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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's fourth-quarter and full-year 2024 earnings conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to turn the call over to Noah Weiss, Vice President of Investor Relations. Please go ahead.

Noah Weiss - *Ingredion Inc - Vice President - Investor Relations*

Good morning, and welcome to Ingredion's fourth-quarter and full-year 2024 earnings call. I'm Noah Weiss, Vice President of Investor Relations. Joining me on today's call are Jim Zallie, our President and CEO; and Jim Gray, our Executive Vice President and CFO. The press release 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 Investor section.

As a reminder, our comments within this presentation may contain forward-looking statements. These statements are subject to various risks and uncertainties and include expectations and assumptions regarding the company's future operations and financial performance. Actual results could differ materially from those estimated in 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 conference call or in this morning's press release can be found in the company's most recently filed annual report on Form 10-K and subsequent reports on Form 10-Q and 8-K.

During this call, we 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 US GAAP measures in Note 2 non-GAAP information included in our press release and in today's presentation appendix.

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

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Thank you, Noah. And good morning, everyone. I am pleased to announce that Ingredion achieved significant double-digit adjusted EPS growth for the fourth quarter. This performance was driven by continued strong sales volume growth in Texture and Healthful Solutions, as well as exceptional performance from each of our Food and Industrial Ingredient segments.

Our 2024 reorganization and new segment structure positioned our teams well against our targeted markets and customer opportunities, establishing a solid foundation for the future. Our Food and Industrial Ingredients US/Canada business benefited from the renewal of multi-year contracts that enabled us to recapture inflationary impacts and recover margins, resulting in significant operating income growth for the fourth quarter.

For Food and Industrial Ingredients LatAm, the Mexico and Andean businesses delivered strong results despite softer sweetener demand. The strength and agility of our business model in the region enabled us to manage pricing in the face of changing corn costs and currency fluctuations. These factors collectively led to a year-over-year increase of 5% in operating income or an increase of 8% when adjusting for the sale of the South Korea business.

Turning to a summary of our net sales volume growth for the quarter, Ingredion continued to drive organic growth with a 4% increase compared to last year when adjusted for the sale of our South Korea business. Beginning with Texture and Healthful Solutions, we experienced a double-digit sales volume increase for the second consecutive quarter. Food and beverage categories in the US, such as yogurt, beverages, and batters and breadings, were key contributors to this growth.

Despite ongoing food inflation impacting Western European markets, the categories most relevant to Ingredion in that region have consistently outperformed the overall market throughout 2024, especially in the latter half of the year. Sectors such as dressings, ready-to-eat and frozen meals, and dairy products continue to demonstrate recovery as consumers traveled and returned to more in-office work routines and placed an increased emphasis on value.

As mentioned during our Texture Innovation Day, we are continuing to drive volume growth with our most differentiated products and solutions, which generally offer higher profitability. In the Food and Industrial Ingredients LatAm segment, net sales volumes were down 4% in the quarter, mainly due to soft sweetener sales to the Mexican beverage market, in addition to sales to the Andean confectionery category also experienced softer demand.

Lastly, in Food and Industrial US/Canada, strong demand from papermaking and packaging customers was partially offset by weaker sweetener shipments. For the full-year 2024, gross profit dollars and margins reached record levels of $1.8 billion with a corresponding margin of 24%, up 270 basis points compared to 2023.

Our operations and procurement teams have played a pivotal role in driving operational excellence across the organization. Their focus on optimizing capacity utilization, streamlining supply chain processes, and implementing procurement-led cost-saving measures have increased efficiency and reduced costs.

Let me now update you on our progress against our three strategic pillars. Beginning with business growth, in the quarter, our Texture and Healthful Solutions segment demonstrated robust performance with strong sales volume growth and expanding operating income margins. We continue to progress our solutions-selling approach, focused on demonstrating the impact of textural solutions to improve taste and overall liking.

Underpinning our solutions capabilities, we have invested in strengthening formulation expertise and improving the quality of customer briefs. We are focused on solving unique customer challenges by providing tailored solutions for health and wellness, clean label, and affordability. We are continuing to invest in future innovation and revenue growth.

Our Food and Industrial Ingredion's US/Canada segment demonstrated significant operating income growth. We successfully adjusted multi-year contracts to recapture prior year's inflationary impacts and enable margin recovery. Further supporting this segment's performance was strong demand from the papermaking and packaging industries.

Turning to the second strategic pillar, cost competitiveness through operational excellence, we are pleased to report that at the end of the first year of our Cost2Compete program, we exceeded our year-one run rate cost savings target of $18 million by more than 30%. We will meet or exceed our run rate target of $50 million by the end of 2025 and we'll provide an update to the program outlook later this year.

