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INGR - Q4 2019 Ingredion Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 11, 2020 / 2:00PM GMT

OVERVIEW:

Co. reported 4Q19 net sales of $1.549b, reported operating income of $170m, and reported EPS of $1.61. Expects 2020 adjusted EPS to be $6.60-7.20.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Q4 2019 Ingredion Incorporated Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to introduce your host for today's conference, Tiffany Willis. You may begin, ma'am.

Tiffany Willis - *Ingredion Incorporated - Vice President, Investor Relations and Corporate Communications Officer*

Thank you, Kevin. Good morning, and welcome to Ingredion's Fourth Quarter and Full Year 2019 Earnings Call. I'm Tiffany Willis, Vice President of Investor Relations and Corporate Communications Officer. I'm thrilled to be with you today and I look forward to working with all of you in the months and years to come as we discuss Ingredion's performance.

Here with me today are Jim Zallie, our President and CEO; and Jim Gray, our Executive Vice President and Chief Financial Officer.

Our results were issued this morning in the press release that can be found on our website, ingredion.com, in the Investors section. The slides accompanying this presentation can also be found on the website and were posted a few hours ago for your convenience.

As a reminder, our comments within this presentation may contain forward-looking statements. These statements are subject to various risks and uncertainties. Actual results could differ materially from those predicted in the forward-looking statements, and Ingredion is under 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 forms 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, adjusted effective tax rate and adjusted cash flow from operations, which are reconciled to U.S. GAAP measures in Note II non-GAAP information included in our press release and in today's presentation appendix.

And with that, I'm pleased to turn the call over to Jim Zallie.

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

Thank you, Tiffany, and welcome to everyone joining us today. In 2019, we made excellent progress executing on the 4 pillars supporting our strategy in a rapidly changing food and beverage industry. Our strategic investments aligned with consumer preferences and trends, and our strong relationships with customers are creating exciting new opportunities. Across the specialties portfolio, we are building and expanding and with the improvements in operating efficiency and the delivery of cost savings, we've created a more agile organization.

We're advancing growth initiatives in each of our platforms, and at the same time, we continue to take actions to address and mitigate macroeconomic challenges.

Let me turn to our fourth quarter results. For the quarter, global net sales delivered modest growth. Absent $55 million of negative foreign exchange impacts, net sales were up 4% versus the prior year. Adjusted operating income for the quarter was down 5% year-over-year, however, up 1%, absent foreign exchange translation impacts.

For the full year, our global net sales were down 1%. Absent $292 million of negative foreign currency impacts, net sales were up 4% versus the prior year. Adjusted operating income was down 8% versus prior year and down 2%, absent foreign exchange translation impacts.

This year, we progressed our Driving Growth Roadmap by advancing on-trend specialty growth platforms. Our specialties portfolio now represents 30% of our total net sales. Specialty growth was led primarily by starch-based texturizers as well as sugar reduction and specialty sweeteners. Starch-based texturizers delivered low single-digit net sales growth driven by contributions from our tapioca and potato starch portfolios as well as the acquisition and integration of Western Polymer.

As for our sugar reduction and specialty sweetener platform, we delivered high single-digit net sales growth during the quarter, driven by greater consumer demand for non-GMO sweeteners and sugar reduction ingredients.

In November, we opened our Allulose facility in Mexico and have already generated our first Allulose sales.

Throughout 2019, we made significant investments in plant-based proteins to meet growing customer demand. We are now well positioned to capitalize on this opportunity and are on schedule for 2020 production.

We are leveraging our broadened ingredient portfolio and formulation capabilities to advance our approach to customer co-creation. We've now operationalized design thinking and speed-to-market principles to accelerate the innovation process, and are engaged with select customers who most value this close form of collaboration.

Throughout the year, our team did a tremendous job streamlining our organization and redefining the way we work. We achieved significant improvements in operational efficiencies and delivered nearly $75 million of run-rate savings, well in excess of our $30 million to $40 million Cost Smart savings target for 2019.

We have broadened and accelerated our transformation efforts, and as a result, are increasing our 3-year savings target to $150 million by 2021.

Now let's move to discuss the highlights of each region's performance. In North America, sales were up slightly for the quarter, versus prior year. Favorable price mix offset the planned Stockton volume shed of high-fructose corn syrup and industrial starch.

Operating income was $113 million, down 1% year-over-year. Improved price mix versus the prior year and Cost Smart savings benefits were more than offset by higher corn costs.

For the year, sales were down slightly, primarily due to the planned Stockton volume shed, which was partially offset by favorable price mix and specialties growth. Operating income was $522 million, down 4% for the year. The region faced higher net corn costs as a result of depressed co-product values and a late harvest.

In 2019, we added Western Polymer, expanding our specialty potato starch manufacturing capacity and broadening our customer base, which is at the heart of our growth strategy in North America.

