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PRESENTATION

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

I'm pleased to introduce Ingredion for our next discussion. Ingredion is executing a transformation to a more value-added ingredient company that is contributing to strong and more consistent performance. This progress has taken place despite one of the most challenging operating environments, which Ingredion navigated, in part as it implemented improvements to its pricing and risk management strategies.

Over the next 2 to 3 years, Ingredion expects to increase specialty ingredient sales from 34% of its mix to over 40% as it continues to invest in its specialty portfolio.

We're happy to have Ingredion CFO, Jim Gray, with us today. We appreciate you being here. I'll hand it over to you for some opening comments.

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

Great. Great. Yes, this is like starting one of my leadership meetings, right? Just everybody just keeps talking. It's like a gaggle of geese, right?

So I'm Jim Gray. I'm with Ingredion. We're out of Chicago. I think if you've looked at our Q1 numbers, I mean, I'd highlight for us record sales as well as record adjusted op income in the entire company. So best quarter over 100 years of performance within the company.

And we'll get into some of Andrew's questions, and I'll talk about why. I would just highlight that for our company to be at record profit when corn prices and our raw material prices are really high, would be unusual, right? Usually, we are fighting, chasing some of the inflation that we've seen in our raw material.

But because of some of the improvements we've done in running the business and executing the business at a time when one of our key raw materials is peaking, we're actually also peaking in terms of profit, but that's because of the groundwork we've laid over the last 3 to 4 years. So happy to share with you here today, and then we can talk more if you have other questions about the company. So Andrew?

QUESTIONS AND ANSWERS

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

I appreciate that. So I want to start with capital allocation. And one of the parts of the growth story has been the growth capital that you guys have put to work, almost $1 billion over the last 5 years. And on this last earnings call, you mentioned, and I want to get all this in, PureCircle, customer wins, clean ingredient capacity expansions that are exceeding growth expectations, the new China plan ahead of expectations.

So I guess the question is about the returns that you're seeing on your growth capital and comparing that to your expectations and how that's contributing to the profit outlook, not just for this year but over the next couple of years?

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

Sure. Sure. I think, most importantly, we're a longer capital cycle company. So if we're seeing a growth opportunity in a marketplace, and we're going to expand capacity, we're going to usually then anticipate that, that capacity will sell out probably over a 3-, if not 4-year period.

And so when we look around the globe, really (inaudible) starting probably back in 2018 when Jim Zallie, our CEO came in, we said, we need a growth culture here. We have too many opportunities globally where we see both texture, which is one of the key platforms and functionality that we deliver to customers, is growing. And it really grows mostly in developed markets -- developing markets, right?

So China, nice 350 million person middle class, moving to multiple people in the household working demand for some type of packaged food or processed food, or something coming from food service. And you need functionality and ingredients for those companies to succeed on shelf life in home when someone actually has an eating occasion, does the product perform the way that you want. And so our ingredients really help.

So we find that when we're selling starches, when we're selling other types of natural gums into those solutions, those markets really grow. And as we went around the team, and we got them all stimulated and thinking about growth opportunities, now they come back to us and they say, "Well, we all fight for capital internally."

And so right now, my returns with risk-free rates up, we've increased our kind of our internal thresholds, we're really looking at 22-ish, 25% type of IRR programs. And we really want stuff that's kind of greater than a 10% ROIC by year 3.

So we put the capital in place. We're going to watch it ramp up. Let the go-to-market teams go and work on it and where are we seeing that growth come in. And so we started this back in '18. And as Andrew said, kind of '19, '20, '21, '22, we've put in a number of different investments, some totaled about $850 million.

And we're -- some of those sold out pretty quick, but others are just kind of getting going and getting in their commission and the ramp-up on that capacity. And we'll see that benefit over the next through, right, this year, '24, '25, '26.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

And so when you think about the go forward on growth capital, how do you gauge the right amount for the business? I know a lot of people are competing for the capital internally. So where do you see the opportunities organic, inorganic to the extent you can elaborate on what you just said? And what's the right level of spend?

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

Yes. Well, generally, I mean, if -- we're a fairly cash-generative business. We defer our cash from ops. Net of our change in working capital were 7 -- 600, $600-plus million a year this year. We'll pull out about $300 million for capital. Of that, about $100 million is going to be growth.