A significant portion of the targeted cost of goods sold savings in 2025 will come from strategic network-sourcing moves that enabled us to further optimize our asset footprint and close three of our smaller facilities, one each in the UK, Brazil, and Canada. It is also noteworthy to mention that this morning, we announced $100 million of investments to expand Ingredion's capabilities for delivering texture innovations to growing end markets while bolstering the economic viability and sustainability of the Indianapolis plant.

Furthermore, by upgrading Indianapolis's energy infrastructure, Ingredion will improve operational efficiency and reliability while reducing greenhouse gas emissions. Additionally, these investments will enable the Indianapolis plant to lead in supplying the highest quality and most innovative specialty starch-based texturizers for global customers.

Moving to our last pillar, our people-centric performance growth culture, in December, we were honored to be recognized for the first time ever by the Wall Street Journal as one of the 250 Best Managed Companies. This recognition demonstrated Ingredion's achievements in customer satisfaction, employee engagement, innovation, and financial strength.

In addition, our dedication to fostering an inclusive work environment was further highlighted by Ingredion Brazil being designated as a Great Place to Work for 2025. And finally, Ingredion was named a top employer in Singapore and Thailand for the fifth consecutive year while achieving that status in China, Germany, Malaysia, and the United Kingdom for three consecutive years.

There are also a number of notable achievements to highlight after the first year of our global reorganization, business resegmentation, and Cost2Compete program. We advanced a customer-centric approach to optimizing and de-risking our supply chain by making selective investments and taking restructuring actions to enhance service and improve perfect order delivery.

Resegmentation also increased business performance visibility, providing a clearer view of segment demand drivers. Global operations standardized roles and processes, leveraging their global scale, which is just beginning to lead to better execution and improved efficiencies. Lastly, we made strategic investments for growth, progressing Texture and Healthful Solutions capacity expansions in Thailand, the US, and Germany.

Now I am pleased to hand it over to Jim Gray for the financial review. Jim.

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

Thank you, Jim. And good morning, everyone. Moving to our income statement, net sales for the fourth quarter were $1.8 billion, down 6% versus prior year. Gross profit dollars grew 12%, with corresponding margins up 420 basis points to 25%. Reported and adjusted operating income were $162 million and $248 million, respectively, with adjusted operating income up 22% versus the prior year, driven by lower raw material costs, greater sales volume and fixed cost absorption, partially offset by price mix.

Turning to our Q4 net sales bridge, the 6% decrease was driven by $92 million in lower price mix and $33 million of foreign exchange impacts, partially offset by positive sales volume growth of $77 million. Furthermore, the exit from South Korea had a $73 million impact on sales volume.

Turning to the next slide, we highlight net sales drivers for the fourth quarter. For the total company, net sales were down 6%. And excluding the impact of South Korea sales from results, net sales were down 2%. Texture and Healthful Solutions net sales were up 1%, driven by sales volume growth of positive 10%.

Price mix declined 10% for the quarter, primarily reflecting the pass-through of lower corn costs as well as lapping last year's higher pricing due to double-digit inflation experienced in specialty corn and energy costs. Food and Industrial Ingredients LatAm net sales were down 9%, and Food and Industrial Ingredients US/CAN net sales were down 2%. Both results impacted primarily from the pass-through of lower corn costs.

The trajectory of our Texture and Healthful Solutions business is demonstrating a full recovery from the demand impacts of industry destocking experienced in 2023. The operating income has steadily returned to more consistent levels throughout 2024, particularly in the latter half of the year, recognizing that texture solutions is not significantly impacted by seasonality. This stable trend is expected to continue into 2025.

Turning to our earnings bridge, on the top half you can see the reconciliation from reported to adjusted earnings per share. Operationally, we saw an increase of $0.52 per share for the quarter. The increase was driven primarily by an operating margin increase of $0.67, partially offset by other income of minus $0.10 per share.

Moving to the change in non-operational items, we had an increase of $0.14 per share, primarily driven by lower financing costs of $0.19 per share, partially offset by a higher tax rate equivalent to minus $0.06 per share. Shifting to our year-to-date income statement highlights, net sales for the full year were approximately $7.4 billion, down 9% versus the prior year due mainly to lower corn costs. Gross profit dollars increased 2% and gross margin was up 270 basis points to 24.1%. Reported and adjusted operating income were $883.1 billion and $1.016 billion, respectively, with adjusted operating income up 5% from last year.

Turning to our full-year net sales bridge, the 9% decrease was driven by $622 million in lower price mix and $52 million of foreign exchange impacts, partially offset by positive sales volume growth of $227 million. Furthermore, the exit from South Korea had a $283 million sales volume dollar impact.

Turning to the next slide, we highlight net sales drivers for the full year. For the total company, net sales were down 9%. However, excluding the impact of South Korea's sales from results, net sales were down 6%. Texture and Healthful Solutions' net sales were down 4%, price mix was down 10%, and sales volume was up 7% for the full year. Food and Industrial Ingredients LatAm net sales were down 7%, and Food and Industrial Ingredients US/Canada net sales were down 8% for the full year, both results impacted by the pass-through of lower corn costs.

