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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Ingredion Incorporated Fourth Quarter 2023 Earnings Call. (Operator Instructions) Please be advised that today's conference is being recorded. I would now like to hand the conference over to your host today, Noah Weiss, Vice President of Investor Relations. Please go ahead.

Noah Weiss - *Ingredion Incorporated - VP of IR*

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

As a reminder, our comments within the 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 the 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 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. Our business performed exceptionally well in 2023, surpassing several key financial records with solid net sales, very strong profitability and robust cash flow as well as outstanding company performance across safety, environmental, and importantly, service delivery. For the full year, we increased our net sales 3% and our adjusted operating income by 23% as we managed raw material volatility and took pricing actions and proactive cost-saving measures. As we look ahead to 2024, we are well positioned to deliver further financial growth on top of 2023's remarkably strong results and are confident that our new segmentation will better align our resources and capabilities with customers' needs to realize further growth opportunities.

Let me update you now on progress against our 4 strategic pillars. Beginning with Specialty Ingredients. Full year net sales grew by 4% and specialty growth contributed to gross margin expansion. At the end of 2023, Specialty Ingredients represented 34% of consolidated net sales.

Performance highlights included Food Systems, driven by strong private label demand and Pharma and Personal Care, driven by continued wellness trends, each demonstrating strong top line growth for 2023.

Turning to commercial excellence. Throughout the year, our technical service teams engaged regularly with customers to co-create and provide the best ingredient solutions for their application. We were pleased to see a 26% increase in customer engagements both in person at our Idea Labs and virtually through our digital connect studios. We believe this demonstrates a recognition by our customers not only of our capabilities, but also their need to innovate to drive volume growth.

We also advanced our go-to-market capabilities through global training and consultative selling with a focus on consumer trends that continually drive our business, including protein and fiber fortification, clean labeling and sugar reduction. By giving our teams the tools and information they need to help customers innovate around these trends in real time, we have been able to improve our Net Promoter Scores, something that we regularly track. Adding to this, our investment in supply chain systems have improved on-time delivery each quarter as we progressed through 2023, giving our customers confidence that our supply chain can support just-in-time demand.

In the area of cost competitiveness, we invested in our procurement capabilities, completed a redesign of the team and have provided training globally in category management. The team has done an outstanding job of leveraging Ingredion's scale and implementing best practices. We are beginning to see significant value creation through real year-over-year savings, risk reduction and improved supplier collaborations.

I also want to emphasize the outstanding work that our operations team has done to ensure the safety of our employees and contractors this year. Ingredion has always been a leader in safety performance, but this year, we have achieved a notable improvement in reducing the number of recordable and lost time incidents. As 2023 developed, we experienced softer customer demand. Our supply chain and operations teams responded quickly by adjusting production schedules, which enabled us to end the year with a well-balanced inventory level.

As we absorbed greater fixed costs in 2023, we feel that we are well positioned in 2024 as volumes recover to obtain leverage from our operations and lower manufacturing costs. Finally, acknowledging our purpose-driven and people-centric growth culture, I'm proud to report that we earned a perfect score in the Human Rights Campaign Foundation's Corporate Equality Index for 2023. We are also happy to announce that we were once again recognized on Fortune's Most Admired Companies list, ranking in the top 5 of the food production category.

Regarding progress against our sustainability agenda. In 2023, we reached a new milestone with 66% of our 5 priority crops being sustainably sourced. We are on track to meet our 2025 commitment of 100% sustainable sourcing. Also, we continue to expand our regenerative agriculture program with customers, resulting in an 85% year-over-year increase in acreage. Regenerative agriculture is currently seen as one of the most promising mechanisms for on-farm carbon reductions to help all companies in the food supply chain to reduce their Scope 3 footprint.

Turning now to gross margins. During 2023, we improved gross profit margins by 260 basis points to 21.4%, which demonstrates that our pricing actions and proactive cost savings initiatives have absorbed the inflation of the last 3 years. The gross profit margin improvement was achieved despite declining customer demand and necessary actions by our operations teams to slow production, resulting in higher fixed costs. It's worth noting that this is the sixth consecutive quarter of gross margin growth.

And I'd like to highlight that 2023 has been a record year for the company across a number of important financial metrics. We have increased our sales to $8.2 billion, which is an all-time high. We delivered $969 million of operating income, up 23%, which is also a record high and adjusted EPS grew to $9.42 which is the most ever and 26% higher than last year. As changes in working capital investments turn favorable, we delivered cash from operations of over $1 billion. These combined results delivered a positive return for shareholders with 15% total shareholder return.