So we're trying to keep it at about 40%, so our total capital allocation about 40% of our cash from ops. We have been very true to our dividend, and then that leaves us dollars left over to go after strategic tuck-in acquisitions or buy back shares. And that's generally been the right balance.

I would just say that we'll be flexed on the CapEx number, if I'm not seeing the returns. But right now, I'm still backed up on organic growth opportunities in the pipeline. Probably it's a 2x or 3x what I kind of want to afford.

And so right now, we think a nice pace is about $90 million to $100 million. It would go up if we had a bigger project, but we're going to be constrained by people resources, right? So where do we have the right engineers? Where do we have the right go-to-market team? Where do we have the right operators that we know that we can only handle so many projects a year in terms of expansion.

But if all of a sudden, we had a really great idea, and we needed a $300 million to $400 million for it, then we'd explain it to you, we'd hold ourselves accountable and -- but we would adjust our CapEx allocation if we thought it was a really great deployment of dollars for shareholders.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

This is all in support of five growth platforms that you guys have defined very specifically. So can you talk about maybe the size of those platforms today relative to each other? The profit contributions that you're seeing? And then like maybe what that looks like 5 years from now? And how do you think about the shaping of the portfolio over time?

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

Yes. Yes. We really -- I mean I think we really are going after three big markets. So one, and probably the -- maybe the easiest to understand, so let's just talk sugar reduction. So depending upon where the cost of world sugar is $85 billion, $90 billion market globally for sugar.

When you think about sugar reduction, so whether it's artificial or natural high intensity, probably about a $4.5 billion part of that overall sweetness market. And you can look at whatever the WHO said yesterday. What matters over time is that the world likes sweetness. It's in the habituation of what consumers want, to the extent that you can actually move to something that's natural that provides that same sweetness, but doesn't provide the calories. Overall, we actually believe that's good for human sustainability.

So we're in a stevia business. We're the world leader in stevia. It's a small business within our portfolio, pushing $150 million in revenue, but growing solid mid-double digits every year. And what you'll start to see is that as we work stevia into that market space, we'll see that $4.5 billion just continue to take away from that $85 billion market that's out there. So that's kind of one.

The bigger business for us is in texture. Everybody says, "What the heck is texture, right?" It was like, "I don't know. What are they talking about?" If you've ever made an instant soup, if you've ever made pudding, right, and you put the brown pack, if you're making chocolate pudding and then all of a sudden, you add milk, and you wonder why it goes from that granular kind of powdery stuff, all of a sudden something that's smooth and creamy and consistent, well, that's a pre-gel starch.

And the reason it does that is because this starch molecule doesn't stick to this starch molecule. And the reason -- so that's our science, right, because of how we treat those molecules. So you get very consistent composition in a food ingredient, which all of our packaged food companies love, right?

Because marketers really like the consistency in the performance because it represents what the brand is about. So we do texture. Everywhere in the world. We're the leader. I would argue we're the leader in texture for food ingredients. It's over kind of a $1.6 billion, $1.7 billion business in our business.

And within that is both clean label as well as kind of our starch-based texturizers. And then also as we move up the value chain within that selling solutions, so becoming a bigger part of the recipe ingredients and providing a bit more functionality.

And the last comment I'll just make on texture is that, so why does it matter, right? Why does texture matter? Well, people's eating habits are changing. And I hope this is not as a shock or a revelation, but younger generations now are actually making food choices on sustainability.

So they want to know authenticity. They want to know traceability. They want to know what is in the ingredient. They want to be able to flip an ingredient panel, and they want to be able to see five ingredients. And one may just say, corn starch or tapioca starch. They want something that's simple. They don't want a lot of ingredients and they don't want a lot of consonants in whatever that ingredient. They don't like Xs and they don't like Zs and they don't like Ys and what their -- and what the ingredient says, right?

No. No. We actually have tested this over 15 years. Like we go out with consumer panels every year. And we can tell you which ingredients that our manufacturers should put in their products if they want to hit higher price points on shelf. And so -- and that's because we have to do that because we have a long capital investment. So I mean I can't go in to make an ingredient because I'm thinking 7 to 10 years out. So if I'm going to start making that, I got capital, I got a commitment. I'm putting dollars into dirt to build capacity. I got a sales team that's going to sell that ingredient. I need to know that it's going to resonate with consumers, right?

