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INGR.N - Q3 2023 Ingredion Inc Earnings Call

EVENT DATE/TIME: NOVEMBER 07, 2023 / 2:00PM GMT

OVERVIEW:

Company Summary

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PRESENTATION

Operator

Thank you for standing by, and welcome to Ingredion's Third Quarter 2023 Earnings Conference Call. (Operator Instructions) Please be advised that today's call is being recorded. I would now turn the conference over to your host, Mr. Noah Weiss, Vice President of Investor Relations. Please go ahead.

Noah Weiss - *Ingredion Incorporated - VP of IR*

Good morning, and welcome to Ingredion's Third Quarter 2023 Earnings Call. I'm Noah Weiss, Vice President of Investor Relations. Joining me on today's call are Jim Zallie, our President and CEO; and Jim Gray, our Executive Vice President and CFO. The press release that was issued today as well as the presentation we will be referencing for our third quarter results can both be found on our website, ingredion.com, in the Investors section.

As a reminder, our comments within this presentation may contain forward-looking statements. These statements are subject to various risks and uncertainties and include expectations and assumptions regarding the company's future operations and financial performance. Actual results could differ materially from those estimated in our forward-looking statements, and Ingredion assumes no obligation to update them in the future as or if circumstances change.

Additional information concerning factors that could cause actual results to differ materially from those discussed during today's conference call or in this morning's press release can be found in the company's most recently filed annual report on Form 10-K and subsequent reports on Form 10-Q and 8-K. During this call, we will also refer to certain non-GAAP financial measures, including adjusted earnings per share, adjusted operating income and adjusted effective tax rate, which are reconciled to U.S. GAAP measures in Note 2, non-GAAP information included in our press release and in today's presentation's appendix.

With that, I will turn the call over to Jim Zallie.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Thank you, Noah, and good morning, everyone. As we enter the last part of the year, I am pleased to report positive sales growth and strong profitability in the third quarter, driven by solid price/mix, partially offset by volumes, which are recovering sequentially across all regions. Adjusted operating income was up 15% as we were able to mitigate the impact of cost increases through multiple levers, including pricing and mix improvements, operational excellence and productivity initiatives. Our business is stronger and more profitable today as a result of the continued execution against our strategic road map for growth.

Let me update you now on the progress against each of our strategic pillars. Beginning with Specialty Ingredients. Year-to-date net sales have grown 6%, along with continued gross margin expansion. Additionally, starch-based texturizers, pharma and personal care and Food Systems all experienced double-digit growth year-to-date against strong performance in the prior year.

Turning to commercial excellence. Our sales teams secured multiyear contracts with some of our larger global customers. These contracts, which provide a sizable base load of volume, should support margin expansion in 2024. Additionally, the work we completed to enhance our logistics systems and overall supply chain fulfillment capabilities has been rewarded with higher Net Promoter Scores and positive customer feedback.

Looking to quarter 4, we are excited by the opportunity to further improve our warehouse operations and reduce customer pickup times and freight costs. An increasingly important part of the commercial excellence agenda we have with our customers is dedicated to shared value creation from sustainability initiatives. The regenerative agricultural projects we continue to collaborate on with our customers is generating incremental value across the supply chain for farmers, ourselves and our customers. We are also engaging to develop a regenerative agricultural framework for the food and beverage industry as a proud founding member of SAI Platform's program.

In the area of cost competitiveness, we have done a very good job of balancing production against changing customer demand. Our supply chain team has worked closely all year with both the commercial organization and operations to ensure our customer demand is met while maintaining sufficient yet not excessive finished goods inventory. Our operations team continues to do a fantastic job managing production inputs to help offset inflation and absorb fixed costs. It is worth noting that year-to-date, our teams have faced more than $50 million of higher allocated costs -- allocated fixed costs due to lower volumes and have largely offset these cost challenges through their productivity efforts.

Additionally, I'd like to recognize the tremendous job of our operations team that they have done driving employee and contractor safety performance this year. Ingredion has historically operated at world-class levels of safety performance, but this year is particularly notable given a step change reduction in recordable and lost time case rates.

Finally, acknowledging our purpose-driven and people-centric growth culture. For the ninth consecutive year, Ingredion Mexico received an award for ethics and values in the industry from the Mexican Confederation of Industrial Chambers. And in South America, we were pleased to be awarded Great Place to Work certifications for the second year in a row in Brazil, Colombia and Peru.

Turning to volume trends in the quarter. We show here a volume index based upon our 2019 quarterly shipment averages, excluding high fructose corn syrup and adjusting for changes in our portfolio since 2019. During our Q2 conference call, we introduced this graph to illustrate how exaggerated demand in 2021 and 2022 produced a buildup of inventory throughout the supply chain that required rebalancing.