Let me turn to a full-year summary of each segment's performance now that we have completed our first-year reporting under new segmentation. For 2024, Texture and Healthful Solutions net sales were down 4% compared to the prior year and down 3% on a constant currency basis. Although Texture and Healthful Solutions operating income was down 11% from prior year, it is important to note the sequential profit improvement through each quarter in 2024 as we fully lap the impacts of industry destocking.

In Food and Industrial Ingredients LatAm, net sales were down 7% versus last year and down 6% on a constant currency basis. Operating income improved to $483 million, resulting in 7% year-over-year growth. Op income margin of 19.7% was driven by strong results overall in Mexico and an improving year-over-year input cost structure in Brazil as our transition to biomass energy was completed.

Moving to Food and Industrial Ingredients US/Canada, full-year net sales were down 8%. Operating income was $373 million, up 25%, with operating income margin improving to 17.3%. The exceptional increase in operating income was driven primarily by renewal of multi-year customer contracts, which reflect catch-ups from prior years' higher inflation. The full-year results also benefited from lower raw material costs, though partially offset by lower price mix.

For all other, a net sales decrease was driven by the overlap of South Korea's net sales included in the prior year. All other operating loss of minus $22 million was driven primarily by the sale of our South Korea business, which had contributed $30 million to the prior year's results. Turning to our year-to-date earnings bridge, the company delivered an increase of $1.23 per share. Operationally, we saw an increase of $0.52 per share. The increase was driven primarily by an operating margin increase of $1.09, partially offset by volume of minus $0.47 per share.

Moving to the change in our non-operational items, we had an increase of $0.71 per share, primarily driven by lower financing costs of $0.85 per share, partially offset by a higher tax rate equivalent to $0.24 -- to a negative $0.24. Moving to cash flow, 2024 cash generated from operations was $1.4 billion. Cash from operations benefited from consistent net income growth and an exceptional contribution from working capital change, which is typical when we experience lower corn costs throughout the year.

We highlight here the change in working capital balances contributed almost $400 million to our cash from operations. As we look forward to 2025, we anticipate flat to slightly higher corn costs and are expecting to invest in working capital. Full-year 2024 capital expenditures out of disposals came in at $295 million. As announced earlier, we will continue to invest in growth initiatives and have begun several one-time but significant cost savings and infrastructure projects that will be completed by 2026.

In the full year of 2024, we repurchased over $200 million of outstanding common shares, more than doubling our initial goal for share repurchases set at the beginning of the year. Our capital allocation priorities continue to be organic investment into our business, primarily focused on higher return growth opportunities; and secondarily, being mindful of total return to shareholders through our dividend and share repurchases. We actively look at M&A to accelerate our strategic priorities and believe that we have a strong balance sheet to consider the best options for shareholder value creation.

As outlined in our 2025 guidance, we will be raising our capital expenditures to an investment level of $400 million to $450 million for '25. This represents a one-time step up from our historical capital investment range of $300 million to $350 million. One significant driver of this higher investment level is the opportunity to leverage incentives granted in the Inflation Reduction Act that will enhance our cost position and enable us to capture future efficiencies at our Indy plant.

Now let me turn to our outlook for 2025. For the full year of 2025, we anticipate continued sales volume growth and op income improvement. We expect net sales for Ingredion to be up low single digits, reflecting greater volume demand, partially offset by price mix and foreign exchange. We anticipate that adjusted operating income will be up mid-single digits.

Our 2025 financing cost estimate is in the range of $50 million to $70 million to align with the reduction of overall debt levels and the anticipation of a stronger US dollar in our current foreign exchange outlook. For the full-year 2025, we expect reported and adjusted effective tax rates of 26% to 27.5%. For the full year, reported and adjusted EPS are expected to be in the range of $10.75 to $11.55. This guidance does not anticipate extraordinary changes in current tax rates, tariffs or trade, or food regulations.

Furthermore, our expectation excludes acquisition-related integration and restructuring costs, as well as any potential impairment costs. We expect diluted weighted average shares outstanding to be between 65.5 million and 66.5 million shares. We are once again establishing a share repurchase objective of at least $100 million for 2025.

We anticipate our 2025 cash from operations to be in the range of $800 million to $950 million. Corporate costs are now expected to be up in single digits to high single digits year over year, reflecting compensation increases and center-led investments in R&D and digital IT capabilities.

Turning to the segment detail for our 2025 outlook, for Texture and Healthful Solutions, we expect net sales to be up mid-single digits and operating income to be up mid-single digits to high single digits driven by sales volume growth. For Food and Industrial LatAm, we expect net sales to be flat and expect operating income to be up mid-single digits. For Food and Industrial US/Canada, we expect net sales to be down low single digits and operating income to be flat to down low single digits.