So that younger generation, for the first time ever in my career, and I'm a food and beverage person. When they start to habituate to what they like at 17, 18, they take that habituation with them into their 20s and into their 30s. So when we talk then maybe a little bit about our last platform, right, which is plant-based proteins, the reason that consumers are making choices, either around sugar reduction or around certain ingredients that they perceive is better for them, is there's also sustainability coming into this in terms of a choice.

And that's the first time ever, right, that I've seen it because the actual ingredient could taste worse. This is the thing, and it can actually taste worse. Like, "Oh, that's off-putting or that's yucky. Why would I eat that?" But then they eat it again, and they eat it again, and they eat it again, and then they acclimate it. And then they think it tastes fine.

So someone may -- so it's really throwing your brand marketers and your innovation people. They're all off, right? I'll give you a classic example. I don't know have any of you ever not to bash on a brand, but I like it, SlimFast. Have you ever tried SlimFast? Any of you, right? Okay. Do you like it? There you go.

Okay. So a lot of people try it and they don't like it. If you actually go to talk to a SlimFast user, they love the taste. Highest repeat of any brand I've ever seen in like 30 years in my career, right? They acclimate to the taste.

So what's really, really interesting is how do ingredients, how do we play in terms of flavor masking and things like that in these markets? So sugar reduction is really key because sweetness is really tough on the taste profile. Texture, as things move vegan, as things move towards really clean label, texture ingredients is changing the composition of the packaged food. So that's huge market opportunities for us.

And then finally, plant-based proteins, which I think has had some headwinds with consumers. I think it had a little bit of a blip. I would say that the headwinds in the U.S. are not the same headwinds or tailwinds in other parts of the world, but still believe that nutrition from plant-based proteins is actually a really good opportunity.

That market, I'd say probably $7 billion TAM right now and growing. While it's down now, I think it will come back up. It's going to have an easy -- obviously, we'll have an easy lap this year, but I think the underlying trend is still there significantly.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

So I think the dynamic -- the consumer dynamic is really interesting and how that kind of cycles back. Can you talk a little bit more about your specific customers and how you're educating and driving the demand with those folks?

It sounds like that it's -- you going to them and educating on like, "These are the types of things that people want to see." Our consumer panel say, "How much of that goes the other way in terms of solving their problems and working together and driving the demand?" That way, I'm just curious about that piece of it.

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

Sure. Well, most of the time, we do get briefs from customers. We get an innovation brief and they say, "This is the particular type of problem we're solving."

If it's a medium or small customer, they don't actually -- they don't even know what an innovation brief is. They just call and they say, "It's not working." And you're like, "Why is it not working?" Well, our new plant in Denver, this just isn't working. I'm like, Well, where is your old plant? Our old plant is in California. Did you take into the fact that your ovens are running at 5,000 feet? No, we didn't. Oh, well, let's sell you a different starch that has maybe more moisture in it so that it doesn't dry out at that altitude.

So like the type of sensitivity of a problem that we can solve with the customer in their make process, those really flow in all the time. right? And that's the fact that the make process in food is really expensive, right? So you have to have ingredients to perform so that they can hit their yields that they want and their packaging at 99.6%.

But the innovation is one where we're seeing more collaboration, even with some of our -- I don't know if I'm calling competitors, cousins maybe. So whether it's a fat and oil company, whether it's a flavor house, so all the big flavor houses are customers of ours, and we do work with them in order to kind of jointly solve a customer's problem.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

Yes. Got it. Okay, great. I believe internally, there's been a focus on mix management -- customer mix management, excuse me. Can you kind of talk about the efforts there? How much more room is there for you guys to go? And the implications as it relates to the profit outlook or the margin outlook in the next several years?

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

Sure. Sure. Well, if you take apart some of the growth opportunities and our attack on how we put capital and people resources against solving customer problems, at the same time, we've really looked at optimizing our business. Our business, traditionally, if you've been a follower of Ingredion and you come back and you say, "My gosh, your profit goes up, your profit goes down if corn goes up, corn goes down, I don't know what you're doing with sweeteners."

Well, let's say that, that hurts as a CFO, and we don't stand back and just say, "Like, I'm not going to do anything about it." So I actually took my team, we ripped apart profit volatility line by line in our P&L over the last 6 to 10 years different by every country.