Now I will hand it over to Jim Gray for the financial review and 2024 outlook. Jim?

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

Thank you, Jim, and good morning to everyone. Moving to our income statement. While net sales of approximately $2 billion were down 3% for the quarter versus prior year, gross profit dollars grew 14% with gross margins greater than 20% again this quarter. Reported and adjusted operating income were $202 million and $203 million, respectively. The increases were driven by lower input costs and favorable price mix, partially offset by lower volumes. For the fourth quarter, it is worth noting that South America growth was driven primarily by favorable foreign exchange impacts and strong performance in our Argentina JV. That said, our Q4 JV results lagged 1 month in financial reporting. So the devaluation of the peso will impact our quarter 1 2024 outlook, which I will comment on later. Our fourth quarter reported and adjusted earnings per share were $1.97 for the period, each up more than 15% from the prior year.

Turning to our Q4 net sales bridge. The 3% decrease in net sales was driven by $148 million in lower volumes, partially offset by price/mix of $63 million, along with a positive foreign exchange impact of $19 million. I would like to comment on volume trends in the quarter. Here, we show a volume index based upon our 2019 quarterly shipment averages, which excludes high fructose corn syrup and adjust for changes in the portfolio since 2019. This graph illustrates the extraordinary volume demand in 2021 and 2022 in reaction to constrained supply chains globally.

In the middle quarters of 2023, we experienced a drop in orders as customers drew down inventories, primarily in our texture products. We have seen a gradual increase in order volumes through November. In December, order volumes slowed, representing 2/3 of the fourth quarter's sales volume decline as customers anticipated lower prices in their contracts beginning in January. We anticipate a gradual improvement in volumes this year and have already seen strong demand in January deliveries.

Turning to the next slide. We highlighted net sales drivers for the fourth quarter. Foreign exchange was a 1% tailwind again this quarter as South America saw strengthening of the Brazilian real and Colombian peso, partially offsetting the FX-related impact in EMEA, mainly in Pakistan. Sales volume was down 7%. But again, sequentially better than the third quarter as customers finished working through the destocking of inventory. As I highlighted previously, the fourth quarter sales volume headwinds were most evident in EMEA and North America. Both regions experiencing a December pause in orders as new contracts and lower pricing levels became effective in January. Price/mix was up 3% due to price and customer mix optimization compared to the fourth quarter of 2022. The decrease of 18% for South America was driven by lower corn prices resulting from Brazil's larger harvest.

Turning to our earnings bridge slide. On the left side, you can see the reconciliation from reported to adjusted earnings per share. On the right side, operationally, we saw an increase of $0.41 per share for the quarter. The increase was driven primarily by an operating margin increase of $0.94, partially offset by unfavorable volume of minus $0.76 per share.

Moving to our nonoperational items. We had a decrease of $0.09 per share in the quarter, which was primarily driven by a lap of lower tax rates from Q4 2022. Full year net sales of $8.2 billion were up 3% versus prior year. Gross profit margin was 21.4%, up 260 basis points. Full year reported operating income was $957 million, and adjusted operating income was $969 million. Reported operating income was lower than adjusted operating income, primarily due to impairments of minority equity or venture investments. Our full year reported earnings per share was $9.60 and adjusted earnings per share was $9.42. 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.

Turning to our full year net sales bridge. The 3% increase in net sales was driven by $943 million of price mix, partially offset by lower sales volumes of $648 million, along with a negative foreign exchange impact of $81 million.

Turning to the next slide. We highlight net sales drivers for the full year. Foreign exchange was a minus 1% headwind for the full year as the impact in EMEA, mainly in Pakistan, and various currencies in Asia Pacific were only partially offset by South America. Sales volume was down 8% as order volume was slower as customers destocked inventories built up over the last several years. Price/mix was up 12% due to price and customer mix optimization compared to the full year of 2022.

Turning to our full year 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 $1.99 per share for the full year. The increase was driven by margin improvement of $3.78, offset primarily by lower volumes of $1.65 and foreign exchange of 16% -- $0.16 per share.

Moving to our nonoperational items. We saw a decrease of $0.02 per share for the full year due to higher financing costs of $0.21 per share and other nonoperating income of minus $0.10 per share, partially offset by a $0.28 per share tax benefit. As a follow-on note, on February 1, we completed the sale of our South Korea business for $294 million. Korea business results contributed $0.47 and $0.45 to reported and adjusted EPS, respectively. We have adjusted our 2024 outlook considering this impact.