Turning to South America, we had very strong performance in the region with sales up 7% during the quarter. This was led by strong price mix and volume growth across the region, partially offset by foreign currency weakness. We are particularly pleased that this is South America's second consecutive quarter of profitable growth, up 13% in the fourth quarter.

This improvement was driven by favorable pricing actions in Argentina and higher volumes. Also, as part of Cost Smart, we began implementation of a transformational reorganization, which delivered benefits in the quarter. And I'm very proud of our team in South America as they have effectively managed and continue to navigate a volatile business environment.

For the year, South America's sales were down 3%. The region experienced $200 million of foreign currency weakness, partially offset by $151 million of pricing actions. South America's operating income was down 3% for the year. Foreign exchange impact and higher corn costs were partially offset by pricing, specialties volume growth and Cost Smart savings.

In Asia Pacific, sales for the quarter were down 4% due to unfavorable price mix. Operating income was down $7 million, partially driven by increased corn costs in Australia. Asia-Pacific results were also pressured by the continued macroeconomic weakness across Northern Asia.

For the year, sales were down 2% due to unfavorable currency impact, primarily in Korea. Operating income was down $17 million for the year, driven by weakness across Northern Asian economies, which were impacted by trade disputes and higher input costs. We also experienced increased corn costs in Australia.

As part of Cost Smart, which includes network optimization, we made the decision to close our Lane Cove facility in Australia due to persistent corn cost increases from water scarcity. We expect to realize input cost benefits over the next 3 years.

I'd like to pause for a moment and share that we are monitoring the developments and impact to date of the coronavirus. First and foremost, we have taken actions to minimize the risk to our employees in China and across the region, as well as address business continuity concerns for our customers. We were not impacted financially in the quarter, and it is premature to speculate on the extent of the 2020 impact. We remain close to the situation as we keep our employees' health and safety and our customers' need, top of mind.

Moving to EMEA, our sales were slightly down for the quarter. Absent foreign exchange impacts, which occurred primarily in Europe, net sales for the region were up 7%. Operating income was down $2 million, driven by higher input costs, primarily in Europe.

For the year, net sales were down 2%, primarily driven by foreign currency weakness in Pakistan. Operating income was down $17 million for the year, driven by higher corn costs and foreign exchange impacts in both Pakistan and Europe. In Pakistan, the team worked hard to largely mitigate the weakness in the rupee through strong pricing actions.

Now let me turn it over to Jim Gray, who'll review the financial results in more detail.

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Thank you, Jim. Net sales of $1,549 million were up 1% for the quarter versus prior year. Gross profit margin was flat as favorable price mix offset higher input costs and foreign exchange impacts. Reported and adjusted operating incomes were $170 million and $168 million, respectively.

Reported operating income was slightly higher, resulting from a $22 million benefit from indirect tax credits recorded in Brazil, partially offset by $16 million of restructuring charges associated with Cost Smart and $4 million of integration and other costs.

Our reported and adjusted earnings per share were both $1.61. Fourth quarter net sales of $1,549 million was up 1% versus prior year. Unfavorable FX of $56 million was primarily attributable to weaker currency valuations. Volume was flat, while favorable price mix accounted for $68 million of net sales increase.

In North America, net sales were up slightly versus prior year. Price mix was up 3% as a result of product mix and price pass through of higher corn costs. This was partially offset by volume shed as we ceased wet milling at our Stockton facility in November 2018.

In South America, net sales were up 7%, with volume up 9% across the region. Price mix was up 16% as our teams took price increases to recapture the foreign exchange impacts felt in Argentina, Brazil and Colombia.

APAC net sales declined 4% due to lower sales, primarily in ASEANI as customers benefited from the pass through of lower tapioca root cost.

EMEA net sales declined 1% due to foreign exchange impacts, partially offset by favorable pricing actions in Pakistan.

For the quarter, reported and adjusted operating income increased $12 million and decreased $9 million, respectively. The decrease in adjusted operating income was primarily due to Asia-Pacific factors that Jim has previously highlighted. Corporate costs increased by $3 million versus the prior year due to lapping of adjustments and continued investments to drive innovation and streamline global processes.

I'll wrap up fourth quarter with a discussion of our 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 a decrease of $0.10 per share for the quarter, driven by foreign exchange impacts, other income and margin of a negative $0.12, negative $0.06 and negative $0.03 per share, respectively. Volume improvements had a positive contribution of $0.11 per share.

Moving to our nonoperational items. We saw an increase of $0.10 per share for the quarter, driven by a lower tax rate and lower average shares outstanding, which contributed a benefit of $0.07 per share and $0.04 per share, respectively.

Turning to our full year results, we delivered $6.2 billion of net sales, which was slightly down versus prior year. Reported and adjusted operating incomes were $664 million and $705 million, respectively.

Reported operating income was lower than adjusted operating income by $41 million, as $57 million of restructuring charges related to Cost Smart and $6 million of integration and other costs, were partially offset by a $22 million benefit from indirect tax credits recorded in Brazil.

Our reported and adjusted earnings per share was $6.13 and $6.65, respectively.

