews each of these non-GAAP financial measures to evaluate performance on a comparative period-to-period basis in terms of absolute performance, trends and expected future performance with respect to its core continuing business.

Item 9.01. Financial Statements and Exhibits

(c) Exhibits

99.1 Press Release of International Flavors & Fragrances Inc., dated January 25, 2006.

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned hereunto duly authorized.

INTERNATIONAL FLAVORS & FRAGRANCES INC.

Dated: January 25, 2006

By: /s/ Douglas J. Wetmore

Name: Douglas J. Wetmore
Title: Senior Vice President and
Chief Financial Officer

FOR IMMEDIATE RELEASE

IFF REPORTS FOURTH QUARTER AND FULL YEAR 2005 RESULTS
PROVIDES 2006 SALES AND EARNINGS GUIDANCE

New York, N.Y., January 25, 2006 ... International Flavors & Fragrances Inc.

(NYSE: IFF) ("IFF" or "the Company") reported earnings per share for the fourth quarter 2005 of $.16 compared to $.43 in the prior year quarter. For the full year 2005, earnings per share were $2.04 compared to $2.05 in the prior year.

Fourth quarter and full year 2005 and 2004 results included the following:

- Fourth quarter and full year 2005 results include pretax charges totaling $23.3 million ($15.9 million after tax or $.17 per share) relating to the elimination of approximately 300 positions in manufacturing, selling, research and administration functions, principally in the Company's European and North American operating regions.
- Full year 2005 results also include a net tax benefit of $24.7 million ($.26 per share) relating to the Company's repatriation, in 2005, of $242.0 million of dividends from foreign subsidiaries under the provisions of the American Jobs Creation Act of 2004 ("AJCA").
- Fourth quarter and full year 2004 results include pretax charges totaling $4.2 million ($2.7 million after tax or $.03 per share) and $31.8 million ($20.4 million after tax or $.22 per share), respectively, related to the sale of certain European fruit business assets and the closure of the Company's Dijon, France manufacturing facility.

Excluding the effects of the charges from both years, and the AJCA benefit from 2005 results, 2005 fourth quarter and full year earnings per share would have been $.32 and $1.94, respectively, compared to $.46 and $2.27 in the comparable prior year periods. On an as-adjusted basis, excluding the operating results of the fruit business and the effects of the charges related to the disposition, 2004 full year earnings per share would have been $2.23; the fourth quarter 2004 impact of excluding fruit sales and operating results was not significant.

Richard A. Goldstein, Chairman and Chief Executive Officer of IFF, commented, "While a challenging year overall, we are encouraged by the fact that local currency sales to our five largest customers grew by over 5%, following 7% growth in 2004. Notably, we also achieved many new fine fragrance wins in 2005. The continued growth of our largest global accounts and our strong performance in fine fragrances demonstrate that our customers recognize IFF's unique value proposition."

Mr. Goldstein continued, "To improve further our financial performance, however, we must do more. I am confident that the actions we announced in early January 2006 will help reduce costs and improve IFF's overall profitability. We will continue to take the appropriate steps to manage through this challenging pricing environment, while also looking for ways to better meet our customers' needs and create additional value for IFF's shareholders."

Fourth Quarter 2005

Fourth quarter 2005 sales totaled $461.6 million, declining 1% in reported dollars and increasing 1% in local currency compared to the 2004 quarter. The

sales performance was led by continued strong growth in fine fragrances, mainly driven by new product wins. Flavor sales, most notably in North America and Europe, were unfavorably impacted by lower selling prices for naturals, mainly vanilla. Sales by category were as follows:

Category	Reported dollars	Local currency
Fine fragrance	12%	16%
Functional fragrance	(6%)	(4%)

Chemicals	(11%)	(7%)
Total fragrances	(2%)	1%
Flavors	(1%)	1%
Total	(1%)	1%

Regional sales performance in the quarter was as follows:

- North America fragrance and flavor sales each declined by 1%. Fine fragrance and aroma chemical sales increased 16% and 4%, respectively, while functional fragrances decreased 12%.
- European fragrance and flavor sales decreased 7% and 12%, respectively; in total, regional sales declined 9%. Reported sales were impacted by the strength of the U.S. dollar against the Euro and the Pound Sterling. Local currency fragrance sales decreased 1%; fine fragrance sales increased 21% but this growth was offset by weakness in aroma chemical and functional fragrance sales, which declined 19% and 7%, respectively. Local currency flavor sales declined 7%, partially as a result of the disposition of the European fruit preparations business in the second half of 2004. On an as-adjusted basis, excluding sales attributable to this business from the 2004 comparative, 2005 flavor sales would have decreased 10% in dollars and 5% in local currency.
- Asia Pacific fragrance and flavor sales increased 3% and 1%, respectively, with regional sales increasing 1%. Local currency fine fragrance sales increased 25%, functional fragrance sales were flat and aroma chemical sales decreased 5%; local currency flavor sales increased 2%. Fragrance growth was led by Greater China, Indonesia and Vietnam, with respective local currency increases of 8%, 9% and 37%, partially offset by continued weakness in Australia and Japan, each of which declined 6% in local currency. Flavor sales were strongest in Greater China and Vietnam, with respective local currency increases of 19% and 83%, partially offset by weakness in Australia, Thailand and the Philippines.
- Latin American sales increased 12% with fragrance and flavor sales increasing 6% and 29%, respectively, driven mainly by new wins. Flavor sales growth was strongest in Mexico and Brazil which grew 28% and 38%, respectively, while fragrances were led by a 15% increase in Mexico. Functional fragrance and aroma chemical sales increased 7% and 19%, respectively, while fine fragrance sales decreased 2%.
- India reported 7% sales growth in dollars and 8% in local currency. Local currency fragrance sales increased 6%, while flavor sales increased 10%. In both flavors and fragrances, the sales performance reflected the benefit of new product introductions and continued strong economic conditions.

Net income for the quarter decreased 63% in comparison to the prior year quarter; excluding the restructuring and other charges from both years, net income decreased 29%.

Gross profit, as a percentage of sales, was 40.5% compared to 42.6% in the prior year; the decline was mainly attributable to higher raw material costs which the Company has not been able to fully recover through increased selling prices, and weak sales of functional fragrance and aroma chemicals which impacted absorption of manufacturing expenses.

Research and Development ("R&D") expenses totaled 10.0% of sales compared to 9.2% in the prior year quarter.

Selling, General and Administrative ("SG&A") expenses, as a percentage of sales, increased to 18.6% from 18.1%. The SG&A increase is primarily the result of additional costs associated with the product contamination matter, partially offset by lower accruals under the Company's incentive plans.

Interest expense increased 7% from the prior year due to higher borrowing levels during the quarter and somewhat higher cost of borrowing.

Full Year 2005

Sales in 2005 totaled $1,993.4 million, declining 2% in reported dollars and 3% in local currency in comparison to the prior year. The sales performance was led by strong growth in fine fragrances driven by new product wins. Flavor sales in 2005 were impacted by the disposition, in the second half of 2004, of the Company's European fruit preparations business. On an as-adjusted basis, excluding $58.3 million in sales attributable to the fruit business from the 2004 results, both 2005 consolidated sales and flavor sales would have increased 1% in dollars and been flat in local currency. Flavor sales, most notably in North America and Europe, were also unfavorably impacted by lower selling prices for naturals, mainly vanilla. Sales by category were as follows:

Category	Reported dollars	Local currency
Fine fragrance	9%	8%
Functional fragrance	(2%)	(2%)
Chemicals	(2%)	(2%)
Total fragrances	1%	1%
Flavors	(6%)	(7%)
Total	(2%)	(3%)

Regional sales performance for 2005 was as follows:

- North America fragrance and flavor sales declined 1% and 7%, respectively; in total, regional sales declined 4%. Fine fragrance and aroma chemical sales increased 4% and 3%, respectively, while functional fragrance sales declined 8%.
- Europe sales declined 8% in local currency and 6% in dollars. Fragrance sales were flat in local currency and increased 2% in reported dollar sales. Local currency fine fragrance sales increased 13%, driven primarily by new wins, while functional fragrances and aroma chemicals declined 6% and 7%, respectively. Local currency flavor sales declined 19% mainly as a result of the disposition of the fruit preparations business. On an as-adjusted basis, excluding sales attributable to this business from the 2004 results, 2005 flavor sales would have been flat in dollars and decreased 1% in local currency.