For all other, while not a segment per se, is made up of various businesses with distinct business drivers. We expect net sales combined for the sum of these businesses to be up high single digits, and operating income is anticipated to approach break-even profitability. Lastly, for the first quarter of 2025, we expect net sales to be down low single digits for the entire company and operating income to be up high single digits.

That concludes my comments, and I'll turn it back over to Jim.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Thanks, Jim. Our record performance in 2024 provides momentum heading into 2025. In addition to solid volume growth in Texture and Healthful Solutions and operational execution across our entire business, we also exceeded our first-year Cost2Compete run rate savings target. Our exceptionally strong cash flow from operations bolstered by short-term working capital benefits has enabled us to step up organic investments in 2025.

Additionally, we returned $426 million to shareholders in 2024, demonstrating our commitment to shareholder value. We anticipate further strengthening of customer collaborations to drive growth and continued Cost2Compete savings from the second year of initiatives to position us well to navigate a dynamic business environment in 2025. We will continue to allocate capital that prioritizes organic investment to drive future profit growth while returning capital through dividends and share repurchases to deliver shareholder value.

Now let's open the call for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Kristen Owen, Oppenheimer.

Kristen Owen - *Oppenheimer & Co., Inc. - Analyst*

Good morning. Thank you for taking the question, and congratulations on the nice results.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Thank you.

Kristen Owen - *Oppenheimer & Co., Inc. - Analyst*

Thanks, Jim. Understanding that you guys did come in ahead of expectations in 2024, I'll say I was a little bit surprised by the 2025 EPS guidance. The low end implies just about a percentage of growth; high end, 8.5%. It's a pretty wide range of expectations there. Can you help us understand the swing factors, what would put the low end in play, and what needs to happen to achieve the high end?

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Yes, let me have Jim take that question.

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

Yes, Kristen, normally when I think we're beginning of the year, we're going to look at a range that's relatively wide. I think early on, there's also always going to be, well, which way is maybe the spring crop in the US going to kind of play out? As well as right now, I think this year, looking really at FX rates. So I think on the low side of our earnings estimate, probably greater currency weakness could play into facts in Brazil, Colombia, Europe, maybe China. I'd say there's probably some offsets maybe in the weakness in the Thai baht, which is generally a benefit from us.

We're watching kind of softer co-product values in Europe. We want to see how the French corn crop comes in. And then just generally slightly higher corn costs potentially always can be just a slight headwind even though we extensively hedge. Our upsides are really driven by a kind of greater-than-expected volume. I still believe that there's potentially even more volume -- unit volume growth out there in a very low inflationary environment in food and beverage, right? So that tends to be pretty positive for ingredients suppliers.

I think there's also kind of increased wins as we look at customer reformulations, particularly maybe given some of the dynamics in the US. And then there's always some spot pricing opportunities. And so those are some of the flavor of the potential downsides but also the upsides in our guidance range.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Yes, I think just to complement that, I think just at this point early in the year with some of the dynamic elements that are in play -- and I think you called out foreign exchange as one of the ones that we're watching closely. That all being said, we do a pretty good job managing that and have historically. But that's the reason at this point in the year, early in the year, for a wider range. But obviously, we looked at what that conveys from a center cut standpoint and what we feel would be in line with, say, the long-term profit outlook for the business.

Kristen Owen - *Oppenheimer & Co., Inc. - Analyst*

Appreciate that color. And then if I could ask on the $100 million CapEx investment in Indiana, you noted the step up and the free cash flow that enabled that to happen, but just how this fits into your capital allocation strategy as you're thinking specifically for 2025 and '26? Would this impact your willingness to look at acquisition targets? How are you viewing the pipeline at this stage? And thoughts on the pace of share repurchases? I think you mentioned $100 million on the call, so just any context around that. Thank you.

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

Yes. Well, Kristen, I think when you finish a year like we just did in '24 where we didn't have to invest in working capital -- and just to remind you, we put a lot of investment into working capital in 2022. That has now really come back. And because we've managed cash well, I think we have a really strong balance sheet.

So when you sit back and you say, well, what are the best opportunities to go create shareholder value? And the team thought -- I thought very broadly about this. Jim challenged us all, not just in our segments, but also in our operations. And we said, well, wait a minute, there's some very good investment opportunities for us. And one, continuing to invest in organic growth where we have capacity where we need it generally in other places around the world.

But when we looked at Indy, there was an opportunity to really upgrade some of what we do, as well as put in a co-generation plant there. And so that's a flagship plant for us when we think about global texture solutions. And so it just made sense to invest in Indy. That project has already started in '24, continues in 2025. It will wrap up in 26.

And so I think as we noted, we're going to call this out for investors as what we call cost savings and infrastructure. We're going to call it its own bucket. And we'll talk a little bit more about the expected returns, but we believe that this is kind of at least the 10 to mid-teens IRR type of opportunity for us to deploy capital.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Yes, I think the strength of the balance sheet and the cash generation over the last couple years gives us confidence to make these kinds of investments in the business that we're confident are right in line with our strategy given the importance that that Indianapolis plant, for example, plays.