As just mentioned, full year net sales of $6.2 billion was slightly down. Unfavorable foreign exchange of $292 million was partially offset by favorable price mix of $264 million. Volume was slightly down due to planned Stockton volume shed.

In North America, net sales were down slightly versus prior year as a result of planned Stockton shed, which was partially offset by price mix.

In South America, net sales were down 3% due to unfavorable foreign currency impacts, which were partially offset by price mix increases of 15% and volume increases of 2%.

APAC net sales declined 2% due to foreign exchange while volume and price mix remained flat.

EMEA net sales declined 2%, driven by foreign exchange impacts, primarily in Pakistan, partially offset by price mix increases of 7% and volume growth of 2%.

Full year reported and adjusted operating incomes were $664 million and $705 million, a decrease of $39 million and a decrease of $62 million, respectively. South America operating income decreased slightly versus prior year as the region overcame significant first half foreign exchange impacts and demonstrated strong price mix and volume gains in the second half.

North America operating income was challenged primarily by higher net corn costs throughout the year.

Asia Pacific operating income was down 16% versus prior year as the region faced weakness across Northern Asian economies impacted by trade disputes and higher corn costs in the region, and higher operating costs in Australia.

EMEA operating income performance was primarily impacted by challenging business conditions in Europe. Higher corn costs and foreign currency weakness were the largest drivers.

Now we'll shift to the full year EPS bridge. On the left side of the page, you can see the reconciliation from reported to adjusted. On the right side, operationally, we saw a decrease of $0.65 per share for the full year, driven by foreign exchange impacts, margin and other income of negative $0.49, $0.25 and $0.10 per share, respectively. Volume improvements had a favorable impact of $0.19 per share.

Moving to our nonoperational items. We saw an increase of $0.38 per share for the full year, primarily driven by lower average shares outstanding, which contributed a benefit of $0.41 per share. Our financing costs are a net result of a benefit from a favorable lap of exchange losses from the prior year, partially offset by current year increase in hyperinflation adjustments of $0.10 per share.

Moving to cash flow, 2019 cash provided by operations was $680 million. Capital expenditures were $328 million, down $22 million from the prior year, however, full year 2019 capital commitments were $347 million, as we continue to invest in our growth platforms.

Acquisitions and investments were $52 million, reflecting investments in Western Polymer and other ventures, and we have returned $174 million in dividends to investors.

Turning to our income statement outlook, we anticipate 2020 adjusted earnings per share in the range of $6.60 to $7.20. This excludes acquisition-related integration and restructuring costs, as well as any potential impairment costs. We expect net sales and adjusted operating income to be up versus last year. We anticipate foreign exchange impact to be negative in 2020, with unfavorable impact of negative $0.10 to negative $0.20 per share.

Corporate expenses are expected to be up 15% to 20% year-over-year partially due to the centralization of regional costs to support center-led growth initiatives and technology investments. We anticipate increasing our cumulative end of year run rate Cost Smart savings from $74 million in 2019, to $90 million to $100 million by the end of 2020.

Financing costs for 2020 are expected to be in the range of $80 million to $85 million. This includes an expectation of more than a $10 million negative impact due to hyperinflation.

Our adjusted effective annual tax rate is expected to be 26% to 27%. We're assuming total diluted weighted average shares outstanding to be in the range of 67 million to 68 million for the year.

In North America, 2020 net sales and operating incomes are expected to be up, supported by specialty volume growth as sales momentum builds for plant-based proteins and Allulose. We also expect a favorable impact from Cost Smart savings.

Moving to South America, full year net sales and adjusted operating income are expected to be up. Volumes are expected to be up.

Asia Pacific net sales are expected to be up and operating income is expected to be modestly up. As we mentioned, we are closely monitoring the impact of the Coronavirus, and will provide an update in our first quarter call.

EMEA net sales are expected to be up and operating income is expected to be modestly up.

We expect cash from operations to be in the range of $640 million to $710 million. We also expect to invest between $285 million and $305 million in capital expenditures as we continue to invest in our specialty growth platforms.

In closing, we continued making investments to grow our specialty platforms, while further optimizing our core business, which produced more stable results this year despite an even greater foreign exchange impact. We continued to generate substantial cash from our operations and remain committed to returning value to shareholders.

With that, let me hand back to Jim.

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

Thanks, Jim. 2019 was a year in which we made meaningful progress, positioning the company for improved performance and profitability. We advanced the 5 growth platforms and our Driving Growth Roadmap and continued to increase the share of our specialty net sales as a percentage of our total portfolio.

Across our markets, our specialty investments are aligned with consumer trends, and our strong relationships with customers are creating new opportunities and greater demand, further positioning us for growth.

We could not have achieved this without the hard work, commitment and focus of our 11,000 employees around the world who bring their best to the company each and every day. For the 11th consecutive year, we were recognized by Fortune magazine as one of the world's most admired companies. We are also proud to have been included in Bloomberg's Gender-Equality Index for the third consecutive year. These distinctions are a testament to our purpose-driven culture of bringing together the potential of people, nature and technology to make life better.

