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INGR.N - Q4 2020 Ingredion Inc Earnings Call

EVENT DATE/TIME: FEBRUARY 03, 2021 / 2:00PM GMT

OVERVIEW:

Co. reported 4Q20 net sales of $1.593b, reported operating income of $163m and reported EPS of $1.70. Expects 2021 net sales to be up modestly and expects 1Q21 net sales to be slightly up.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Ingredion Incorporated Fourth Quarter 2020 Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I would now like to hand the conference over to your speaker today, Tiffany Willis, Vice President, Investor Relations and Corporate Communications Officer. Thank you. Please go ahead, ma'am.

Tiffany Willis - *Ingredion Incorporated - VP of IR & Corporate Communications Officer*

Thank you, Shannon, and good morning, and welcome to Ingredion's Fourth Quarter 2020 Earnings Call. I'm Tiffany Willis, Vice President of Investor Relations and Corporate Communications Officer. On today's call are Jim Zallie, our President and CEO; and Jim Gray, our Executive Vice President and Chief Financial Officer.

We issued our results today in a 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 today 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. These statements include expectations and assumptions regarding the company's future operations and financial performance, including the impact of the COVID-19 pandemic. Actual results could differ materially from those predicted 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 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 and adjusted effective tax rate, which are all reconciled to U.S. GAAP measures in Note 2 non-GAAP information included in our press release and in today's presentation appendix.

And now I'm pleased to turn the call over to Jim Zallie.

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

Thank you, Tiffany, and good morning, everyone. Before discussing our strong fourth quarter results, I'd like to comment on the events of last year and put in perspective what I said about the resilience of our business, the character of our people as well as the quality and relevance of our strategy for growth. Guided by clear priorities from the start of the pandemic, in support of our employees' health and safety and our customers' needs, we were able to not just ensure business continuity but enhance business services, improve operational efficiency, drive commercial excellence and improve the customer experience.

Our business adjusted quickly to the abrupt and historic slowdown of economic activity in quarter 2 to ensure we were well positioned to participate in a steady second half recovery and enable us to exit the year with positive momentum. Throughout the year, our people kept rising to the challenge, persevering with a purpose and progressing an ambitious operational agenda. Finally, last year further validated the robustness of our strategy, providing us with continued strong confidence in the targeted areas we are pursuing for growth.

Now turning to the fourth quarter and full year results, we were very pleased with our operational execution and financial performance. For the quarter, global net sales were up 3% compared to the year ago period. Absent foreign exchange impacts of $26 million, net sales were up 4% versus the prior year. Quarter 4 net sales results were sequentially better than the third quarter's 5% year-over-year decline, thus demonstrating demand recovery.

Adjusted operating income for the quarter was up 11% year-over-year and up 13% absent foreign exchange impacts, driven by lower operating costs and favorable price/mix in North America as well as strong price/mix and better volumes in South America. For the full year, our global net sales were down 4% compared to the year ago period. Absent foreign exchange impacts of $164 million, net sales were only down 1% versus the prior year. Adjusted operating income for the year was down 7% year-over-year and down 3%, absent foreign exchange impacts. The decrease is largely attributable to lower sales volumes in North America due to COVID-19's impact on economic activity, the inclusion of PureCircle results and higher corporate costs due to strategic investments to drive business and digital transformations. These decreases were partially offset by strong price/mix in South America.

As you can see from our first quarter 2020 results, we entered the year with good momentum. At the height of the pandemic's impact, our second quarter results were pressured, but we adjusted our operations and supply chain quickly to the new reality and pivoted to serve our customers in new and different ways. This enabled us to benefit from the recovery as COVID-19 restrictions began to ease in the third quarter. The momentum carried forward into the fourth quarter resulting in a great quarter and a positive close to the year. Our teams executed well, and our strategy was validated.