But as evidenced by the share repurchases coming in more than 2 times what we originally targeted, we feel very confident that we've got the flexibility, balance sheet flexibility, to also pursue M&A, which obviously we have a pipeline that we're always continuing to assess. So it doesn't in any way preclude us from pursuing inorganic investments as well.

Kristen Owen - *Oppenheimer & Co., Inc. - Analyst*

Thank you so much.

Operator

Josh Spector, UBS.

Josh Spector - *UBS Securities LLC - Analyst*

Yes, hi, good morning. I wanted to ask just on the guidance framework. It seems to be if you go through the negative pricing and effects that you're assuming that volumes are up maybe mid-single-digit percent at your midpoint of expectations, and my reaction is pretty a healthy target if that's a right interpretation. So can you give us some context about what gives you confidence in that? Is that new wins? Are there specific markets? Really, what's driving that overall?

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

Yes, maybe to clarify, Josh, I mean, I would say that our sales volume expectation for Texture and Healthful Solutions is in that mid-single digits. And I would probably say that the F&I businesses have a lower sales volume target than that. We are seeing, though, significantly less price mix. So maybe I'm catching in your assumption that there's still some significant -- you may have in your assumptions or how you work through it or a greater price mix headwind. We see that dampening and much less in 2025 versus what we've experienced in 2024.

Josh Spector - *UBS Securities LLC - Analyst*

Yes, I guess let me step back and try that again. I thought at an overall level, you're guiding towards low single-digit revenue growth. That's net of pricing. That's a net of negative effects. If I say each of those are a point, I mean, maybe I'm differentiating between five versus three, can you clarify that point for me?

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

Yes. So I would say that still, again, we're looking at probably a total company, low single-digit to -- between low single-digit and mid-single-digit volume, slight price mix, and foreign exchange is maybe not as much as you assume when we look at the total revenue mix right now.

Josh Spector - *UBS Securities LLC - Analyst*

Okay, understood. Let me move on to another one quickly to ask just on the contract structure of what you have in place with the multi-year contracts. I think you said earlier you'll give maybe some more detail update later in the year. But can you just give us a state of the union on where we stand now in terms of how many of the contracts are on a multi-year basis, how much we need to think about coming off over the next couple years, and your visibility to being able to address some of that effectively?

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Yes, let me just take a question in totality from a standpoint of, I guess, how do we feel coming out of contracting? I would say that in general, we're pleased with the results of contracting. And we expect operating income margins for Texture and Healthful Solutions, Food and Industrial Solutions LatAm, and our businesses that are in the other category to demonstrate margin expansion.

The margin expansion is going to be supported by price management and our corn procurement and hedging practices as we move through 2025's dynamic environment. For the Food and Industrial Ingredients US/Canada business, we are expecting to hold operating income margin for this segment as we have achieved significant operating margin expansion over the last two years in the range of just holding that margin, we think, is a great achievement.

And the segment operating improvements [will be part] in his remarks by an increase in corporate costs as we invest in some digital transformation investments as well as R&D. And for the company, we anticipate operating income margin improvement to be in the range of 30 to 70 basis points. That's inclusive of those investments in operating incomes -- operating income or corporate costs, I should say.

The issue around multi-year contracts, I think the majority of those adjustments took place last year. So there's not any significant multi-year adjustments heading into 2025. There'll be one or two here and there, but not of the order of magnitude. Because typically when these contracts renew, they're multi-year contracts. So again, being able in the US/Canada Food and Industrial Ingredients business to be able to hold that 700 to 800 basis points increase over the last year or two is quite a significant achievement that I think highlights the strength of the business model in that business.

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

But contracting is complete. And the way that manifests in our business, Josh, is that we take all of those contracts. And as we put them into the system, we come up with kind of that weighted average change relative to when we locked in the underlying raw material with the customer for their volume commitment for 2025, run that. And then what you get from us is a perspective which Jim highlighted on our operating income margin expansion or stability.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Yes, and just to put a finer point to make sure there's no confusion, so there really is nothing materially outstanding in relationship to contracting. Contracting is complete, and that is the case in the US, and that is the case in Europe and pretty much around the world.

Josh Spector - *UBS Securities LLC - Analyst*

Got it. Thank you very much.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Thank you.

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

Thanks, Josh.

Operator

Andrew Strelzik, BMO Capital Markets.

Andrew Strelzik - *BMO Capital Markets - Analyst*

Hey, good morning. Thanks for taking the questions. My first one, I wanted to go back to the Texture and Healthful Solutions guidance. And at the recent Innovation Day, I think you gave a profit growth algo that was at 8% to 10%. And recognizing you're giving a range for the guidance for this year, the low end of that obviously leaves room for some shortfall relative to that algo.