- Asia Pacific sales increased 2% with flavors increasing 4% in dollars and 3% in local currency, while fragrance sales declined 2% in both dollars and local currency. Flavor sales were strongest in Greater China, Indonesia and Vietnam, with respective local currency increases of 15%, 7% and 46%. Fragrance sales growth was strongest in Taiwan, South Korea, Vietnam and the Philippines with respective local currency increases of 16%, 16%, 56% and 8%; this growth was offset by sales declines in Australia, Thailand and Singapore/Malaysia.
- Latin American sales increased 10% with fragrance and flavor sales increasing 7% and 21%, respectively, driven mainly by new wins. Flavor sales growth was strongest in Mexico, Brazil and Argentina, which grew 33%, 27% and 22%, respectively, while fragrances were led by an 8% increase in Mexico and increases of 12% in Argentina and 7% in Brazil. Fragrance sales grew in all categories with functional fragrance sales increasing 7% while

fine fragrance and aroma chemicals increased 4% and 7%, respectively.
- India sales increased 14% in both local currency and reported dollars. This performance was led by a 16% local currency increase in flavor sales with fragrance sales increasing 12%. In both flavors and fragrances, the sales performance reflected the benefit of new wins.

Net income for 2005 decreased 2% in comparison to the prior year; excluding the restructuring and other charges from both years, net income decreased 3%.

Gross profit, as a percentage of sales, was 41.4% compared to 42.9% in the prior year; the margin decline was mainly attributable to higher raw material costs which the Company was not able to fully recover through increased selling prices. Gross margin was also negatively impacted by costs attributable to the vendor-supplied raw material contamination issue reported earlier this year; cost of sales include $3.0 million in related costs, comprised mainly of associated testing costs and the write-off of affected materials.

Research and Development ("R&D") expenses totaled 9.0% of sales compared to 8.6% in the prior year.

SG&A expenses, as a percentage of sales, increased to 17.0% from 16.8%. SG&A expenses include $8.0 million related to the cost of customer damages attributable to the raw material contamination issue. These costs were partially offset by lower accruals under the Company's various incentive plans.

Interest expense was flat with the prior year as a result of lower average borrowings during the year, partially offset by somewhat higher costs of borrowing; the average rate on borrowings during 2005 was 3.3% compared to 3.0% in 2004. Gross borrowings at December 31, 2005 increased in comparison to the prior year in connection with repatriation of foreign earnings under the AJCA.

The AJCA tax benefit results from the reduction of prior accruals relating to the repatriation of foreign earnings, net of the temporary reduced cost of eligible repatriated foreign earnings as provided for in AJCA. The full year effective tax rate was 21.6%; excluding the impact of AJCA, the effective tax rate for the 2005 year would have been 31.6%.

Reorganization Actions

In January 2006, the Company announced plans to eliminate approximately 300 positions in manufacturing, selling, research and administration functions, principally in its European and North American operating regions; the reductions represent 6% of the Company's workforce. As a result of these actions, the Company anticipates recording pre-tax restructuring charges of $25 million to $30 million relating primarily to employee separation expenses; of this, $23.3 million, or $.17 per share after tax, was recognized in the fourth quarter 2005. The remaining charges are expected to be recognized in the first half of 2006. Annual savings from these actions are expected to approximate $16 million to $18 million.

Outlook for 2006

IFF currently expects 2006 local currency sales to increase in the low single digits in comparison to 2005; based on current exchange rates, such local currency performance is expected to result in a low single digit increase in reported dollars.

- Gross profit as a percentage of sales is expected to improve slightly from 2005 mainly due to improved sales performance, product mix, implementation of price increases and savings resulting from the restructuring actions.
- Research and development expenses are expected to approximate 9.0% of sales.

- SG&A expenses, as a percentage of sales, are expected to decrease somewhat from 2005 levels, mainly as a result of the restructuring activities and absence of costs associated with product contamination; partially offsetting these savings will be the inclusion of $14.0 to $16.0 million in equity compensation expense in 2006, compared to $7.0 million of such expense in 2005. Vesting of RSU's is time based (generally over a three year period). The actual expense will depend upon the value of the Company's stock and the number of RSU's granted.
- Interest expense is expected to decline approximately 10% from 2005 mainly based on anticipated lower levels of debt.
- The effective tax rate in 2006 is expected to approximate 31%.

Based on the foregoing, IFF currently expects earnings per share for 2006 to be in the range of $2.23 to $2.31.

The above guidance excludes the impact of adoption of Statement of Financial Accounting Standards No. 123(R) "Share Based Payment" ("FAS 123") which the Company will adopt in the first quarter 2006. The Company is currently evaluating the impact of adopting the standard.