It appears customer destocking has decelerated as we experienced sequential improvement month on month throughout the third quarter. We believe this quarter's performance also demonstrated the diversity of our product portfolio, markets exposure and the strength of our business model. Both our core and specialties ingredients continue to be well positioned to address large and growing end markets in the geographies where we operate.

From a Specialty Ingredients perspective, we experienced growth in our largest specialty category, texture solutions. Our Food Systems platform has outperformed expectations as we worked closely with customers to reformulate recipes to drive affordability, primarily in the European private label market. In Sugar Reduction, we also continued to experience strong volume growth and expanded PureCircle margins.

Our core ingredients also showed resilience, with 1 of our largest markets, Mexico, delivering record third quarter operating profit driven by volume growth across a range of food and beverage categories, where a robust economy is driving growing middle-class demand. In the U.S., we were also pleased to see solid demand for glucose as our production facilities ran at full capacity in the quarter, partially in response to higher sugar prices.

Lastly, our industrial ingredients, which serve the papermaking and corrugating industries, saw a steady pickup in demand as shipment volumes recovered broadly across the U.S.. As you can see, the diversity inherent in our business allows us to continue to deliver shareholder value even in challenging environments. As we have continued to invest in growth and improved risk management, our business has shown consistency as we deliver record-setting results. Now let me turn it over to Jim Gray for the financial review.

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Thank you, Jim, and good morning to everyone. Moving to our income statement. Net sales of approximately $2 billion were up 1% for the quarter versus prior year. Gross profit dollars grew 13% versus prior year, with gross margins reaching greater than 20% again this quarter. Reported and adjusted operating income were $213 million and $219 million, respectively. The increases were driven by favorable price mix, partially offset by higher input costs and lower volumes.

Our third quarter reported and adjusted earnings per share were $2.36 and $2.33 for the period, up 48% and 35%, respectively, from the prior year. The main driver for lower adjusted EPS is a $0.13 adjustment due to a tax provision in Mexico driven by the higher value of the Mexican peso against the U.S. dollar.

Turning to our Q3 net sales bridge. We achieved strong price mix of 155 -- sorry, $159 million, along with favorable foreign exchange impact of $10 million. This was partially offset by decreased sales volumes of $159 million.

Turning to the next slide. We highlight net sales drivers for the third quarter. Foreign exchange was a 1% tailwind this quarter, as South America saw a strengthening of the Brazilian Real and Colombian peso, partially offsetting the FX-related impact in EMEA, primarily in Pakistan.

Sales volume was down 8%, but up sequentially from the second quarter as customers continue to work through destocking of inventory. Contributing to net sales growth, price/mix was up 8% due to customer and product mix optimization compared to the third quarter of 2022.

Turning now to gross profit margins. On a year-over-year basis, we improved gross margins by 220 basis points to 20.7%, driven by price/mix optimization. Inflationary input cost increases continued through the third quarter, but the rate of increase has started to moderate. Weaker industry volumes have led to higher fixed cost absorption throughout 2023.

Our operations team has done a great job to address higher costs and to manage production more evenly to demand. It is noteworthy to highlight that commercial and operational excellence efforts have enabled us to expand gross margins for 5 consecutive quarters.

Let me turn to a recap of our Q3 regional performance. North American net sales were up 3% when compared to prior year. The increase was driven by strong price/mix, as well as solid sales volumes across sweeteners and industrial ingredients. North America operating income was $171 million, up 36% versus last year, driven by favorable price mix, partially offset by higher input costs and lower volumes.

In South America, comparable net sales were down 8% versus last year and down 15% on a constant currency basis. South America's operating income was down 33% to $32 million, driven primarily by lower volumes and higher energy costs associated with our transition to renewable biomass in Brazil. While we incurred upfront costs associated with this changeover, the long-term strategic supply of predictable energy and cost savings will be beneficial.

Moving to Asia Pacific. Net sales were down 2% for the quarter, and were flat on a constant currency basis. Asia Pacific operating income was $33 million, up 22% versus prior year, with favorable price mix partially offset by lower volumes. In EMEA, net sales increased 1% for the quarter. And absent foreign exchange impacts, net sales were up 5%. EMEA operating income was $32 million in the quarter, up 7% compared to the prior year, driven by favorable price mix, partially offset by lower volumes, higher raw material costs and foreign exchange impacts.