So I know you talked about FX. Is there anything else on the downside, on the lower end of that, that could be pressuring that below the algo? And then I guess the follow-on to that would be, as we get beyond 25, are you assuming then that you grow kind of towards the higher end of that outcome, and what drives that reacceleration?

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

The answer to your latter question is yes. And I think just on the range for Texture and Healthful Solutions is just being cautious a little bit about the strength of the dollar, kind of strength of some of the country's economies where we primarily are really growing texture and healthful. So Southeast Asia, looking at China, and looking at parts of Europe as well as the Middle East. We're still very optimistic, I think, about the strength of this business and just want to make sure that we still play through kind of how the strength of the dollar looks relative to some currencies.

Andrew Strelzik - *BMO Capital Markets - Analyst*

Got it. Okay, okay. And I know that the guidance doesn't really contemplate some of the outside potential factors around tariffs and trade and food ingredient regulations. I guess I'm just curious from your perspective how you weigh those risks and the positioning of the portfolio, particularly as it relates to scrutiny for the healthfulness of the food supply chain and where you might be positioned.

Do you think about demand shifts within your portfolio where that could be a net benefit? Do you see those as potential headwinds? I guess when you think about these things in their totality, should they come to pass how you weigh the portfolio's positioning? Thanks.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Yes, let Jim and I tag team on this one. So first of all, as mentioned, I think, during our prepared remarks, the 2025 outlook does not consider extraordinary changes to current tax rates, to tariffs, or trade or food regulations. Ingredion, of course, we're monitoring any new announcements by the administration or any of the trading partners with the US to assess any potential impacts of, say, tariffs.

With respect to the US, Mexico, and Canada trade relationships, I think it is important, though, to highlight something that we've talked about in the past about our business, and that is that we have local manufacturing in each country. So for example, we're the only corn wet miller in Canada with two manufacturing facilities, and in Mexico with three manufacturing facilities that supply predominantly a local customer base. We source corn locally in each country, although we do rely on corn imports from the US into Mexico. So that's one of the things that obviously we'll be watching.

And this is a very dynamic situation right now, and we're committed to sharing any relevant updates to the full-year outlook as we gain more clarity and once we have some certainty around the impact on scope and timing of any potential tariffs. At the same time, we're doing scenario planning, as you would expect, to review our regional supply chain operations throughout LatAm, the US, and Canada, to look at alternative sourcing paths, should they arise, as you would expect. Jim, do you want to add to this?

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

No, Andrew, and I think to everybody listening, timing always helps, right? If it's clear that there is going to be an amount of a tariff and when, just supply chains like to move and they like to have time to be able to move. It allows us to think about our input costs. It thinks about where we are going to manufacture, how we approach customers in terms of what might be additional costs that we then have to pass through on pricing. as well as what's the impact of our customers' business to tariffs. So it allows us all to kind of think through each one of those in lockstep, and then come to, I think, a pretty good assessment in terms of whether there's opportunities or risks to the business.

Andrew Strelzik - *BMO Capital Markets - Analyst*

Great. Thank you very much.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Thank you.

Operator

Pooran Sharma, Stephens.

Pooran Sharma - *Stephens, Inc. - Analyst*

Thanks and congrats on the quarter.

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

Thank you.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Thanks, Pooran. Welcome.

Pooran Sharma - *Stephens, Inc. - Analyst*

Thank you. Just wanted to ask about the Cost2Compete program. I know you achieved a good run rate thus far. But I was just wondering if you could provide a little bit more granularity in terms of specific cost levers that you thought had the most impact so far. And I believe you mentioned this, but if you could just talk about the biggest opportunities that you see in 2025 for Cost2Compete?

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Sure. So just a reminder that we had set a target for the first year of the program. Typically, when you're ramping up activities along such a program that is enterprise wide, we had set a target. We delivered more than $23 million, which was greater than 30% of what we had originally targeted in the year.

So we built momentum throughout. But one of the levers that obviously was pulled was consistent with our play-to-win strategy refresh and the reorganization and resegmentation. And that obviously afforded us an opportunity to look across the entire organization and what winning skills and differentiating capabilities we needed to have to execute the strategy.

And so a number of people within our organization were reassigned to different roles. And then at the same time, that led to opportunities to streamline the organization. And so what was great about the program coming on the heels of completing a 2023 enterprise-wide strategy refresh is the ability to align our cost structure to our strategy and with people being on the right seat, right, and capacity utilizations across our network most efficiently. And that led to the decision to shutter three facilities.

Now they're smaller facilities, but some involve some investment in other plants to compensate. But from a standpoint of driving efficiency, modernization, and overall maximizing capacity utilization, that's where the second year, for the most part, of Cost2Compete savings are going to come from. Jim?