We will be presenting at CAGNY next week on February 18, and we look forward to discussing our driving growth agenda in more detail.

Thank you. And now let's open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from Ben Bienvenu with Stephens Inc.

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

I want to start asking about kind of a tough one because I know it's open-ended and a moving target. But Coronavirus, if you could talk about what you have seen to the extent you've seen anything so far in 1Q, whether it's any demand destruction or logistical challenges that are impacting costs directly on your business? And then indirectly, obviously, we've seen the impact on soybean meal and soybean oil prices, which impact your co-product values, but if you could just talk about, as it stands right now, kind of what the direct and indirect impacts are on your business as it relates to coronavirus?

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

Yes. So Jim, let me take that, and you can add any commentary. Yes,o first of all, we have 2 manufacturing facilities in China. Both of those facilities are, respectively, about 850 kilometers from Wuhan in different provinces. The impact so far that we have seen is, like most companies, a delay mandated by the government for employees that went away for Chinese New Year to return back. And then in some cases, some mixed signals around quarantine time periods. That being said, one of our factories has been operating uninterrupted. The other factory has been operating one line only, with an abbreviated staff, and it has been delayed in its production by approximately two weeks. All of our employees are safe. None of our employees, thus far, that we know of, have contracted coronavirus and the office has a protocol in place in regards to how to operate the sales office, which has been operating each and every day with reduced staff. Jim, as far as the impact, do you want to make -- take that?

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. Right now, it's -- I think it's hard to speculate because really, we just have a delay in some of our people coming back to work. We have sufficient inventories. It's really about what the delay in the demand for shipping might turn out to be. And that's really where we kind of -- we just have to see kind of every two weeks, how it plays out throughout Q1.

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

There clearly will be a slowdown in demand from our customers as well as their operations are equally impacted and I think that's something that we anticipate. But yet, at this point, cannot quantify. So, we're monitoring the situation, obviously, very closely. And depending on how long this situation drags on, the impacts to the supply chain, down the road, in the future, is something that we have to watch. In the near term, we have ample inventory for customers. And again, one of our factories is operating unrestricted. And the other -- one line is operating and the other line should be operating here by the end of this week, actually.

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. And then maybe -- Ben, the second part of your question was, do you see soybean demand backing up? And what are the ramifications on some of the co-products that we sell? I think if you witnessed over the last month to two months, at least, soybean oil, corn oil, palm oil have all been significantly up due to some constraints in those marketplaces. And so -- and we've seen some softening of corn gluten meal prices. Again, we're going to watch how much anticipated demand, I think, can back up on soy and whether or not there's decisions to crush that and whether or not that impacts the availability of both soy meal as well as soy oil. But right now, it seems like a lot of the crushing is going towards kind of to produce more soy oil because that's the better part of the arbitrage.

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

Fair enough. And as it relates to the guidance, you have a bit wider range. You guys gave a wide range last year. Is that uncertainty around coronavirus contemplated in the guidance at all as we look towards the lower end of the guidance range? And then one more question on guidance, generally, your outlook for net corn costs that's incorporated into the guidance for 2020?

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes, do you want me--, I'll take that.

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

Yes, sure.

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

So I think with our guidance when we were obviously assembling that and pulling that together, corona was not kind of a factor on the horizon. So generally, it does not include any kind of significant or delayed impacts if those will even materialize. As Jim mentioned, we're up and running in 1 of our facilities and the other facility has at least 1 production line running.

With regard to more of our outlook for co-product values as it relates to our cost of corn. I assume that the scope of that was really kind of more around North America or U.S., Canada. When we pull together our estimates, we're really doing that kind of more back in December -- in November, December, when those prices are in place. We see the run up in some of the co-product values very recently. We're waiting to see if those have a kind of an enduring longevity throughout the year. So that's really not -- our guidance really on the co-products is really more, kind of based on what we might see as kind of more than 3-year average during the fourth quarter.

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

I do think it's important to point out regarding China that it's between 2% and 2.5% of our sales overall as a company. So just to help put it in perspective.

Operator

Our next question comes from Heather Jones with Heather Jones Research.

Heather Lynn Jones - *Heather Jones Research LLC - Founder*

Just as a follow-up on Ben's question. So I just want to sort of condense what you guys said. So there's no impact from coronavirus built into your guidance because you pulled it together prior to that becoming a bigger factor, but it would need to spill over given the relative size of China to your business, but we would need to see the spillover impact into Europe, South America, et cetera, for it to be meaningful in your opinion? Am I understanding your commentary correctly?

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

I think given the fact that we're having the call today, and we finalized everything in prep for this call that it doesn't -- as Jim said, take into account any significant or meaningful impact of coronavirus, but it does take into account what we know as we sit here today, as we have provided guidance, which does take into effect some impact, as I just described in relationship to our operations, for example. So that's what I would say about how we view coronavirus. And again, China is about 2% to 2.5% of our overall sales as a company. So hopefully, that helps with the answer, and it's just too early right now to fully assess the total impact.