Turning to our earnings bridge. On the left side of the page, you can see the reconciliation from reported to adjusted earnings per share. On the right side, operationally, we saw an increase of $0.29 per share for the quarter. The increase was driven primarily by an operating margin increase of $0.66, partially offset by unfavorable volume of minus $0.36 per share. It is noteworthy that operating performance alone drove a 17% increase in adjusted EPS.

Moving to our nonoperational items. We had an increase of $0.31 per share in the quarter, which was primarily driven by a lower tax rate of $0.36 per share from a recently issued IRS notice, which increased our ability to claim certain foreign tax credits against U.S. taxes. Year-to-date, net sales of $6.2 billion were up 5% versus prior year. Gross profit margin was 21.6%, up 240 basis points. Year-to-date, reported operating income was $755 million, and adjusted operating income was $766 million. Reported operating income was lower than adjusted operating income, primarily due to equity method investment impairments and costs related to a work stoppage at our Cedar Rapids facility in the first quarter.

Our year-to-date reported earnings per share was $7.63, and adjusted earnings per share was $7.45. Reported EPS was higher than adjusted EPS, primarily due to the tax benefits from the valuation of the Mexican peso against the U.S. dollar in the period.

Turning to our year-to-date earnings bridge. On the left side of the page, you can see the reconciliation from reported to adjusted. On the right side, operationally, we saw an increase of $1.56 per share. The increase was driven by margin improvement of $2.84, offset primarily by lower volumes of $0.94 and foreign exchange impacts of minus $0.19 per share.

Moving to our nonoperational items. We saw an increase of $0.09 per share year-to-date due to a $0.38 per share tax benefit, partially offset by higher financing costs of $0.25 per share.

Moving to cash flow. Year-to-date, cash from operations was $647 million, up significantly from $80 million in the same period last year. Through the end of Q3, our net working capital investment was $118 million, and we expect this to remain relatively flat for the balance of the year. Net capital expenditures were $231 million, in line with our full year expectations.

During the first 3 quarters of the year, we paid $143 million in dividends to shareholders and repurchased $101 million of outstanding common shares. As cash from operations remains strong, we'll continue to be flexible and strategic with respect to our capital allocation priorities.

Next, I'd like to address our updated 2023 outlook. We now expect net sales to be up mid-single-digits, reflecting softer but recovering sales volumes. We lowered our adjusted effective tax rate to 25% to 26%, reflecting recent tax provision guidance. We have also raised our full year 2023 adjusted EPS guidance and now expect it to be in the range of $9.05 to $9.45. We have decreased slightly the diluted weighted average shares outstanding to be between 66.5 million shares and 67.5 million shares. Lastly, cash from operations for the full year 2023 is now expected to be in the range of $650 million to $750 million.

In terms of our full year regional outlook, North America net sales are expected to be up 5% to 10%, driven by favorable price mix. Operating income is expected to be up 20% to 25%, with price mix continuing to outpace lower volumes and cost increases. For South America, we expect net sales to be flat to down 5% due to lower volumes. South America operating income is expected to be down mid- to high-teens, driven by lower volume and higher energy and input costs.

In Asia Pacific, we anticipate net sales to be flat versus the prior year, and we expect operating income to be up high double digits, driven by favorable price/mix and PureCircle growth, partially offset by higher input costs. For EMEA, we now expect net sales to be up 5% to 10% and operating income to be up 40% to 45% due to favorable price/mix. Corporate costs are expected to be up high single digits. That concludes my comments, and I'll hand it back to Jim.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Thanks, Jim. I would like to share just a few final thoughts on how we see the business outlook for the remainder of the year. As we finished the third quarter, we anticipate that volume weakness related to inventory corrections is largely behind us, and we anticipate that the sequential improvements in shipments should continue. While the operating environment continues to be uncertain, our business remains resilient, and our teams are operating with agility, as evidenced by our strong profit growth and year-over-year gross margin expansion.

We are well positioned to deliver a record year in 2023, which we believe is a testament to the strength of our diverse portfolio and our customer relationships. We are delivering results that will exceed our 4-year growth outlook while continuing to return value to shareholders through increased dividends and opportunistic share repurchases. We remain focused on finishing the year strong and carrying momentum into 2024.

Before opening the call for Q&A, I would also like to mention our announcement today of our intention in the first quarter of 2024 to reorganize our business operations to better serve customers with a global focus on texture and healthful solutions. We expect the reorganization of our business will result in a change to our financial reporting segments in the first quarter, which will provide the company's financial stakeholders with greater insight into our product capabilities and market opportunities and better reflect the strategic value drivers for the company. Now let's open the call for questions.

QUESTIONS AND ANSWERS

Operator

Thank you. (Operator Instructions) Our first question comes from the line of Kristen Owen of Oppenheimer.