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

Yes. Well, and I'll just say that look, the work led by our Senior VP and Chief Supply Chain Officer, Eric Seip, and what Jim mentioned, looking at all of our manufacturing sites, the team has been looking at these for several years now. We have a different perspective. We've built a different set of capabilities. So we really can anticipate demand, where it's going to show up in the world, and then work towards what's the best way to really optimize our cost of production and our cost to move product.

The only other thing I'd add is that, look, Cost2Compete is around expenses. But as Jim mentioned, as we get into these changes in manufacturing network, it also helps us achieve higher ROIC and a better return on our invested capital. And that's obviously, as an asset-intensive company, that's what we're always striving to do.

Pooran Sharma - *Stephens, Inc. - Analyst*

Right. I appreciate the color. Just on my follow up, wanted to see if you could help me understand kind of how to frame up net corn costs for the year. I know you do hedge a good chunk of your corn and your co-product values. But just thinking about the unhedged portion, we've seen some recent crop price rallies. some drought concerns out of South America. Does that concern you at all, and how should we be thinking about net corn costs for the year?

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

Let me take a lead on this one. When we are going through each specific customer's contracting in the fall of last year, even up through December, when that customer is calling us and saying, yes, I want to set the volume expectation and the price, we're taking kind of at that moment what the corn futures and/or our co-product futures layout looks like for the next year, and that's being incorporated into the price.

So I really look at 2025. And even though we've had some movement both in corn upward as well as soy, I think our more extensive hedging practices in the US, particularly against our firm or what we call our flat rate price contracts, is just significantly reduced value at risk.

So right now, what we just watch is let's look at the spring crop and plantings on time and what the health of the spring crop looks like and how that develops, whether it's here in the US or in Brazil or Argentina. It's going to probably impact the global cost of corn elsewhere in the world. We contract out relatively short in terms of a period, and so if there are changes in the cost of the corn, the teams are very agile and quick to catch up on what that change in raw material costs might be.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

In prep for this call, we did look at some of the noise coming out of Argentina, specifically about what you read about the drought down there. However, what we've been reassured of is the area where we source the corn from is not being impacted to the degree that you're reading about. So we feel pretty good for that particular country.

But the other thing, Jim, that we have done is to mitigate earnings volatility is hedge and sell forward our co-products, which has really helped us in recent years, and we've done the same. And that's why, from a standpoint of the outlook for the next six months, we feel very good about the visibility that we have on co-product returns as well.

Pooran Sharma - *Stephens, Inc. - Analyst*

All right. I appreciate the color. Congrats on the quarter again. I'll pass it on.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Thank you, Pooran.

Operator

Ben Theurer, Barclays.

Ben Theurer - *Barclays Capital Casa de Bolsa SA de CV - Analyst*

Hey, good morning, and thanks for squeezing me in. Jim, Jim, I just wanted to follow up a little bit on your expectations, maybe more on the first half, particularly as it relates to LatAm and the currencies there and what that impact is. Obviously, first half of '24, both BRL and Mexican peso were relatively strong, and we're seeing a much weaker level here. But at the same time, we're seeing a little bit of signs of maybe a little bit of a consumer softness in terms of just the feeling around the trade noise.

So as you think about the cadence throughout the year, and I appreciate you already gave the guidance that net sales are expected to be down low single digit, but what are the risks in that region in particular as it relates to volume? And then on top of that, the FX that is obviously at worse compared to what the first half was.

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

Yes, so first of all, I just want to make sure for food industrial LatAm for 2025, we expect really net sales to be flat, right? And then so we do see a little bit of currency headwind just year over year for the full year. I think right now, if you look at the real as well as the peso relative to the dollar, we're taking both of those into account when we're looking at how we're setting 2025 guidance to the extent that there's weakness in the real, and the value of corn adjusts to maybe a global value of corn expressed in dollars.

So what we've always typically done is priced that local price we're adjusting relative to the value of the US corn because Brazil can export, and so the local market adjusts. That's a pretty ingrained expectation, I think, within customers and our sales teams. Mexico is just slightly different because we are dollar denominated in reporting our business in Mexico. But we do look at hedging the peso where we have local exposure. So generally, if the peso weakens, we're going to see a little bit of upside because our costs will be less.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Right. We'll see upside in Mexico with a weaker peso. And it's more of a headwind on Brazilian reali if it weakens.

Ben Theurer - *Barclays Capital Casa de Bolsa SA de CV - Analyst*

Okay, understood. And then just as it relates to the capital allocation in general -- and appreciate the details you gave during the prepared remarks and some of the Q&A already on the CapEx for this year, the Indianapolis expansion project. So obviously, that picks up a little bit, your CapEx for this year.

As we move beyond 2025 or that project in particular, is there something that you would expect to run also into 2026? And how do you think about just other facilities or other areas of potential increased CapEx just given that you're having still a fairly strong operating cash flow outlook for 2025?