And we said, "Okay, what causes stuff to go up and down? What's the highest coefficiency of risk? What can we do to mitigate that? Can I contract differently with customers and pass through some of that risk? Can I hedge it? Or do I have to just tolerate that risk? And if I have to tolerate that risk, then that's why I'm going to give you a broader guidance range, right? Because I say it's inherent in our business."

But what we're doing, and Andrew touched on one of them, so we've established pricing centers of excellence 3 years ago, we stood these up. And what we're looking at then is across all of our customer base, not just -- how quickly do we need the price to cover margins because our corn cost change, tapioca cost change, energy costs change, evidently. In Europe, evidently, the energy costs went up 10x last year and now they've come back down.

So how can you price that through to customers in a transparent way, right? So the customer knows. So wait a minute, "That's a raw material." Ingredion doesn't control the cost of corn nor do they control the cost of natural gas in Europe.

So if it comes back down, then the customer benefits from that, right, because they're going to get a lower pass-through on the price. But what we've also done is looked at hedging, and we're a bit more expansive in our hedging to try and smooth that volatility as we go through the year. So both pricing centers of excellence as well as expanded hedging. What we're really trying to do is just get to more consistent profit as we go through each year.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

On that pricing centers of excellence, I guess how dialed in is it? Is there more room...

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

There's more room. There's more room.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

Does it differ geographically?

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

Yes. So we're pretty dialed in on Europe. We're very dialed in on Mexico and South America. And then where we're still chasing is in the U.S. can business as well as all of our Asia Pacific businesses.

Each business in Asia Pacific is slightly different, right? Very difficult sometimes to price through to customers depending upon which country in Asia and depending upon the rate of inflation in that country. And so as we're working through that capability there, I think it's going to be interesting. Yes.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

How much of the inflation, I guess, have you passed through in your various markets? Maybe that's a tougher conversation to have, depending on what view of corn is, but is there how much more?

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

No. No. So as our teams -- so I'm going to lag you in that question, right?

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

Sure.

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

So as we looked at '22 inflation, each of the teams now has a metric where internally they talk about recovery. I'm 115%. I'm 150%, right, which means that they're capturing all of the inflation plus what they're trying to do is see if we can maintain our gross profit margin, right? So always maintaining our gross margin percentage was difficult, but we always, always will maintain the gross profit dollars per ton.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

Got it.

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

That's how we think about it.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

The internal efficiency initiatives that you've realized through the supply chain and other operations, can you quantify that for us? And how that's contributing to the growth this year? And how do you think about productivity kind of on a multiyear basis from here forward?

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

Yes. No, I think it's good. Some of you, if you're holders of the stock, in the back half of '18, we set up a program called Cost Smart. We set out a target of $125 million of takeout. We concluded that 3 years later with about $175 million of cost takeout.

And just to give you some sense, I mean, that was over 100 initiatives, all from kind of bottoms up, country level, working on both COGS as well as SG&A. As an example in that time frame, I mean, I moved and established shared service centers.

In 2017, we didn't have shared service centers. Today, we have three shared service centers and we have over 550 people in them, biggest ones in Guadalajara. We set up our Kuala Lumpur Shared Service Center in the middle of COVID. So we did it virtually with PwC, which was actually pretty cool because doing that and setting up a shared service center virtually is pretty interesting.

And so we've done initiatives that I think that permanently changed the structure, I think we're just getting going on supply chain and production. We have a fantastic ops team, ops leadership and really seeing some of the opportunities where we operate it as really a federation. You set up a wet mill in a country and you want to sell out the wet mill grind in that country. And now with our new operating model, our enterprise model, we're looking across globally, and we have a fair amount of capability building that I think is going to give us a lot of resiliency and how we make choices on where that next capital dollar goes and where is our lowest cost of production.

And then can we move it and sell it? And so that's exciting because, I mean, I think that's how you look at a multinational company and say, "Oh, that's the productivity I'd expect." But just remember, right, we're in the food ingredient business, right? So we have to be locally certified. We have to have customer audits, and we have to have sometimes international standards.