Kristen Owen - *Oppenheimer & Co. Inc., Research Division - Executive Director & Senior Analyst*

Jim, I actually wanted to follow up on the last comment that you made here about the realignment of the segments. And if you could just help us understand internally the effect of that realignment? And maybe if there are any synergies in terms of innovation cycle times or just what that implies internally for the organization. And I'll start there.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Thank you, Kristen. We are very excited about the opportunity that lies before us with our intention to reorganize our business operation -- operations to align to the value propositions inherent in texture and healthful solutions. We see starch and our position being so broad and deep with specialty starches and the opportunity to build upon that to offer unique textural solutions for a variety of applications as having a lot of headroom for growth.

And equally, it's already been evidenced with our position with PureCircle and Sugar Reduction. And we believe long term, the opportunities with protein fortification and fiber fortification, that helpful solutions there where we're problem-solving more holistically offers an excellent opportunity. And to be able to pursue that with global customers and operate on a global basis, we think is going to offer a lot of operational synergies, go-to-market synergies and be able to do more for our customers in 2 very large and growing categories.

So we're very excited. I think the organization is very excited. There was an internal announcement that went out today, timed with the external announcement. And we're very excited. But equally, we're excited about the opportunity to talk more in detail about the different segments that will be part of this reorganization because we think it is going to better reflect the strategic value drivers for the company and give all of you greater insight into our product capabilities and market opportunities.

Kristen Owen - *Oppenheimer & Co. Inc., Research Division - Executive Director & Senior Analyst*

That's really helpful. And then I realize it's a little bit early for 2024. But just given some of the trends that you discussed on the destocking, strength in price mix, just help us understand puts and takes for next year, how we should think about sort of the momentum on the margin side moving into 2024?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

What I'll say -- and I'm going to let Jim also supplement whatever I say here. But as in prior years, it is relatively early in the contracting cycle. And therefore, it's typically our practice to update contracting on our Q4 call.

However, it is noteworthy, I think, to highlight a few points. As we mentioned in our prepared remarks, we have renewed several multiyear contracts with large customers that represent a significant baseload of volume which should be margin expansion expansive in 2024.

In addition -- let me remind everyone that approximately 50% of our revenue dollars in North America comes from fee contracts that reprice monthly with corn cost inputs from our customers. And we anticipate some pass-through of lower corn costs in 2024 if the markets remain with a similar outlook as they have today. But under current market conditions, when these contracts renew, they should be also supportive of margin expansion in 2024.

And look, this year, as we go into contracting, our Pricing Centers of Excellence, which we've talked about for the last couple of years and have served us so well dealing with inflation, our teams are prepared for a different contracting environment this year in comparison to the last 2 years, and we have a very experienced commercial team that will continue to manage pricing and volume trade-offs very carefully in response to competitive market conditions.

Also, I think as it relates to volumes, we are encouraged to see that sequentially, volumes month on month throughout quarter 3 have improved. And what I would also say is that based on Q3 results and early indications for quarter 4, we anticipate sequential improvements in volume shipments should continue. But that's as much visibility or as much as I really can say about contracting as we head into 2024.

Operator

One moment, please. Our next question comes from the line of Ben Theurer of Barclays.

Benjamin M. Theurer - *Barclays Bank PLC, Research Division - Head of the Mexico Equity Research & Director*

Jim, congrats on the good results. Just 2 quick ones. So one, you've highlighted some of the market dynamics and particularly called out -- volume across the board was weak, but you had some bright spots, particularly Mexico. But also South America, in general, a little better on what you saw in some of the volumes. Can you help us understand just within your customers, what's been driving those volumes? What's the category, is it specialties? Is it sugar reduction? Just to understand a little bit better the quality of that volume. That would be my first question.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Yes. So I'll take it, and then Jim can supplement. I would say we have done extensive voice of customer work to supplement what we've been monitoring as a dynamic volume tracker really all year to understand where customers are with their inventory rebalancing and the destocking. And we do believe we're sensing that should be largely behind us. And our Texture Solutions business continues to do well. The sweetener bulk volumes have held up reasonably well throughout this entire year. And in Brazil, for example, we -- I know volumes are down or have been down certainly in the first half, but we saw a nice volume pickup in Q3 in Brazil. And September volumes, for example, demand levels reached 2022 levels. And just a reminder, we were up against a little bit of prepping for the World Cup, which is typical down in Brazil in quarter 4 of 2022.

So overall, I think we've -- we're past the trough and we're on an upswing. And we're seeing it pretty broad-based, Jim, across all of the geographies or operating segments that we monitor by monthly.