About IFF

IFF is a leading creator and manufacturer of flavors and fragrances used in a wide variety of consumer products--from fine fragrances and toiletries, to soaps, detergents and other household products, to beverages and food products. IFF is dedicated to The Pursuit of Excellence in every area of its business, using knowledge, creativity, innovation and technology to continually provide customers with the highest quality products and service and superior consumer understanding.

IFF has sales, manufacturing and creative facilities in 31 countries worldwide. For more information, please visit our Web site at www.iff.com.

Cautionary Statement Under the Private Securities Litigation Reform Act of 1995
Statements in this report, which are not historical facts or information, are "forward-looking statements" within the meaning of The Private Securities Litigation Reform Act of 1995. Such forward-looking statements are based on

management's reasonable current assumptions and expectations. Certain of such forward-looking information may be identified by such terms as "expect", "believe", "may", "outlook", "guidance" and similar terms or variations thereof. All information concerning future revenues, tax rates or benefits, interest savings, and other future financial results or financial position, constitutes forward-looking information. Such forward-looking statements are based on management's reasonable current assumptions and expectations. Such forward-looking statements involve significant risks, uncertainties and other factors, which may cause the actual results of the Company to be materially different from any future results expressed or implied by such forward-looking statements, and there can be no assurance that actual results will not differ materially from management's expectations. Such factors include, among others, the following: general economic and business conditions in the Company's markets, including economic, population health and political uncertainties; interest rates; the price, quality and availability of raw materials; the Company's ability to implement its business strategy, including the achievement of anticipated cost savings, profitability and growth targets; the impact of currency fluctuation or devaluation in the Company's principal foreign markets and the success of the Company's hedging and risk management strategies; the outcome of uncertainties related to litigation; uncertainties related to any potential claims and rights of indemnification or other recovery for customer and consumer reaction to the contamination issue; the impact of possible pension funding obligations and increased pension expense on the Company's cash flow and results of operations; and the effect of legal and regulatory proceedings, as well as restrictions imposed on the Company, its operations or its representatives by foreign governments. The Company intends its forward-looking statements to speak only as of the time of such statements and does not undertake to update or revise them as more information becomes available or to reflect changes in expectations, assumptions or results.

Conference call
There will be a conference call today at 10:00 AM Eastern Time, at which time the Company will discuss operating results for the fourth quarter 2005, and its current expectations for 2006. The dial in number for U.S.-based participants is 1-888-202-2422; for international participants, the number is 1-913-981-5592. The pass code for the call is 4763540.

A replay of the conference call will be available beginning at 1:00 PM Eastern Time on Wednesday, January 25, 2006 and ending at Midnight on Wednesday, February 8, 2006. The dial in number for the replay for U.S.-based listeners is 1-888-203-1112; for international listeners, the number is 1-719-457-0820. The replay pass code will be 4763540.

The call can also be monitored via the World Wide Web at www.iff.com. Real Network's Real Player or Microsoft Media Player is required to access the webcast. They can be downloaded from www.real.com or www.microsoft.com/windows/mediaplayer. A replay of the conference call will be available on the Company's website for twelve months.

Contact

Douglas J. Wetmore
Senior Vice President and Chief
Financial Officer
Phone: 212-708-7145

****

International Flavors & Fragrances Inc.
Consolidated Income Statement
(Amounts in thousands except per share data)

	Quarter Ended December 31,		
	As Reported 2004	Adjustments (A)	As-Adju 200
Net sales	$468,232	$1,479	$46
Cost of goods sold	268,681	1,482	26
Gross margin on sales	199,551	(3)	19
Research & development	43,059	76	4
Selling and administrative	84,702	163	8
Amortization	3,713	-	
Restructuring and other charges	4,164	-	
	63,913	(242)	6
Interest expense	(5,390)	-	(
Other income (expense), net	(2,221)	-	(
Pretax income	56,302	(242)	5
Income taxes	15,396	(73)	1

Net income	$40,906	(169)	$ 4
Including restructuring and other charges:			
Net income	$40,906		$ 4
Earnings per share - basic	$0.43		
Earnings per share - diluted	$0.43		
Excluding restructuring and other charges:			
Net income	$43,571		$ 4
Results per share - basic	$0.46		
Results per share - diluted	$0.46		
Average shares outstanding (in thousands):			
Basic	94,232		9
Diluted	95,718		9

(A) Adjustments reflect elimination of sales and operating results of the European fruit preparations business for the period presented. Additional details regarding as-adjusted information are contained in a January 25, 2005 Form 8-K filed with the SEC and are also available via the Company's website.