So each ingredient out of each plant is certified by a customer. So being able to say, "Hey, I'm going to give you a modified starch molecule from my Indianapolis plant or from my Shandong, China, or from my Rayong plant in Thailand, right? The customer in Japan may say, "Yes, that's fine, but that customer in Japan has to certify each one of those ingredients from food safety, food handling from audit perspective, right? So that's a little bit of a barrier that you just have to figure out how you're going to go through and get that certified.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

So I guess from a productivity perspective when you say we're just getting started, do we think -- is there another chunky number that you think about? Is it a continuous improvement type of mindset now instead? I guess how do you frame that?

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

I -- one, we always run with the CI in a leaning program. But I think the chunky number -- and we're not ready to announce something yet, but I think the chunky number is always a bit liberating for the team because it allows restructuring, it allows things to think about your assets differently and allow some capital to go into place.

I mean, we are doing things on technical side with like connected factory, where some monitoring controls here or there, work back into your operating room and allow you to dial in the plant a little bit better. And those things can add like significant payback. I love those types of projects.

But sometimes you have to look at the network and just say, "I'm sorry, but we're just going to change how we think about how we approach, where we make and where we source."

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

The -- shifting gears a little bit. The last quarter was very strong. I think the surprise maybe was a little bit on the volume side. And so I'd love to get kind of an around the world in terms of what you're seeing from a demand perspective you're -- assuming a recovery as you move through the year. So what gives you the confidence that, that's coming? Yes, I'd love to give some more details on that.

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

Well, I think you all hear today and depending upon how many companies are talking about actual sales to consumers. And I don't know if that's mostly going to be U.S.-centric. But when you've had 2 years of inflation. So you think '21, '22 and then '22 leading into '23. And you've had packaged goods companies have to take pricing.

If you buy -- if you own restaurants and you look at what the average ticket is on the restaurant, you're seeing low double-digit, mid-double-digit price increases on the ticket, right? And that was protein was going up and then proteins come down as Donnie just referred to, but you've also had labor and labor costs have gone up, right? So your ticket prices are up. So the consumer just can't handle that as much.

And so what we saw -- and I would say probably the second half of 2022, a lot of packaged food companies really were probably getting into high single-digit, low double-digit unit price increases and packaged unit volumes were probably low single digits falling off, right?

And so we're going to start lapping that in the second half, right? But we came back into January of this year, and packaged food companies had to come again with pricing, right, because they still had some inflation. And so I think that, that's a dampener a little bit on demand.

I would also say that there is -- I don't know if there's a hope, but there's definitely some action on returning to more normal supply chains. And so feeling that I think inventory safety levels can come down a little bit, more so in some countries than others.

And so maybe you have some destocking for us. I don't know, rebalancing inventory can take -- I mean if you're in a corn syrup business that can take like 9 days. If you're in a modified food starch, it might take 3 months to 6 months.

So we can see both of those happening. And then when you look just across the globe, not to talk, right, because I don't know to the extent that you worry about inflation at the U.K., 9% or 10%, Pakistan is at 33% inflation, Brazil, as an economy, I think, is suffering. I think there's a lot of the stimulus came off. So I think Brazil, what we're seeing is on the ground is really slow.

Mexico is still pretty good. Colombia is still pretty good. U.S., Canada still -- you can't tell by walking around the streets here that we're -- I don't know, maybe we have already soft-landed. And then Asia Pacific is good. I mean, when I hear week to week, when I'm talking with counterparts in China, the day-to-day mobility on the street is still pretty good. I think the wealth bubble is what our financial markets pick up on and real estate value collapse. But what's happening actually day-to-day in the cities is still pretty good. I mean people there are really pleased if they don't have to come to the office on Fridays because that saves them the commute time.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

So I guess, the pricing environment has been very good for your business in North America, in particular. When we think about what we've seen from a volume perspective, understanding it is expected to recover. Does it change the utilization rates? Can you talk about where utilization rates are in North America across the industry? Or however you frame that?

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

Yes. So utilization for us, if it ticks down 1, 2, 3 points, that's still something that's very manageable. I still think the syrup side of the business. So when we talk about sweeteners, that utilization is actually still pretty high. So that's what's running well. And then on the starch side of the house, we can always manage down on the utilization just to -- so if we get a shutdown for a weekend, and we want to do maintenance or we can just balance that inventory. But that's the key right now. Balance the inventory investment with where you see the demand takeaway.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

So I guess how do we think about the pricing environment, the margin environment in the U.S., in particular, has been very, very strong. I know it's early as we think about next year. But I'm just thinking conceptually, when you have tight utilization rates, assuming demand comes back, you don't have supply coming online, corn prices maybe that are going to crest and start to go lower?