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. Ben, I think we've mentioned before to shareholders that when we look at syrups or we look at some industrial starches, the customer cycle time on their inventory has always been much shorter. And so generally, we haven't seen that kind of build up, nor has it really experienced the decline in sales volumes that maybe we've seen in the first half of the year or Q3. And where we did see more of a buildup at our customers was around our food ingredients to support texture. And that's -- we highlighted in the chart in the presentation that because of longer supply chain times, the criticality of some of these food texturizing starches in recipes, that there definitely was a buildup in '21 and 2022.

And we've seen that. When we refer to destocking, we've seen some of that excess inventory has really worked itself out through the food supply chain. And so we are encouraged as we, I think, go into the year here in Q3 and in Q4, that some of the higher-value food texturizer starches, we do believe, are working down. I'd say that -- the only thing that we're a little bit watch out is we just don't know with higher inventory values, how that plays out in December for some of our multinational brand companies.

And then just to note, I think in your part of the world, Ben, is that what you're obviously seeing is just worldwide sugar is much more expensive. Some constraints in terms of the larger sugar producers around the globe. And just when it ever gets to that much of a gap between the value of our syrup versus the premium for using sugar, there's always going to be some extra demand pull for our syrups in different recipes.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

We're definitely seeing that where higher sugar prices globally and in the U.S. are supportive of higher corn-based sweetener demand.

Benjamin M. Theurer - *Barclays Bank PLC, Research Division - Head of the Mexico Equity Research & Director*

Okay. Perfect. That makes sense. And then my second question is really just around capital allocation. You've upgraded your cash from operations guidance for the year, just marginally higher on CapEx, I think, just about $10 million versus the prior guidance. So there's clearly more excess cash created and you've alluded to opportunistic share buybacks, increased dividend. But just -- how you feel about the asset base you currently have? How much do you think go forward you still need to invest into just CapEx operations, to have plants up and running, maintenance?

And how much is left for buybacks? Because it seems like you've guided down for shares outstanding. So there's something in those numbers. Just wanted to understand like how do you think about the buyback opportunity here.

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. Well, we look at, obviously, the strategic cash that we have for deployment. So that's cash from operations less our CapEx and less our dividends. And in this -- in Q3, we did deploy $101 million towards share repurchases. So again, I thought that the stock was trading at a nice value and wanted to make sure that we're putting dollars back towards shareholders. And we'll continue to look at that as an opportunity.

I think as we look forward on our organic growth capital, we have -- obviously, we've had some volume slowdown, so that gives us a little bit more headroom capacity that allows us to push out some of our growth CapEx into later years. But we're really seeing some investments in some of our healthful solutions platforms that are still where we're anticipating. For example, we're completing an expansion at our PureCircle facility in Kuala Lumpur, which is just coming online. And so that really helps us with our bioconverted Stevia solutions, which are absolutely in demand as we look around the world and concerns from governments around obesity, diabetes and really pushing trends towards sugar reduction. So we'll be opportunistic towards organic capital, but there's just an excess of demand in terms of opportunities right now that we see globally versus really the dollars that we allocate out of our capital allocation.

Operator

Our next question comes from the line of Ben Bienvenu of Stephens.

Benjamin Shelton Bienvenu - *Stephens Inc., Research Division - MD & Analyst*

Good morning. I want to ask about the 4Q guidance and in particular, kind of the implied operating profit for North America, which I recognize there is inherent seasonality in the business from 3Q to 4Q. But I would think with core base is coming down, still strong pricing, volume getting better sequentially, that we might see operating profit better than flat to slightly up in the fourth quarter? So help me think about the range of outcomes that are possible there, what the variables are affecting it and why you centered in on that guidance that you did?

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. Thanks, Ben. I'll take this one. I think this has been a year where we've seen some sales volumes impacts and kind of just slower play through and the demand signals that have really kind of led to what I would call kind of a nice normalization of our texture sales, particularly in North America. And we're seeing -- as we go into Q4, it's always -- it's a softer quarter in terms of volume demand for sweeteners. And so I think what we're just doing is we're being, I would say, mid center cut to maybe conservative on volume expectations, which really kind of probably guides our Q4.

And as I mentioned before, when you have corn values decreasing from 1 contract in year to the next, so higher corn values in 2023, an expectation that corn is going to be less expensive in 2024. And generally, we have a conversation with customers about the value of that corn and as it impacts their pricing. And so you might have an expectation from customers that pricing might be flat to down in 2024, it might cause them to pause on those last couple of weeks of ordering in December. You get that ordering back in January or February, but it's something that I have to be thoughtful about as we close out the year.