International Flavors & Fragrances Inc.
Consolidated Income Statement
(Amounts in thousands except per share data)

	Twelve months Ended Decembe		
	As Reported 2004	Adjustments (A)	As-Adj 20
Net sales	$2,033,653	$58,317	$1,97
Cost of goods sold	1,160,235	46,314	1,11
Gross margin on sales	873,418	12,003	86
Research & development	175,173	1,736	17
Selling and administrative	341,306	4,693	33
Amortization	14,830	-	1
Restructuring and other charges	31,830	-	3
	310,279	5,574	30
Interest expense	(24,002)	-	(2
Other income (expense), net	(5,275)	-	(
Pretax income	281,002	5,574	27
Income taxes	84,931	1,753	8
Net income	$ 196,071	$3,821	$ 19

Including restructuring and other charges:

Net income	$196,071	$19
Earnings per share - basic	$2.08	
Earnings per share - diluted	$2.05	
Excluding restructuring and other charges:		
Net income	$216,441	$21
Results per share - basic	$2.30	
Results per share - diluted	$2.27	
Average shares outstanding (in thousands):		
Basic	94,143	9
Diluted	95,418	9

(A) Adjustments reflect elimination of sales and operating results of the European fruit preparations business for the period presented. Additional details regarding as-adjusted information are contained in a January 25, 2005 Form 8-K filed with the SEC and are also available via the Company's website.

International Flavors & Fragrances Inc.
Consolidated Condensed Balance Sheet
(Amounts in thousands)

	December 31, 2004	December
Cash & short-term investments	$ 32,995	$ 27
Receivables	358,361	35
Inventories	457,204	43
Other current assets	112,810	11
Total current assets	961,370	1,17
Property, plant and equipment, net (1,2)	501,334	49
Goodwill and other intangibles, net	789,676	77
Other assets	110,914	17
Total assets	$2,363,294	$2,62
Commercial paper, bank borrowings, overdrafts and current portion of long-term debt (3)	$ 15,957	$ 81
Other current liabilities	383,565	36
Total current liabilities	399,522	1,18
Long-term debt (3)	668,969	13
Non-current liabilities	384,316	39
Shareholders' equity	910,487	91
Total liabilities and shareholders' equity	$2,363,294	$2,62

Notes:

1. Capital spending - Quarter: $32 million; Full year: $93 million

2. Depreciation - Quarter: $19 million; Full year: $77 million

3. At December 31, 2004 and 2005 long-term debt includes unamortized gains and FAS 133 mark to market adjustments of $23.8 million and $2.3 million, respectively; at December 31, 2005 commercial paper, bank borrowings, overdrafts and current portion of long-term debt includes unamortized gains of $5.6 million on various interest rate swaps the Company has entered into. Such gains have been deferred and are being amortized over the remaining term of the underlying debt and the mark to market adjustment is recorded each quarter.

****

2005 vs 2004 Reported

% Change in Sales by Region of Destination	Quarter Frag	Quarter Flav	Quarter Total
North America	(1)	(1)	(1)
Europe - Reported	(7)	(12)	(9)
Europe - Local Currency	(1)	(7)	(3)
Latin America	6	29	12
Asia Pacific - Reported	3	1	1
Asia Pacific - Local Currency	5	2	3
India - Reported	4	9	7
India - Local Currency	6	10	8
Total - Reported	(2)	(1)	(1)
Total - Local Currency	1	1	1

2005 vs 2004 As-Adjusted*

Quarter

% Change in Sales by Region of Destination	Frag	Flav	Total	F
North America	(1)	(1)	(1)	
Europe - Reported	(7)	(10)	(8)	
Europe - Local Currency	(1)	(5)	(2)	
Latin America	6	29	12	
Asia Pacific - Reported	3	1	1	
Asia Pacific - Local Currency	5	2	3	
India - Reported	4	9	7	
India - Local Currency	6	10	8	
Total - Reported	(2)	(1)	(1)	
Total - Local Currency	1	1	1	

* Excluding Sales Attributable to European Fruit Preparation Business from 2004 comparative.