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

No, I think we really want to -- I really want to make sure we're clear, right, in that right now this is the cost savings and the infrastructure bet. While it takes us about two years to get this all done, we really see this as kind of one-time ad hoc. We want to make sure that a longer run that we want to come back on our cash flow that we're investing in the business is going to be our reliability capital and then usually between $80 million to $100 million in organic growth. And that organic growth capital has generally returned definitely in the high teens, if not even 20-plus percent type of IRRs is where we target.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

That all being said, I think that the way you have to continue to think about the CapEx investments that we have made already, and we've talked about these many times in previous Investor Days and updates, we've invested strongly in our previously what we call Specialties and now more so Texture and Healthful Solutions. With headroom to grow example in China for China and in Mexico for our Texture and Healthful Solutions business in Thailand. And those investments still have headrooms for enabling of growth.

So we've invested significant growth capital in, say, the last three, four years, and those investments haven't fully matured from a standpoint of the revenue and profit potential that they can continue to generate for the company.

This particular Indianapolis investment, again, Jim called it our flagship facility for Texture and Healthful Solutions specialty starches and produced some of our most differentiated products, and this investment significantly modernizes the facility, significantly streamlines product flows between a very large plant, across a very large plant, as well as just how people traverse the plant, and then on top of it, we get the cost competitiveness and the environmental benefits from the cogeneration investment that we're making. So hopefully that puts CapEx and the implications on enabling future growth, as well as investing also in the reliability and cost competitive side of it.

Ben Theurer - *Barclays Capital Casa de Bolsa SA de CV - Analyst*

Perfect. Thank you very much.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Okay. Thanks, Ben.

Operator

Heather Jones, Heather Jones Research.

Heather Jones - *Heather Jones Research LLC - Analyst*

Thank you for the question. Good morning. Congratulations on the quarter.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Thanks, Heather.

Heather Jones - *Heather Jones Research LLC - Analyst*

Hey, good morning. I wanted to start out with the all other business, and that's a pretty sizable improvement you all are looking for in '25 versus '24. I'm assuming most of it is from the Saskatchewan plant, but just wondering if you could help us understand flesh that out a little bit.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Yes, thank you so much for the question. So as a reminder, the other category is comprised of our Pakistan business, which is profitable and will have year-on-year growth; our sugar reduction business, which is profitable, and we'll have year-on-year growth; and our protein fortification business, which is steadily improving but still is loss making. And as mentioned, the decision to close the Vanscoy plant will have a net positive profit improvement impact of about $10 million in 2025.

So you have the Pakistan business with a great market position, and it will grow year-on-year. Sugar reduction based on all of the market trends. We anticipate some solid growth from that business unit as well our segment -- within our segment. And the protein fortification business is really hitting its stride. I would say it had a very strong year-on-year performance from the production out of our South Sioux City plant for the higher value or highest value pea protein isolate.

And the contracting went very well as well as we head into 2025. So we are pretty confident in the year-on-year improvements we expect to see as that business works its way over the next couple years towards a profit breakeven. That's the target for that business. But in the meantime, the other businesses are doing well.

Heather Jones - *Heather Jones Research LLC - Analyst*

Thank you for that. And then on Latin America, just curious. I think, just looking at the slide, and you all are expecting EBIT to be up mid-single digits. And so my understanding was that '24 was the second record year for Mexico. I think you had a pretty good year in Argentina. So just wondering if you could give us -- help us to know what's driving that outlook.

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

Yes, well, I mean, obviously, look, I think that there's still plenty of room to run in Brazil in our business. We mentioned that we're closing one of the smaller facilities there, but it allows us to rebalance some of our product, make some investment, and just continue to look at that product mix within Brazil.

And there's plenty of ways to upgrade that out of some what I would call probably higher volume, lower margin business into stuff that's much more differentiated and product lines that we can really service well. And then we always are quite positive on the Andean sub-region as well in terms of its opportunities, not just with corn but also with tapioca.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Yes, I mean if you remember the first quarter of this year, I should say of 2024, there was a little softness from one of the nutritional supplement segments that we had in the Andean business in Colombia. But we indicated that we felt confident that was going to come back, and that did, and it finished actually very strongly and has momentum as it heads into 2025.

But really, the name of the game in LatAm that we feel we have within our control is network optimization and efficiencies that we continue to drive, and as Jim talked about it, mix upgrade. We see a big opportunity for mix upgrade across different segments. And that's a strategic project that our teams are executing over multi years. And so that's kind of what we feel will give us the additional lift in LatAm after really two very strong years -- again, these last two years in LatAm.

Heather Jones - *Heather Jones Research LLC - Analyst*

Okay, perfect. Thank you so much.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Thank you.

Operator

(Operator Instructions) At this time, there are no more questions in the queue, and I would like to go ahead and turn the call back over to Jim Zallie.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

All right. Thank you, operator. I want to thank all of you 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 on February 18. And at this time, I just want to thank everyone for your continued interest in Ingredion.

Operator

Thank you all for participating in today's conference call. This does conclude today's meeting. You may all disconnect.