And then I'd just remind everybody listening that if you're a CFO and you're looking at your working capital change, year-over-year, and you're trying to manage operating cash flow, decrease in inventories is probably your most significant lever that you can use nowadays with short-term rates so high. And so if I'm being center cut to cautious on that, I just -- I'm trying to anticipate what a December surprise might be.

Benjamin Shelton Bienvenu - *Stephens Inc., Research Division - MD & Analyst*

Okay. Very good. Understood. My second question is around currency and in South America, in particular, is your expectation that you could continue to price for any currency headwinds that you incur as we move forward? And would that be true across the other regions that you're operating as well? How do you expect to be able to navigate that?

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. Generally, we do because the underlying conversation is in what's the value of the corn. And in some markets, if the value of the corn is really valued on an equivalent to U.S. dollars, then that's absolutely part of the day-to-day conversation with customers on pricing. I think what will be interesting is that you would say, well, when and if theReal is strengthening, then wouldn't the value of the corn be less? It just rises more in Brazil due to exports. So it does -- it is a very efficient market in Brazil, in particular. But yes, we believe very much that we have the muscles to pass through changes in FX over time.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Yes. And we've demonstrated that over the last number of years. And specifically, our Pricing Centers of Excellence originated in South America and developed those muscles, and that's been carried out around the world. So I think we feel pretty comfortable and confident that the team is very experienced in knowing how to do that.

Operator

One moment please for our next question. Our next question comes from the line of Josh Spector of UBS.

Lucas Charles Beaumont - *UBS Investment Bank, Research Division - Associate Analyst*

This is Lucas Beaumont filling on for Josh. So just sort of want to get back to the volume. So I mean, you've given quite a bit of context there on sort of how it's improving sequentially through the third quarter into the fourth quarter. So just wondering if you could give us your updated view on where you sort of see the gap currently between customer purchases and the sales volume trends? So what is the difference sort of now between kind of the seller and the sellout? And do you expect that to reconnect in the fourth quarter? Or is that maybe in the first quarter?

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Lucas, maybe I can ask you just to expand on your question a little bit in terms of -- I think there's some implied timing of what you're looking at for like customers here like branded company customer volumes versus our ingredient sales. Is that your question?

Lucas Charles Beaumont - *UBS Investment Bank, Research Division - Associate Analyst*

Exactly. So where your sales are going downstream. So I mean, obviously, with the destocking, there's been a gap there over the last sort of 9 months or so. And presumably, that's narrowing as we sort of get towards the end. Do you have any visibility into sort of where that gap is and how you see it closing other than just that your volumes are improving sequentially?

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. Maybe I'll comment, and I think maybe Jim can add here as well. We look at our business and then we have -- a large part of our ingredients goes into food and beverage, usually into packaged -- packaged food companies. And within that, you have both branded as well as private label. So private label is really kind of co-packers and co-man. So we've seen some volume kind of uptick there.

I'd say really, where we're catching up is in more of the branded -- branded CPG companies. We also have about -- like in the United States and Canada, for example, about 20% to 25% of our volume goes towards foodservice, so restaurants, et cetera. And there, we've seen generally probably much more kind of ups and downs in 2020 and recovery in 2021. I would say that foodservice traffic has been pretty steady. And it's been a nice kind of stabilizer from a channel perspective for some of our ingredients.

And then I'd only say that kind of somewhere in between is distributors. And so the distributors obviously serve more medium and small customers. they can be either innovative packaged food companies. They might be in foodservice supply. And it's really, I think, within distributors that I think that we're seeing, that's probably the gap where I would say that as they have worked through their excess inventory going out to that medium and small customer base as some of those medium and small customers are fighting to get back on shelf, they're fighting to get their innovation. Taking up that demand is where we're probably seeing the recovery.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Yes. And what I would say is that, as I indicated, that we're seeing early indications for quarter 4 that the sequential improvement in volumes are continuing. And that's also with distributors. The only thing that we're trying to read the tea leaves on is with a little bit of that momentum pick up, we're also trying to be realistic in relationship to how we may see customer buying behavior tied to what Jim was saying about the year-end in December related to corn costs coming down, et cetera. And so we're trying to interpolate all of that as we put together our forecast, say, for quarter 4. But I do think it bodes well for volume momentum to continue in quarter -- into 2024.

Lucas Charles Beaumont - *UBS Investment Bank, Research Division - Associate Analyst*

Great. And then just on the higher sugar prices. So you sort of mentioned you're starting to see some demand substitution coming through there. Just thinking about the pricing side. So how should we think about your ability to kind of price within syrups and Stevia, relative to the move-up in sugar there? Is that going to assist with sort of value capture heading into next year?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Yes. Go ahead, Jim.