Heather Lynn Jones - *Heather Jones Research LLC - Founder*

That is helpful. Moving to North America, which is obviously the big driver of your business. I was wondering if you could give us a sense of the visibility you have into your guidance there. You mentioned that it will -- my takeaway from your comments was that your guidance doesn't give effect to the recent, very recent run we've seen in veg oil prices, but more like a Q4 average. But just what could yield upside and downside risk to your North American business based upon what you know about the contracting season, what you know about your positioning on corn costs. Can you just highlight the biggest risk upside or downside to that North American outlook?

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

Sure. Well, let me start, and I'll let Jim make some comments. So first of all, we're seeing low single-digit average price increases across North America and flat to low single-digit change in the cost of corn, and thus, margins are flat to slightly expansive. We expect high fructose corn syrup, sweetener volumes to be down in line with their historical norm of trending down between 1% and 2%, flat to slightly positive volume growth across the rest of the North America business and continued mid-single-digit volume growth for specialties. We anticipate that corn basis will continue to be elevated during the first half of the year until expectations for the new corn crop emerge. And clearly, as it relates to risks, we're assuming a return to an average corn crop with normal planting, on-time planting, et cetera. I would say volumes are always a risk in North America to our business. But we're, right now, assuming, taking into account what I just talked about in relationship to the volume trends that we're seeing.

So Jim, I'm going to turn it over to you to add any additional color commentary perhaps on co-products or co-product recoveries?

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. I mean, I think as we thought about that, you were expecting very modest co-product value recoveries as we do not see any trade flows between the U.S. and China resuming with any kind of positive effect quickly throughout the year.

Heather Lynn Jones - *Heather Jones Research LLC - Founder*

Okay. And I just don't want to belabor that point, but I just want to see what you guys are seeing versus what I may be seeing. And you made the point that corn gluten meal value to have traded down some, but there's been a very sizable rally in veg oil values. And so looking at cash corn, which does have some elevated basics in it, but relative to cash -- byproduct values, there's been a pretty nice recovery in that rate of recovery from call it, early Q4 to the present. Is there something that's limiting you guys from seeing that? Or are you just being conservative in assuming that may not continue for the rest of the year. Just help me to understand how you all are thinking about it?

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Well, I think obviously, there's 12 months in a year and just necessarily with the January rise and 2 of the values doesn't make, kind of, for the full year forecast. Part of the run-up in corn oil has been due to a little bit of a constrained supply. So I think that, that has potentially some temporal effect to it, at least in the U.S. Meal prices have come up, but there is an abundance -- we'll see a list of soy meal in the marketplace. And so we're kind of measured in our outlook for that value. And feed values usually follow corn. So corn has been trading in a pretty tight range with regard to kind of the outlook for the layout of corn for 2020. So we don't see necessarily something where we see all of the co-product values, all rising because of continued tightness in the market or higher demand. So we're just looking out, as I said, we expect kind of modest co-product value recoveries because we just don't see a lot of the big moves yet from demand pulling from China.

Heather Lynn Jones - *Heather Jones Research LLC - Founder*

Right. Okay. And my final question is, just wondering if you could give us your updated thoughts on what you're seeing in the Brazilian economy? The currency has been incredibly weak, of late, but that it could be attributable to just a risk-off attitude and all, but like what are you seeing on the ground as far as trends there?

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

Yes. Let me comment. So for South America in general, I mean, we expect low single-digit volume growth in Brazil. And basically, on the ground there, we are seeing very strong specialties growth. We highlighted that for Quarter 4. And so we're seeing a lot of activity by customers that are formulating very much on-trend ingredient -- with on-trend ingredients that we supply, cater to the latest trends. And so we're seeing, I guess, I would say, strong economic activity or a pickup in economic activity in Brazil. And so we expect operating income to be up in the region, primarily driven by Brazil volumes and lower net corn costs as well as benefits of Cost Smart across the region.

Operator

Our next question comes from Brett Hundley with Seaport Global.

Brett Michael Hundley - *Seaport Global Securities LLC, Research Division - Research Analyst*

My questions are going to focus on specialty part of your portfolio? Zallie, I think you said in your prepared remarks that during Q4, texture grew low single digits. Thanks for those comments, by the way. If that is the case, I thought texture might be growing a little bit more than that. And so I just wanted to revisit that comment with you and see if there was anything during the period that might have weighed on that and just get your continued outlook for texture specifically?