Moving to cash flow. Year-to-date cash from operations was just over $1 billion. As we progress through 2023, raw material costs peaked and started to decline with a clear understanding of the size of the U.S. crop. Declining input costs eventually roll through to our pricing which will drive lower inventory values and lower accounts receivable balances. This net change impacted our ending balance sheet favorably, resulting in a recovery of working capital which contributed positively to our cash from operations. Net capital expenditures were $314 million and in line with our full year expectations. We continue to prioritize return of capital to shareholders in our capital allocation choices. During 2023, we increased the per share dividend rate for the ninth consecutive year, and we repurchased $101 million of outstanding common shares.

As we look forward, our capital allocation priorities continue to be: first, organic growth and reliability investments into our global manufacturing network; second, a return to shareholders through our dividend; and third, strategic deployment of cash into M&A to accelerate our ingredient solution strategy or opportunistically repurchase shares.

Let me turn to our outlook for 2024. It might be helpful to note 3 drivers of our financial performance before I speak specifically to our 2024 outlook. First, our pricing is anticipatory of raw material cost layout in the coming year. In 2023, we anticipated rising costs, and we're catching up with the prior year's inflation in energy and other areas, so we carried strong price mix into 2023. During 2023, we witnessed a shift in the corn cost layout, which implies that we will see some lower price mix through 2024 as we pass along lower raw material costs to our more fee-based customers. This is a normal expectation for our business model.

Second, the change in the cost of corn and co-product values impacts how we begin each year with hedge values. Going into 2023, the hedge value that we carried into quarter 1 was approximately $11 million of realized hedge value gains. This year, we are seeing a swing with approximately $20 million of realized hedge value losses carrying into the first quarter of 2024. This expectation follows from declining corn costs and our hedge practices.

Third, our volume expectation impacts our plant utilization and ultimately, our manufacturing costs. For 2024, we expect greater volume demand and improvement in manufactured cost per ton. In total for the year, our goal is to continue to grow our gross profit dollars by way of managing higher gross profit dollars per ton. The layout for margin change across 2024 will be highlighted by lower margin in the first quarter as we have set prices in anticipation of full year corn cost layout and are carrying into quarter 1 higher corn value as realized hedges work through COGS. We anticipate as lower corn costs work through Q2 through Q4 that net margins will continue to improve.

Excluding the impact of the Korea divestiture from our outlook, we expect net sales to be flat-to-up low single digits, reflecting improved volume demand partially offset by a decline in price mix driven by lower raw material prices. We anticipate that adjusted operating income will be up mid-single digits with year-over-year growth in Q2 through Q4. For the full year 2024, we expect reported and adjusted effective tax rates of 24% to 26% and 25.5% to 26.5%, respectively. The company expects its full year reported EPS to be in the range of $10.20 to $11.15, including the anticipated net gain from the sale of the Korea business. For the full year, we expect adjusted EPS to be in the range of $9.15 to $9.85, excluding the effects of the Korea divestiture. We expect the diluted weighted average shares outstanding to be between 66 million and 67 million shares.

2024 cash from operations is expected to be in the range of $750 million to $900 million, and capital expenditures for the same period are expected to be approximately $340 million. Corporate costs are expected to be up low single digits.

For the first quarter of 2024, we expect net sales to be down modestly with a mid-single-digit decline versus the first quarter of 2023, which reflects lower pricing as corn costs are passed through as well as a relatively challenging lap from the prior year in EMEA due to extraordinary pricing to catch up with energy and input cost inflation. For adjusted operating income, we anticipate a double-digit decline of minus 25% to minus 35%, driven by 3 factors. First, we are running with less volume and production than first quarter last year. We expect volume demand to improve in Q2 and beyond. Second, the carry in of corn costs and hedge values presents a $30 million swing in profit margin quarter-over-quarter. The layout of corn will present lower corn costs through the year and support margin expansion for the balance of the year.

And third, the devaluation of the official Argentina peso exchange rate will have a $15 million hyperinflation impact in January. As you can see from this page, our expectation for quarter 1 profit would be relatively in line with the historic trend, excluding the very unique set of circumstances in Q1 2023.

That concludes my comments, and I'll hand back to Jim.

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

Thanks, Jim. We delivered a record year in 2023 with strong profit growth and year-over-year gross margin expansion, and we generated record cash from operations of over $1 billion, and we invested prudently in our strategic priorities. We believe that the customer inventory correction that started back in the first quarter of 2023 has largely run its course, and we are well positioned to capture incremental volume opportunities as they arise in 2024. It is with this backdrop that we entered 2024 with a view to continued profit growth, reflecting greater volume demand along with a focus on cost savings and operational excellence. We remain confident in our long-term growth targets and our ability to create value for shareholders.