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

I mean, Lucas, I know it's a little bit newer to the business, but I'll just give you 1 example. So when we look at Mexico and you look at beverage bottling business, they use a blend of sugar and high fructose corn syrup. Most of that HFCS is imported from the United States. And there is a value gap that actually liquefying sugar and using it at the current domestic price of sugar in Mexico is much more expensive than using HFCS imported from the U.S.. And so to the extent that you'll see beverage bottlers will still move that mix. They'll move that mix to 55% or 60% HFCS. And while that's a small percentage move in the recipe, it's actually quite a bit of demand. And so there's not many customers that have that ability, but that is a pretty clear example where you can see that benefits the demand pull for HFCS for the industry out of the U.S.. And that's an example where you can see that happening.

Operator

Thank you. (Operator Instructions) Our next question comes from the line of Adam Samuelson of Goldman Sachs.

Adam Samuelson - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

The first question, maybe just continuing on Mexico just quickly. Is there -- is there any way to quantify just in North America, where profits and margins expanded strongly? Is that -- was Mexico an outsized contributor to that, both in terms of your local production as well as maybe shipments from the U.S. to Mexico? Or would you say that the profit growth was really across the -- the whole American platform?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Yes. I would say it was proportional to -- across all of North America. But it -- Mexico for us has been a consistent deliverer. And again, we highlighted the fact that it was a record operating income quarter for the Mexican business with really pretty much robust demand across the product categories in which we supply. And remember, Mexico production goes for Mexican consumption, but also some for export as well for the products they're producing, especially in brewing that would be exported from Mexico to the U.S.. But from a standpoint of its contribution to overall North America results, Jim, I would say it was proportional in the quarter?

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes, proportional. And I would say within U.S./Canada, you still saw a pretty decent sweetener demand. And we saw an uptick in industrial starches. You really -- Jim can speak to it more, but better pull for packaging for some of our industrial starch solutions. And then the only, I'd say, the soft spot that has been all year has been more of our texturizers, as those volumes have -- have we really seen the impact of destocking on really some of our texture.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Yes, which go into center of the store, which has been talked about being a little bit softer and impacted by the destocking.

Adam Samuelson - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Okay. That's helpful. And then just on specialties, you gave the slide talking about your 6% growth year-to-date. And you give some of the year-to-date performance in some of the key buckets in the starch-based texturizers, pharma, personal care, Food Systems. Those 3 items are well -- growing well above the total specialties. And so what is below the 6% underneath your specialty umbrella? Is it just the protein side? Or help me clarify kind of where -- what is not performing at the -- above that specialty average?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Yes. I would say that plant-based proteins is definitely compared to what our expectations were for the year has been soft, and the market continues to be soft. The 2 categories that we talked about last quarter in Q2 but now for Q3, the IRI data for plant-based milk and alternative meat sales volumes were down 10% and 18%, again, respectively, which is the same as Q2. So that segment, compared to our expectations, remains soft.

And then I would say the only other category is in the area of, say, clean and simple ingredients, which have higher price points. I would say that would be 1 other category, but it's proportionately compared to, say, starch-based texturizers overall, not as large, but that has been a little soft. But we've got a great franchise there. So we anticipate that that's a long-term trend toward clean formulating and natural labelling will continue to bode well long term. Yes.

Adam Samuelson - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Okay. And just to clarify, tied to the reorganization that's going to go into effect early next year. What -- and maybe it's not completely finalized yet. What is the reporting going to be externally? Is it going to be kind of a specialties versus core dynamic? Or are you going to be giving starch-based with some of the key specialty kind of buckets as you list them here? Just how are we going to be seeing this going forward?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Yes. Adam, not really finalized yet. And we have some clear ideas internally of where we're headed, but we're not ready yet to communicate the specific segments. The narrative from a standpoint of core and specialties will likely change as we move to, again, a global operating segment and/or segments or different segments. But I think CAGNY in February and the earnings call in February is when we'll be in a better position to sharply clarify how we'll be defining all of those reporting segments.

Adam Samuelson - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Okay. All right. That's helpful. I appreciate it.

Operator

Our next question comes from the line of Andrew Strelzik of BMO Capital Markets.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

So for my first one, I just wanted to revisit the 4Q guidance and the implied guidance. And you already talked about some of the assumptions around volume in North America. But just curious, any other swing factors relative to the high and low end, it is a bit of a wide range that we should keep in mind about the fourth quarter in your assumptions?

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes, Andrew, this is Jim Gray. I'll take this. Obviously, there's a couple of kind of more outliers, which would be what happens to energy prices here as we have some conflicts around the world. And we're also looking at is there anything on kind of macroeconomic factors that impact demand in the last couple of months of the year? Largely October is done, but we still have November and December.