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

Yes. No, I don't think there's anything weighing on it per se. I think that texture will be made up by our starch-based texturizer portfolio, our clean and simple ingredients and our approach to customer co-creation and food systems. So all of those customer engagements continue to go very well. And one of our areas of focus is to diversify beyond corn. And so we really are seeing growth in our tapioca franchise as well as our potato starch franchise. And I'm also pleased to say one of the things we didn't really highlight explicitly in the prepared comments was that our rice investment in Thailand will also be commissioning in quarter 2 of this year. So those are all very strategic purposeful investments to diversify beyond corn, which is the main staple, but with trends towards grain free, for example, we see increased demand for those ingredients. And they also provide different functionalities, complementary functionalities for products like snacks and snacking, which is growing. And so we feel very good about our starch-based texturizers portfolio as well as the hydrocolloids that we have now in our portfolio to complement starch-based. And then we're very excited, obviously, by what protein is going to offer, also, as it relates to rounding out texture additionally with protein fortification as well.

Brett Michael Hundley - *Seaport Global Securities LLC, Research Division - Research Analyst*

Okay. And staying on the topic of texture. We've talked to some other -- sorry, we talked to some other, what I call adjacent ingredient peers of yours. And it does sound like more participants are interested in entering or expanding on their texture capabilities. And I'm not necessarily asking this question from a competitive threat standpoint. But I am interested in understanding if you believe that the texture capabilities are becoming more sought after by the broader ingredient space as a whole.

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

Well, I think that one of the things that as an ingredient supplier, you want to be in a position to do is be a problem solver and to do that with speed. And so texture is one of the most important qualities and attributes for the overall sensorial experience of a food product, and so we feel very good about who we are in the space of texture being the broadest and deepest in the world of specialty starches. And in addition, having now capabilities in hydrocolloids as well with a very purposeful focus on customer co-creation, which is all about working with select customers in a very concentrated time period to go from concept to the shelf. And we are being perceived as a more complete formulation and solutions provider in that regard. And so texture will continue to be a hallmark of our value proposition that we bring to customers.

Brett Michael Hundley - *Seaport Global Securities LLC, Research Division - Research Analyst*

And then just one more on specialty. This has more of a regional focus, but we aim to derive your regional specialty performance based in part on core and specialty performance from some of your peers. But we back in the strong specialty performance for Ingredion in Latin America, similar to what you announced this morning. And then we also back in the solid growth -- solid performance in Asia and Europe. In North America, more recently, we're backing in the like low single-digit growth for your specialty, and I wanted you to weigh in on whether we're in the right ballpark there? And whether or not you can go into some detail and describe the state of your specialty portfolio in North America today? And how these dynamics might change in coming periods as you place investment in adjacent areas?

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

So just going back to a comment I made earlier, we indicated that for North America, we're seeing continued mid-single-digit volume growth for specialties in our guidance. As it relates to North America, one of the things we're most excited about is our new plant-based protein, capacity expansion and commissioning of the facility in Nebraska, which will be available in the second half of the year, and we expect to see incremental net sales and contributions beginning to cover the start-up cost of that facility in the second half of this year. We're seeing very strong customer interest and customer engagement as this new Ingredion platform comes to market. And so we're very excited about the specialties prospects for protein isolates as well as flowers and concentrates. And again, the complementing formulation capabilities that provide to our customers in North America.

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

I mean I'd also add that within North America, it's our largest specialty book of business, as well as -- we haven't talked much towards food systems that and of itself, just how we look at gums as it's a growing part of the business as well as sugar reduction.

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

We also had a very strong quarter in Mexico for specialties growth, which is included in our North America business. So if that gives you even a little bit more color in relationship to overall North America's specialties.

Operator

Our next question comes from Ken Zaslow of Bank of Montreal.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

Couple of questions. One is, last quarter, your FX more aligned with your price -- or your pricing -- I'm sorry, more aligned with your FX and you offset more. This one -- there seem to be a widening spread. I would have thought that it would have been continuing to narrow. Can you talk about at what point do you expect pricing to overtake the FX headwinds? And how do you think about that?

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Well, this quarter, to highlight, price mix was -- in Q4 was $68 million to the positive. FX was a headwind of $56 million. So we did see some price mix in Q4, that was greater than the FX headwind. I think what you're seeing is that in South America, we're seeing local inflation and pricing kind of ahead of that, which is catching up with that past FX weakness, where you had some newer, I think, some newer FX softening would have been in some of the Asia-Pac countries. And as we noted, Ken, we're trying to gain back price on weakness in the Korea Won is challenging, and that will take time as one example.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

Okay. I excluded -- I am sorry, I excluded North Americas. But okay, but do you think that there will be a point in time that excluding North America, the FX, the pricing will more offset because history has shown that, that's what you do. So I just want to make sure that things have not changed? Or do you think things have gotten a little bit more complicated with South Korea as well as the EU that maybe not see that as much, but that is what I would expect over time, is that fair?