Before closing, let me take a moment to highlight the transformational journey that Ingredion has been on. As you may know, Ingredion has been providing customers with ingredients and solutions for more than a century, and we have successfully adapted to changing market conditions throughout our history, and we continually position ourselves for long-term success as market conditions and consumer trends change. This time is no different. As a natural outgrowth to our transformation, we announced last November plans to reorganize our business operations, which will result in a change to our reportable business segments. Texture and healthful solutions will have a global mandate, while our food and industrial ingredients businesses will have a regional and local focus. The new structure creates greater transparency into our product capabilities, aligns our commercial teams to serve customers better and provides greater insight to shareholders. We believe this move is the next logical step in a long history of adapting to changing market conditions in the pursuit of long-term growth.

Now let's open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from the line of Ben Bienvenu with Stephens.

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

As it relates to the South Korea business divestiture, I'm curious, any thoughts you can provide on potential use of proceeds that doesn't seem to be considered in the guidance for this year. So obviously, we're capturing the dilution, but not the potential returns associated with putting that sale proceeds to work in the business. So maybe any framing around that, that you can offer would be helpful.

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

Sure. Ben, this is Jim Gray. First, obviously, we always look at where our shares are valued, and we always have in at least the middle of our mind, if not the back of our mind, share repurchase and with a forward view of what we believe our intrinsic value is for the company. I'd also say though and just highlight that the M&A landscape has been one where -- it's been, I think, a little bit challenging in the last 2023, maybe part of 2022, at least for private equity, as risk-free rates rose. There's also been kind of globally when you look at some ingredients companies, fragrance companies, multiples have come down. And as a strategic buyer, following our refresh strategy, we are continuing to look at where are there opportunities where we can look at M&A and deploy monies prudently but do so in a way that accelerates our strategy in Ingredient Solutions. And so, we're still -- you can never kind of guarantee the deal is going to get done, but we have a pipeline that we continue to pursue.

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

I mean our first priority always is with capital to invest in organic capital for growth and obviously maintain our planned assets, so they run with reliability and efficiently. As Jim talked about, second to that would be our dividend, the focus on our dividend. And third would be the use for M&A to grow our texture and healthful solutions businesses. And we have a very, as we always do, active M&A pipeline, but Ingredion over time has always remained disciplined. And for those acquisitions we have made, we've integrated them very well and delivered on the business case. So -- and also, it's noteworthy that the price that we got for the Korea business, which is primarily a core business where, Jim, I think about 1/3 of that volume was dedicated to high-fructose corn syrup was above our trading multiple from a PE standpoint. So we feel very good about it, and we think it's the right thing to do for our portfolio, and we'll use the proceeds wisely.

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

Okay. Very good. My second question is on the cost outlay for this year and in particular, raw material costs, corn. I'm wondering are you hedged this year on your gross corn similar to how you were in 2023? Should we expect a uniform outlay of hedge exposure throughout the year? And then on the co-products, are you hedged similar this year as you were last year? Help us understand the framework around your cost hedging for 2024.

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

Sure, sure. Yes, we are following the same discipline with regard to our U.S./Canada business and that hedging upwards of kind of 80% or more of our gross corn purchase expectation and hedging almost towards 50% of our co-product values that we expect from the sale of our co-products. I would just say that when you look at the layout of corn, you had a declining corn futures market in 2023. So any hedges that we're placing towards the end of the year -- we're obviously going to be reflecting a little bit less in terms of the cost of corn. As you now look forward into 2024, you still have somewhat of a decline in the quarter-over-quarter comparison. So that lower corn cost, even though it's hedged as along with the co-product values, is going to show up more so in Q1 versus Q4 of 2023. Q2 of 2024 will be slightly better than Q1 of 2024 et cetera. So that kind of goes to my comment on the layout of the corn. You should see corn cost, corn deflation, helping us with margins, helping us with COGS as we get into Q2, Q3, Q4.

Operator

Our next question comes from Andrew Strelzik with BMO Capital Markets.

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

I was hoping you could maybe elaborate a little bit -- I was hoping you could elaborate a little bit on some of the volume dynamics that you talked about. The shift out of December, is there a way to kind of frame that or quantify that? And are you seeing that Jan is then stronger than you would have anticipated? Or are you just kind of back to where you thought you would be? And I guess more broadly, if you could kind of walk through what you're seeing across your end markets from a volume perspective.