And then maybe just FX, there's a couple countries that have either elections or they have some kind of economic decisions in front of us that can always have an FX spike. But I think on the opportunity side, really is customer demand, I would say, as we built our forecast, really more of the trend, I think, month-by-month that Jim spoke to. That trend has been a little bit stronger than necessarily as we're looking at kind of how we lined up Q4. So we'll see, but it's October. Winter is upon us in the Northern Hemisphere. And usually, that's something that can impact kind of demand pull for us. So we're just -- we're cautious on looking at Q4.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

Okay. Okay. Great. And then I guess as it relates to 2024, a clarification and a question. The clarification is just on the comments you made about the multiyear contract renewals that are going to support margin expansion. Are you talking about margins on a percent basis or a dollar-per-ton basis or both? And then in terms of -- the question about '24, I mean, you have that dynamic, you have volume recovering. At the same time, you talked about this being an outsized growth year in '23, and I think you have some onetime stuff in the early part of the year that occurred as well.

So I guess when you bring it all together, and I know you're not obviously preparing to give '24 guidance, but do you think that the operating income growth algorithm, kind of that level of growth is in play for next year? What do you think are maybe the risks to achieving that? I'm just trying to, at a high level, put it together coming off what is a very, very strong year relative to the year ago.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

So just on the multiyear contract question, the answer to your question about is it margins or is it gross profit dollars or both, the answer is, it's both. So that's 1 thing.

And we also are looking at, honestly, the progress that we've made against our global operating model. Now -- and just a reminder, we're in our third year of globally moving to global operations. And having that team work through the significant challenges that the supply chain crisis brought about 1 to 2 years ago has made us, we believe, stronger and has enabled us to make investments in digital capabilities to better service our customers on our inventory positions, our warehousing.

And again, that's -- 1 of the other things that we feel very good about is -- when volumes are -- have been soft like they were for the majority of this year across the industry, many companies are sitting on higher quantities of inventory than we think we are as we exit the year. And so we think that will be helpful as we go into next year.

The other thing -- and it's just noteworthy because South America's performance this year has been down in comparison to really 2 to 3 very strong years. And the energy transition there, it's just noteworthy to point out, we estimate that there is a $5 million to $8 million one-off cost of that transition to biomass, which, again, it's going to -- we're doing that for a number of reasons, but -- moving to biomass, which is lower cost of natural gas and will also provide less earnings volatility, we believe, going forward in comparison to natural gas.

And again, it's enabled us to reduce in Brazil 84% of our greenhouse gas emissions. All of those things, we think operationally are helpful as we head into 2024. So that's kind of why we're feeling at this point in time. And again, we're not through contracting. So we have to see how that's going. But based on all the data points that we have thus far, we're cautiously optimistic about 2024, I would say, Jim.

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Andrew, I'd answer the question maybe on a long-term basis. We're consistently building capabilities. So across our go-to-market team as we seek really customer excellence, we've built in Pricing Centers of Excellence. Why does that matter? The last 2 years, so 2022 versus '21, '23 versus '22, we've seen a pretty dramatic run-up in corn costs worldwide. Normally, we're chasing that.

So now we're looking at 2024, corn costs might be down. And so now we're using new capabilities around our Pricing Centers of Excellence and with our commercial teams to navigate what that means in terms of pass-through in terms of some of our raw material advantage or expected cost advantage next year, but while being paid and being rewarded for the gross profit dollars that we need to run our business.

As Jim just talked to, we're also building that global operations team, and they're building momentum. And I think that works towards controlling inflation. And so we're not -- I don't think we're necessarily out of the woods yet on what the inflation of our manufacturing expense looks like for next year. And so we need the time to pull that together and my team to do the math and see how that works in. But we're clearly aware of that as we're setting prices and talking to customers next year about that. And so I just think that we have some capabilities that we've continually been building. And as we're going through different impacts of our corn cycle, I think we're going to really strive to be managing that gross profit dollar and that operating income dollar growth.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

Great. I guess I'll go ahead and leave it there. Thank you very much.

Operator

Thank you. I'm showing no further questions at this time. I'd like to turn the call back over to Jim Zallie for any closing remarks.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Okay. Thank you, operator. And I wanted to thank all of you for joining us this morning. We look forward to seeing many of you at our upcoming investor events, and I want to thank everyone for your continued interest in Ingredion.

Operator

Thank you. Ladies and gentlemen, this does conclude today's conference. Thank you all for participating. You may now disconnect. Have a great day.