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

Yes. So let me just take that. And again, I just want to draw you back to my comments. South America really represented the biggest challenge for us as it relates to pricing to offset foreign currency weakness. And I want to remind you that, that region experienced $200 million of foreign currency weakness in the year, which was offset by $151 million of pricing actions. Now one of the things that I think we all observed is the steep devaluation of the Argentine Peso. So we have been in catch-up out there. But I also called out the efforts of our team who have done a fantastic job of moving price there, and we are seeing very good progress in relationship to their pricing actions to offset that. Just when we thought the Brazilian real based on everything you read and are observing in relationship to the economy and political stability and pension reform and fiscal reform getting passed, yet we have been somewhat surprised to see some continued weakness in the real. So again, pricing is the lever that we pull. And we are confident that we're going to continue to make progress in South America. And I call out South America because, again, it represented $200 million of that $292 million in the year. And I think our team has done actually a very, very good job. The problem is, it's been unabated in relationship to the foreign exchange headwinds that we faced. And in fact, Jim called out, I believe, in our guidance, that we anticipate foreign exchange weakness, which is factored into our guidance of an additional $30 million to $50 million of -- to the impact of net sales. So hopefully, that helps, Ken.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

It does. It does. The second question I have is, when I think about your capital projects that coming online in 2020. Can you talk about the incremental EBITDA that's associated with that, that we could think about in 2020 and 2021 and beyond? How do we think about that?

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Do you want me to?

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

Yes. Sure. if you could take that?

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. So Ken, as Jim had mentioned that let's take plant-based proteins in North America as an example. So we're completing the production lines right now, we're running product through and we're commissioning. That commissioning timetable can take six months, three months. Six months, there's at least a period in there where we have product that does need to be approved by various government regulatory agencies and then also, customers are doing their own kind of audits of the plant and of the product quality. So right now, we have the full cost of running those -- running our South Sioux City facility will hit our P&L in 2020. We'll start to see sales more in the second half, and the contribution from those sales will start to contribute to the incremental EBITDA that you're questioning. So right now, it's actually a cost impact to the P&L when we're in the commissioning mode. As we move more towards 2021, and sales build as we move through and fill the capacity, then we'll see the contribution margins offset. So we get kind of a swing impact on the P&L, but more towards 2021.

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

Yes, I would say, just to answer it in kind of totality, it's -- certainly, plant-based proteins is a major investment for us, but there is the Allulose investment, there is the rice investment. There are other investments that we've made across the global specialties network. And I would say that because those investments are commissioning in Quarter 2, for the most part, we've been pretty modest, I guess, in our EBITDA contribution in calendar year 2020. But certainly, we expect additional contribution -- significant contribution in 2021.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

In 2021, like what -- would you expect a return on invested capital with north of 15%, 20%? Or as it kind of builds, would you expect it to be just still modest? Just kind of frame that. And then I just have one last question, I'm sorry. Just if you can explain...

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

As we -- we explained to a lot of folks. So when we add this capacity, generally, our capacity takes anywhere as short as three years and as long as five years to fill. So we're looking usually at a run rate over 20%, to 40%, 60% of the capacity filling because we've added capacity ahead of market demand. And our sales teams are working with customers to design in the highly functional product that's coming off of our new capacity. So we generally see kind of hitting ROIC or paybacks on these projects somewhere around year 3, year 4, when we have between 60% and 80% of our capacity filled. So that's pretty typical of kind of larger capital investments that we're putting in to expand their texturizers portfolio. I think in the case of plant-based proteins, that might be more broad -- that might be shortened.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

And then just a point of clarification. Somebody asked it, I just didn't understand the answer. The difference between the low end and the high end of the guidance, what are the key factors? And I'll leave it there.

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. So I think the high end of the guidance would be that we see still kind of modest volume, but we would see kind of continued co-product strength, right? As I said, kind of the center cut of our guidance is that we really just see very modest co-product value recoveries in North America. If that's -- if the values of the co-products continue throughout the year, evidence that I think that would lean a little bit more towards upside in our guidance. I think if we have a little bit more feeling of the capacity in some of our specialty investments, faster than what we've -- and what the horizon I just described, I think that would lend itself to upside. And then we really are not seeing any kind of -- in South America with respect to Argentina. Right now, we have an assumption for a weakening Argentina Peso. As I mentioned, we have greater than $10 million expected from hyperinflation accounting that lands in our financing costs. It's the revalue of the net assets in Argentina to U.S. dollars. And so under hyperinflation accounting, that does impact us in our income statement. So right now, we're seeing at least some weakening of the Peso. I think of the Peso, if the government took different actions that really, really collapse the Peso than we'd have that would be more downside risk.

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

And then Coronavirus, I guess, on the downside, also would be factored into the low end of the guidance.

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes, yes.

Operator

Our next question comes from Robert Moskow with Crédit Suisse.

Robert Bain Moskow - *Crédit Suisse AG, Research Division - Research Analyst*

A couple of more questions on the guidance. I think in the first half of 2019, you had some weather-related costs in North America. That should set up a pretty easy comparison, I would think, for 2020, especially if your pricing is rolling through rather quickly. Can you give us an estimate as to what those costs were in '19? And is it fair to say, therefore, that your earnings growth in 2020 would be front half loaded?

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes, I'll take that.

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

Yes, sure.