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

Yes. Andrew, I do appreciate the question, and it's a little bit of a nuance for everyone listening. I would say that in Q3 when I was asked about what did I see as some of the potential risk to the end of the year. I always said, well, our brand company CFOs are smart folks, they're probably going to be managing inventories at the end of the year because it contributes to their operating cash flow. And if you're in procurement, you're looking at a lower corn cost in 2024, you're negotiating for your price of your starch, your sweetener. And you probably came out with a slightly better price in January for 2024 than what you're carrying in 2023 for us. And so what we just saw was some of the volume pause, I'm going to call it pause on orders because I think that's smart to do if you're in procurement. -- that impacted really Europe, and so that shows up in the EMEA sales volume number for Q4, it impacted North America, and that shows up in the sales volume number. So pretty natural play of things as the year ends, we are seeing January volumes strong. So I would say that it's -- I don't know if it's necessarily changing our guidance but we are very confident that, that December pause, there's still an underlying customer order volume demand and that's coming through in January.

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

Yes. I think it played out exactly as we had indicated in the last earnings call, and we thought it was a very rational behavior on the part of customers to certainly adjust working capital down but also wait for some of the price decreases that they were anticipating that would be affected with contracted -- contracts starting in January. But we do want to emphasize that the customer inventory correction that started a year ago has largely run its course, and we don't see that as a factor as we head into this new year.

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

Andrew, just if I can, just to carry forward because we had a net sales guidance of kind of up low single digits. But it has 2 parts to it. And so I think 1 part is what's the underlying volume demand and then that's partially offset by some anticipated price mix due to lower corn as we pass through. But maybe ask Jim to just comment on what we see for volume demand in 2024.

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

Yes. I think with respect to packaged food volume demand, we expect an increase in unit volumes as brand and private label lap the very high unit prices that occurred I guess, over the last 2 years. So we anticipate that grocery retailers will want to support consumers to bring them back to the stores. And I think we're going to see more promotions to support traffic. We also highlighted the increasing customer interactions. We're seeing many more engagements for innovation-related projects that we think is a leading indicator for the need for brand innovation to drive also volume growth within the CPG space. So we're anticipating a mid-single-digit uptick in sales volume demand for 2024, and that growth should become evident in all geographies through 2024 except perhaps as Jim said, in Europe for the first quarter. And overall, as we guided net sales will be flat-to-up low single digits as we expect some price mix headwinds with lower corn costs being passed through on our variable pricing contracts.

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

Great. That's super helpful color. I appreciate that. And then if I could just ask about M&A and buybacks and kind of how you think about the capital deployment to the 2, whether it's the South Korea proceeds or otherwise. Is there a point at which if a deal does not materialize you -- on the M&A side that you would pivot to buybacks? Is there a time line element to this? Or I know these -- the timing of these things can be very unpredictable. So I guess I'm just curious how you think about pivoting between the 2 at some point if needed.

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

I'll let Jim make a comment, and I'll make a comment. Go ahead, Jim.

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

I think for Andrew and for everybody, I don't think it is an either/or, right? So right now, given our balance sheet, given our cash position, if we believe that the shares are absolutely a value, then we can be executing on share repurchase, and that's not going to give us pause on what we're doing on M&A.

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

Yes. I mean, we will always remain disciplined, of course, and look at every deal prospect critically for the synergies. But now what has happened this past year is we went through a full year lengthy strategy refresh using some of you may know, the play-to-win framework. And so we're very clear about our winning aspiration. And we're very clear about where to play and how to win, and we will be supporting the strategy with M&A and organic investments as well. And we do have -- I will say, we do have some pretty big organic investments that we're excited about that we want to pursue as well.

Operator

Our next question will come from the line of Ben Theurer with Barclays.

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

I wanted to ask about the new operating structure and the reorganization of it and the benefits as you play this out. Can you share maybe a few examples of how this is going to help you with your customers globally, particularly in the texture and healthful solutions segment that you've pointed out is going to be managed in a global way in order to potentially drive volume or profitability? What is it would you hope from the new operational structure? That would be my first question.

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

Yes. I think Ben, that the pivot towards a more global focus on texture and healthful solutions. First of all, we believe that there is an exciting opportunity ahead for Ingredion to work with customers to influence their understanding and our collective understanding of how texture impacts overall liking and consumer preference analogous to flavors. And we've been saying that for a while, but we really believe that. So we've invested in consumer insights and sensory capabilities and also now texture measurement science capabilities so that we can correlate that.