I mean it just feels like holistically a very compelling environment for the industry overall. So am I reading that correctly as you look into future years? And what if we're not going to have supply come on, really, what changes that in the future?

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

Yes. Well, I think it's a market -- it's interesting because how it plays out in our financials. So following corn prices, I think, are generally good for us, right? And you'd be like falling corn prices are good for way, they must lag? No.

I like the fact that we actually can price through a lower variable cost to our customers. It makes the cost of our ingredient even more competitive as a substitute within recipes. And that does nothing to just provide affordability to our customers. And so we really work well within that.

Now obviously, with our revenue comes down because of corn, and we fight like crazy to maintain our gross profit dollar growth, you should see gross margins explode, right? So -- and we've talked a little bit about where we're at in the corn cycle. So everybody likes to model us like revenue and then gross margin or OI and percentages, but really our business is one where we manage the gross profit dollars. And we're going to continue to improve that gross profit dollar mix.

So I think the '24 and '25, I do think that there is a lot of demand pull for it. We're going to make sure that to the extent that Austin competitors are looking at exactly kind of what's the right capacity balance. But it's not easy to get into this business. It's 8 to 10 years of dedicated focus by the teams to get over the food safety, to get over how the molecule works on a specific recipe to get the production line dialed in so that you get good yields and good effectiveness.

So I mean you can add a production line, but you can absolutely lose your shirt, if you don't know how to run it because your yield will kill you, right? I mean you're talking a 95% yield versus a 98% and you're out of business, right? So 3 points matter in this because the cost of the raw material, you're just destroying so much cost of raw material.

So I think that we really know how ops knows how to dial it in. And so for us, it's going to be looking with our customers, where can we actually create more value in their supply chain, owning inventory, helping with innovation, helping guide them in terms of potential value of an ingredient within a recipe. That's part of the conversation we're trying to have.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

The other piece of that is now we've got sugar prices that are extremely high, right? And so I guess as an alternative sweetener, can you talk about how that impacts your business? Is it same year? Is it contracting? I guess what's the capacity to switch?

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

Yes. Well, so customers generally -- I mean, there's a very few markets where we'll see both a liquefied sugar, which is pretty expensive to do as well as like a high fructose corn syrup. I think what's more interesting, and maybe this is an aha that people haven't had, but I'll state this and you go like, "Oh, okay, that sort of makes sense."

It was an epiphany to me. We sell both a full calorie sweetener, like a glucose, into confectionery or in the bakery, right? And corn syrup is corn syrup. It has a unique functionality. It cannot be substituted for sugar. You can't take sugar in confectionery and substitute it in for glucose. It just doesn't work. It doesn't work in the make process.

So glucose has quite a bit of unique properties about it and how it works in a recipe. Post the pandemic, and with the availability of stevia in our portfolio, we're seeing blends. So in the U.S., we think about something that's full calorie, you think about full-calorie soda or diet Coke, right? We think about diet Mountain Dew or Mountain Dew, right? It's very binary in our minds, right?

Somewhat true, and it's very binary in Europe as well. What I'm seeing in Mexico, what I'm seeing in Brazil, what I'm seeing in Colombia is that post the pandemic, the emphasis on public health is elevating the consumer and they've also had a number of labeling law changes that they say, "Hey, can I just blend something in to take out 10% of the calories? Can I blend in something to take out 20% of the calories? Can I go from 150 calories in a can of Coke to 100 calories?"

And some of that's because of the taxation in Mexico on the pack size. It's also they have front-of-pack labeling that says, added sugar, big black (inaudible). And so those call-outs are actually starting to create markets for packaged food companies to want to reduce.

And I'm also seeing it start to happen in Asia as well. And so what is interesting for us is that you say, I'm going to take stevia -- and just a little bit of stevia, which sells for $200,000 a ton, right? And I'm going to mix it with a $500 a ton sweetener. I'm going to create a blend. And I can dial that blend in unique for whatever Bimbo or the known, or Unilever, or Coca-Cola, or FEMSA.