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Rob, with regards to North America, when we did have a little bit of weather-related, it wasn't significant as much. And I think it was more because we had some rail lines freezing and some delays in terms of putting product through. I mean, it was nothing anywhere close to 2014 or some more significant years. You're correct, in that it does set up for a slightly easier lab. I think more importantly, with regard to North America would have been where the co-product values were and kind of what the cost of corn was relative to pricing. So it looks like as we anticipate 2020, slightly higher gross corn and basis, and we've priced to really kind of capture that back. We're really kind of seeing margins really flat, maybe just slightly expansive in North America. So I don't think it's a significant bump up in the first half, but we would continue to see kind of modest growth in North America for the first half.

Robert Bain Moskow - *Crédit Suisse AG, Research Division - Research Analyst*

Okay. And in sweeteners, you're expecting the normal 1% to 2% annual decline in demand. I would argue that pricing power this year was enabled by the fact that you closed down Stockton, but if 1% to 2% declines persist, how does that set up for pricing going forward for 2021, 2022? How close are we to stability right now in supply/demand for sweeteners in North America, industry-wise?

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

Well, so first of all, the decline that I referred to was specifically to HF, not for total sweeteners as far as that decline. So I think that the actions that we took with Stockton has certainly tightened our network to very high capacity utilization. So we feel very good about where we're at for 2020. It's obviously hard to predict what's going to happen going forward in 2021 and beyond related to where sweeteners have declined over the last decade and where that will go going forward. It's just hard to predict. So I think we just feel very good about where we're at right now with our network and our capacity utilization based on the actions that we have taken.

Robert Bain Moskow - *Crédit Suisse AG, Research Division - Research Analyst*

I'll follow-up one more time. I mean I don't think Ingredion has provided a broader sweetener volume kind of growth estimate for the industry or I don't think internally either. So if HF is declining 1% to 2%. Is it fair to say that broader sweeteners are, I don't know, flat? Is it better than that over the past several years? Is there a way to know?

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

Yes, I think that broader sweeteners as it relates to glucose syrup, for example, are growing in line with GDP growth, maybe 1% to 2% per year. Depending on the application.

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes, maybe it's right around. It depends on pop growth and per capita, and which country you're in, but you definitely see glucose, and you see dextrose as sweeteners. Some of those lend themselves to kind of unique segments, and some of them also lend themselves to kind of building back bulk or some texture roles. And so we do see those kind of anywhere flattish to modestly up, depends on really which country you're in.

Operator

Our next question comes from Adam Samuelson with Goldman Sachs.

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

So all grounds have been covered. I just had a few clarification questions around the guidance. First, the increase in corporate expense, $15 million to $20 million or so. How much of that is actual investment in the business versus earnings coming out of, costs coming out of the segments? Just can you break those two out, please?

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes, sure. About -- I think it's about 1/3 cost moving from segments into center. About 1/3 is specific investments in enhancing digital and driving some of our go-to-market efforts centrally, and then 1/3 is kind of merit and inflation and kind of bonus reset, normal kind of wage costs comp change.

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

Okay. That's helpful. And then in -- whether it's the total company or by region, specifically in North America. What are the assumed net Cost Smart kind of earnings contribution in 2020?

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. So right now, we are not necessarily going through and disclosing by region, kind of where Cost Smart savings are. We have -- we do have targets. We have targets specifically for both the SG&A or the operating expense side as well as the cost of sales side and obviously, what we're doing is each initiative, each project has a bit of a life of its own in terms of getting to the hypothesis -- from hypothesis, to implementation, to action. And so we just want to be thoughtful as we roll each of those out. So Adam, I'll choose to defer on answering that question.

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

Okay. And then, I guess, the last one, just the guidance on cash flow from operations. I mean, one, you exceeded the cash from ops guidance for 2019, but then, if I look at the 2020 guidance, you're actually guiding cash from ops potentially down at the lower end versus the net income guidance, which is functionally flat at the low end. Can you just bridge between the changes in net income and cash from ops?

James D. Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. So essentially, I think as we closed out 2019, I think we had some favorability in accounts payables, which then we were anticipating that accounts payable would impact working capital to a greater degree. As we look forward to 2020, we are very much focused as a team on our working capital change. And we see still some -- we very much want to tighten working capital, but as we grow revenue, we're going to have more obligations with customers in the form of accounts receivable as well as inventories. And so while that change in working capital will be a drain on cash from ops, because the top line is higher, we're still trying to reduce the rate of that change. And that's what's impacting basically our guidance as we think about cash from ops. Obviously, we're reducing capital commitment year-over-year too, though, which we highlighted on the call.

Operator

And I'm not showing any further questions at this time. I'd like to turn the call back over to our host.

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

Okay. Well, I would like to thank you for your time today, and Jim and I hope to see many of you at CAGNY next week in Boca Raton. And with that, that concludes our call today. Thanks very much.

Operator

Ladies and gentlemen, this does conclude today's presentation. You may now disconnect, and have a wonderful day.