On the healthful solutions side, our focus is very clear. It is on sugar reduction, which has a large total addressable market, protein and fiber fortification. Those are our platforms for healthful solutions. And it is with that focus, which are driven by global trends and have universal value propositions for all customers globally, we think that just lends itself to a global approach. Ingredion for the longest time has been very regionally organized. And that has served us very well from a standpoint of regional accountability for P&Ls and delivering results. We believe that what we have done in the last, say, 5 years, where we have for efficiency purposes, for effectiveness purposes, stood up a global business services organization, for example, shared services with finance. Our -- some of our marketing functions and HR functions are now globalized in support of more of a global business model. We couldn't have done what we're about to embark on 5 years ago because we had to build the capabilities, but we've built those muscles from a standpoint of back office, shared service, global business operations. And by the way, the most important move that we made was globalizing operations. And I can tell you and what you're seeing in our results are the benefits of moving to that global operations model some of the things we talked about in relationship to our Net Promoter Scores, the service enhancements, the benefits in procurement that we're getting, the safety results. That operational excellence focus on a global basis with benchmarking best practice is serving us very well. So it allows for the commercial organization in texture and healthful solutions to focus much more time and be much more intimate with customers to really understand their brands and what they need from us as a co-creation partner. So we are looking at adjusting KPIs and incentive schemes to drive the kind of global behavior to align with global key customers, but also share very actively where consumer buying behavior is going to change. There's a lot of questions about how consumer buying behavior is likely to change with a lot of things that are going on in the food industry right now. And we think being organized the way we are moving will serve us very well to be much more intimate with customers.

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

Very clear. And then just one question related to the guidance. If you could maybe help us understand and frame a little bit, the impact of the Korea divestiture kind of from top to bottom. We got obviously the impact on the operating income side, on EPS. But could you potentially quantify what the impact is more or less on top line as well, just that we can frame that better in our modeling exercises.

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

Yes. Yes, sure. For the full year 2023, South Korea delivered about $325 million of net sales, so -- unaudited, but it's about the range. And then if you're looking at kind of an approximation for the adjusted op income, the effective -- the net of the effective tax rate, it was probably more in the teens. So if you take EPS, times our shares outstanding and you're trying to get to an adjusted op income, I'd say that adjusted op income range was in the kind of the low 30s in terms of what to look at -- in terms of 2023 contributions.

Operator

Our next question comes from the line of Kristen Owen with Oppenheimer.

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

I wanted to follow up also with a modeling question to start. First, just on the revaluation of the peso, the hyperinflation adjustment. Can you just help us understand the mechanics there? Is this sort of a onetime true-up for all of 2023? Starting there, what the assumption is for 2024 and how the mechanics of that adjustment work?

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

Yes. So just when we look at whatever the balance sheet items are on our -- our core JV and you translate that into dollars, whenever you have an official change in the exchange rate, we have to take a onetime hit to those values. And so that $15 million, is that just the balance sheet impact due to the kind of the hyperinflation treatment under GAAP that we'll be recognizing in the first quarter. So that says, so then now you look forward to 2024, still great fundamentals in the Argentina market. Sugar prices are high. Corn is relatively cheap. The attractiveness of high fructose syrup to beverage makers is very, very good. So the Argentina JV should probably continue to perform well in 2024. So we'll have good underlying OI. What we just need to watch is, is with the new government, how do they look at the official rate of the peso. But you probably won't see something like what we witnessed in December, where you had a peso -- official peso rate that was in the 300s going to 800. So it will be unlikely that you'll have an additional onetime hyperinflation impact further into 2024. There may be some, but it's unlikely the degree of magnitude that we're witnessing here that we have to take in January.

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

Okay. That's super helpful, Jim. So taking that into account and just thinking through all the moving pieces, '23 to '24 then '24 to '25. When we look at the guide in 2024, the outlook for mid-single-digit growth in operating income, coming off a very strong 2023 result. I'm just wondering how we should think about the guide in the context of your 5% to 7% operating income CAGR, that growth framework that you outlined for 2025.