And I can hit a certain sweetness, which preserves the brand, but then I'm also working on human sustainability, I'm taking out some calories. That trend is far hotter than I would have ever guessed. That -- and I think it's driven by the underlying background at public health ministries in certain countries post the pandemic have said, "I'm going to attack diabetes. Because I can't have whatever the next pandemic is, come through our populus and change with the state of our health care system, we can't have that threat against our people."

And so that's real. That's real in the rest of the world. You don't -- in the U.S., I think we endured it. China had a very different approach. But I think that, that's underlying a very real aspect of how we do business globally now.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

So I guess I don't want to pin you down on this necessarily. But if I think about...

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

That's your job. You can.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

If I think about what you're saying from a demand perspective, we have tight utilization to go back to this again. Corn prices go down, you're talking about gross -- holding gross margins. Are you fight to keep gross margin -- gross profit dollars flat, exactly?

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

So gross margin is...

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

Is there however more opportunity than that, I guess, as we think about the next several years?

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

I think there is because some of the levers that we've pulled in terms of optimization, right? So I still haven't really expanded all of our hedging techniques into countries where it's more challenging. So Brazil, I think Brazil is like for my personally, my finance team, we're getting after how we can hedge in Brazil, very limited market. But if we can do that, with customers, it's a very unique advantage.

Because now what we can do is, we can go to them and say, "I don't care about the price of corn. I don't compare -- care where the [real] is versus the dollar. This is your price for the next 12 months. This is your price for the next 18 months go."

And it helps them in terms of their cost planning and how they can then go and think about how they're going to capture share in the marketplace, right? Some of our bigger brewing customers love that idea, right? And so they're very willing to kind of jump in with us on that.

So where -- you mentioned the pricing centers of excellence. I mentioned Asia Pac, I still think some advancement in U.S./Canada. So the optimization levers that we have, and then I think on our production cost side, we still are working on those. So that's within our control.

I think on the strategy growth side, I think we're well positioned in terms of some of the growth. And so when you think about, hey, what does it imply for 2024 or 2025? We're out there with a 4-year outlook. Clearly, we've had a lot of customer and price/mix management success, I think, in '23.

But I still see '24 and '25 is levers that are more within our control to add to our base, right? And then our biggest risk is to be able to say, "Well, how much is that price pressure? Is there customers where, say, they want more than the decrease in the cost of the corn?"

But then I come back and I say, "Well, I still have to get a return on my capital, right? And no one else is -- if you look at the replacement cost of my assets, I think we're still priced even below the return that would be required for anybody new coming in on that asset.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

Can you -- there's two things I want to do in the last couple of minutes that we have. The first is on the M&A side. The appetite for M&A right now, the environment for M&A right now, how you guys are approaching that at this point in the cycle?

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

Yes. Yes. Well, I probably shouldn't say this, but I always look for sellers to capitulate to market multiples. So a lot of flavor fragrance company multiples have come down compressed by 4 or 5x. And so to the extent that there's opportunities out there, always looking.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

Okay. Great. '23 was a -- shaping up to be a very strong growth year. The revenue side, I guess, with pricing and if corn comes down, I guess there's some puts and takes around it. But you spoke about the algo coming off such a significant year. I mean is there any reason '24 wouldn't be consistent with that algo? Is it -- are there pieces of the algo that you think are more important to hit than others? I guess how are you -- how do you think about it?

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

Yes. I mean, I think our long-term algo right, we're trying to hit high 4% or 5% type of revenue growth, right? When we look at our algo, it's all in kind of constant corn, constant FX, right? So to the extent if you're looking at revenue growth for '24 versus '23, you're going to have the tailwind of volume, but you're going to have a headwind of corn prices adjusting, right? So net -- we got to look at the net-net of that. But again, corn prices adjusting, I don't think is a negative impact necessarily on profit.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

So the profit side, do you think is still consistent with the algo?

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

Yes. If you're in your -- if you got revenue coming flat or down, then you got to raise your gross margin percentage assumption.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

Got it. Okay. Great. I think we'll go ahead and leave it there. We're out of time.

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

Okay. Thank you.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

Thank you very much. We appreciate it.

James Derek Gray - Ingredion Incorporated - Executive VP & CFO

Thanks. Okay.

Andrew Strelzik - BMO Capital Markets Equity Research - Restaurants Analyst

Thanks, everybody.