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

Yes, sure. If I can take a crack at that. Obviously, we're not necessarily out here reissuing a 4-year outlook. We're still working within our 4-year outlook. But within 2024, look, there are some risks to the year. Obviously, there's -- it's an election year, we may see changes to the impact on taxes. I think we're a little bit concerned maybe on risks around stubborn food inflation and what's the impact on consumer demand, the shape of the grocery store basket. But on the other hand, some of your peers are talking about, well, will brand companies have to use promotions or be enticed by grocers or other retailers to bring some promotions in to excite the consumer to fill those grocery baskets back up or to maintain branded market share on shelf. If that stimulus happens, that's an opportunity for us. That's always good for unit volumes of our customers, and we supply ingredients that support those unit volume sales. I would note that just on one thing, which is within our 2023 results, we're still absorbing a loss on plant-based proteins. And so that operating loss was just over $40 million. In addition, as the plant-based protein market had slowed down. We did recognize upwards of about $15 million of mark-to-market on inventory value for our plant-based proteins. So that's in our numbers for 2023. So as we look to 2024, we're going to improve upon that, and we'll improve upon that in 2025. Further, in 2024, a good solid year for sugar reduction. And as we go forward into 2025, we'll still have the opportunity to take advantage of the additional capacity that we put into our Kuala Lumpur facility and drive growth there. So I think there are some things that we're organically doing that we continue to work that are going to be builders in our operating income as we go forward.

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

I do think, Jim, it was helpful that you clarified about the protein fortification loss, operating loss and inventory adjustment. That $55 million total is in the 23% increase in operating income last year. And we believe that, that has been taken to a low point where we're seeing improvements heading into this year. So that's something that we are encouraged about as well.

Operator

(Operator Instructions) Our next question will come from the line of Josh Spector with UBS.

Joshua David Spector - *UBS Investment Bank, Research Division - Equity Research Associate - Chemicals*

A quick clarification one on the guide and a question to follow. Just around the operating income side. You made the point on sales that it's excluding South Korea. Is the operating income guide up mid-single digit excluding the South Korea impact in '23? Or is that asset-based reported number?

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

No, it excludes it.

Joshua David Spector - *UBS Investment Bank, Research Division - Equity Research Associate - Chemicals*

Okay. So then, I guess, organically then you're talking about more of a high single-digit-ish operating income growth relative to volumes up low single. So can you kind of bridge maybe the pieces of that EBIT that gets you to that level? So how much is volume leverage and just the movement in price offs between first quarter and the rest of the year? Is that a good or bad guide for the year and is there anything else we should be thinking about?

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

Yes. Well, Josh, maybe pull apart the pieces because I don't know if maybe we've interpreted in our guide the way that you might be reading it. We looked at 2023, and that's a complete year. We've effectively sold Korea early in 2024. So we look at, well, what did Korea contribute to 2023, that contribution won't be there in 2024. So that's kind of our new baseline. And then we issued our outlook, our guidance off of that baseline. And so when we see adjusted operating income up in the mid-single digits, essentially what we're counting on is a return on actual volume, it's going to be offset by a little bit of price pass-through due to lower raw materials, but we're seeing dramatically lower corn costs and some input costs. And so the lower COGS is helping us. The additional volume will help us on our manufacturing costs. And all of those come to contribute to a pretty healthy change in our gross profit. We're going to manage our OpEx tightly, and that provides us leverage to op income.

Joshua David Spector - *UBS Investment Bank, Research Division - Equity Research Associate - Chemicals*

Okay. No, understood. And yes, I guess I did that math interpretation wrong, so I understand what you're saying now. I was wondering if you could also comment on any of your trends you're seeing in customer reformulation considering that business maybe is a leading indicator around new mix or products coming out. Is there anything there to give any optimism about maybe more new product introduction, helping you guys gain share? Any insights kind of on trends you could share in that regard?

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

I think we see a lot of focus on -- a lot of focus on food service innovation because you're seeing still strong consumer spending and -- the -- pardon me, I've just gotten, why don't you take it?

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

Yes. I'll grab 1 piece, right? So the trend, obviously, since 2022, 2023, carrying a little bit into 2024 still has always been around affordability, right? With -- obviously, with the cost of ingredients going up, our customers have looked at and said, hey, where can we actually design an affordability so that we can now -- going into 2024, that's even more of a focus for some of our brand customers. And then I think what you're also seeing is like, hey, I think, with a soft landing consumers feeling not so dire about maybe the economic outcome, and maybe that's just speaking from a U.S. perspective, but that some of the support behind wellness trends and some of their choices that we see in -- on front of pack, I think that's going to start to emerge back in 2024.

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

Yes. I think continued focus on healthful solutions. A lot of focus on a dynamic consumer related to continued spending for experiences and mobility and an increasing focus on return to office, lunch trade again, those food service type offerings where we're very connected into the quick service restaurant trade. We're seeing a lot of activity from a standpoint of ideation and innovation there. And I think Jim emphasized just naturally, you're going to see a lot of focus clearly on affordability related to consumer debt that may be increasing and just overall affordability. I don't think you're going to see much more shrinkflation. I think that's run its course and there's been backlash. But I do think overall recipe formulation is what we're seeing a lot of the briefs that we're working with customers on.

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

Josh, I'd always say, look, there's an undercurrent -- there's always a theme with consumers in today's world with blogs on the Internet to think about authenticity and the ingredients and always to move towards natural, right? And so some of it, I would say, is when we work on our stevia business, just the underlying appeal to customers has always been around from nature ingredients. And everything that we make is from plants. And so I think that is an overall trend that still supports us. So that's a mega trend, and that's a long-term trend.

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

Yes. For sure. For sure, the high-intensity natural sweetener space is something that we're seeing a lot of attention based on a lot of the news that came out in the middle and towards the end of last year with some of the studies about the high-intensity artificials as well.

Operator

Our next question will come from the line of Adam Samuelson with Goldman Sachs.

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

So I guess first is, as I think about the bridge to '24, and you guys have given some very helpful color, but I'm just trying to make sure I'm thinking about kind of fixed cost absorption and how the impact of volumes, what negative impact that had in '23 as you manage through destocking and a high single-digit decline in organic volumes. You're talking about a low single-digit increase in volumes in '24. Obviously, that's still well off where you would have been a couple of years ago. And I'm just trying to make sure, is there still fixed cost absorption charges embedded in the -- in the '24 outlook? Or were you actually undershipping your own production last year, so you're planning to ship to production this year so that you can get your capacity absorption in the right place?

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

Yes. It's the latter, Adam. So I think our planning team did a really nice job looking at the decline in orders, order volume shipped in 2023. We really tried to manage the finished goods inventory ending point. So as we look at 2024, and we see that order volume and anticipate that order volume being up. And I think like you appropriately characterized it, I think you nailed it, which is like this is not a huge bounce back. This is a gradual improvement, but we do see an improvement in 2024 on order volume versus the lows, I think that we saw in 2023 and I think we are poised for our production to start absorbing fixed cost and fixed cost -- some fixed cost absorption is part of our guide for 2024.

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

Okay. That's helpful. And then just coming back to the question on capital and it ties into kind of use of proceeds with Korea. I guess I'm just trying to make sense of why not at a minimum is a placeholder to allocate the cash for buyback at this juncture? It would seem like there's not much if any buyback really assumed in the plan this year based on the average share count? And should we be thinking that, hey, there might be M&A that you're kind of balancing against? Or what would be the condition by which you wouldn't be deploying that excess cash flow and divestiture proceeds this year?

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

Yes. Well, obviously, we are looking at and had worked on a number of items that are in our M&A pipeline as well as and as I mentioned kind of earlier though, thinking about there is cash proceeds. There is a healthy cash balance in terms of where we ended the year. And so as we look at the shares and where they trade, that's absolutely something that's in our thinking. I don't know if we've necessarily committed to it because we don't always know when windows are going to be open and when we're going to be able to execute on share repurchases.

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

But we have proven over time, the last couple of years, that we will be opportunistic, and we will be very meaningful in relationship to making share repurchases that will be accretive.

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

That's right. and part of our overall capital return to shareholders.

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

Yes. So I would say you should continue to follow what we've done in the past because I think we've been very purposeful and clear about our capital allocation approach, and we will continue to do so. But with the strategy refresh, clearly, we would like to expand our toolbox of solutions capabilities for textural offerings and in those targeted areas for healthful solutions. So it's always a balancing act, Adam, but I think the other thing just to emphasize, as I said earlier, is we will continue to be disciplined and be good stewards of capital.

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

Yes. I mean it's not necessarily a matter of either or, right? It is -- I do look at it as both. And both are somewhat dependent upon opportunity and windows. And to Jim's point, right, on M&A that's focused on our ingredient solutions and expanding our strategy, we are disciplined in terms of getting after opportunities you have to say that with -- between risk-free rates and overall multiples that valuations are probably more attractive now than they have been in maybe the last 5 to 7 years. And as a strategic buyer, I think that we look at capabilities and assets that can really help us accelerate what we want to do in textures and in healthful solutions.

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

Yes.

Operator

That concludes today's question-and-answer session. I'd like to turn the call back to Jim Zallie for closing remarks.

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

I want to thank everybody for joining us this morning. We look forward to seeing many of you at our upcoming investor events with the next significant engagement being CAGNY in Boca Raton on February 21, and I thank you for your continued interest in Ingredion.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.