We made excellent progress against our strategic pillars and are pleased to share some great proof points with you. Specialty ingredients proved particularly resilient, growing globally and in each region, with overall specialty sales now accounting for 32% of Ingredion's total sales, up from 30% in 2019. The PureCircle and Verdient acquisitions set us up well to capitalize on the growth in sugar reduction and plant-based foods, and we continue to diversify our specialties portfolio beyond corn, expanding capacity and capabilities in tapioca, rice and potato-based specialty starches.

We were recognized by many customers for our supply and service responsiveness to the challenges presented by the pandemic and a creative way in which we engaged and deliver commercial excellence in a virtual world. We collaborated in over 1,300 digital engagements last year. Partnering with our customers, we also made great strides against our 2025 goal to be 100% sustainably sourced for our 6 primary nature-based raw materials.

We exceeded the $90 million to $100 million dollar Cost Smart target for 2020 by delivering $103 million dollars of run rate savings. We established an office of transformation, progressed globalizing shared services and have embarked on a new phase of reimagining and reinventing the way we work, leveraging digital tools and new organizational constructs to drive simplification and deliver increased efficiencies.

All of this work was underpinned by our purpose-led culture and foundational values, which helped guide us as we navigated the health crisis and manage the impact to employees from elevated social injustices made so apparent in 2020.

We continued expanding our specialty portfolio significantly enhancing our growth prospects in plant-based and animal-alternative proteins and solutions for sugar reduction. The Verdient acquisition expands our plant-based proteins capabilities, adding a broad portfolio of in-demand, sustainable, pulse-based flowers and protein concentrates. At the same time, our South Sioux City facility has been recommended for food-grade certification, and we are processing pea protein isolate in preparation for commercialization this year. The expected future capacity from these investments has led to the development of a growing customer project pipeline, which we expect will convert to specialty sales as we move through 2021.

Our acquisition of the leading producer of stevia-based sweeteners, PureCircle, has significantly expanded our capabilities in sugar reduction. We've moved swiftly to integrate this business, actioning over $14 million of cost synergies before the end of last year. These moves, along with the benefits inherent and leveraging Ingredion's global go-to-market network, provide exciting opportunities to drive revenue synergies, commencing in the first half of this year as we offer more complete sugar-reduction systems to a broader base of customers.

Moving to Cost Smart, we deliver significant improvements and operational efficiencies and achieved $103 million of run rate savings well in excess of our 2020 Cost Smart savings target. We remain on track to reach our $170 million target Cost Smart savings stock.

And now let me hand it off to Jim Gray, who will provide a financial review. Jim.

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

Thank you, Jim. North America net sales were flat for the quarter versus prior year. Volume continued to improve following net sales declines in the previous two quarters. Operating income was $129 million, up 14% versus the prior year. The increase was driven by the layout of corn costs during the year and favorable price mix. For the year, net sales were down 4%, driven by sales volume decline in the second and third quarters due to COVID-19 impacts on consumer mobility and consumption.

Operating income was $487 million, a decrease of $35 million, which was driven by significantly lower away-from-home consumption across the region and the shutdown of brewery customers in Mexico in the second quarter, partially offset by lower net corn costs and favorable price mix in the fourth quarter.

Moving to South America, in the quarter, net sales were up 6% versus prior year. Absent foreign exchange, sales were up 19% driven by favorable price mix across the region and better volumes in Brazil. Q4 operating income was $44 million, up 26% versus prior year as favorable price mix and higher volume more than offset foreign exchange impacts. Excluding foreign exchange impacts, adjusted operating income was up 40% in the quarter.

For the year, net sales were down 4% driven by foreign exchange impacts, primarily in Brazil. Excluding foreign exchange impacts, net sales were up 10% due to strong price mix.

Full year operating income was $112 million, an increase of $16 million from the year ago period, due to strong price mix, which was partially offset by unfavorable foreign currency and lower sales volumes. Excluding foreign exchange impacts, operating income was up 35%.

Moving to Asia Pacific. Net sales were up 8% in the quarter compared to the prior year, which includes the addition of PureCircle. Absent PureCircle, Asia Pacific net sales would have been flat.

Operating income was $20 million in the fourth quarter, down 9% versus prior year, which includes a $6 million operating loss for PureCircle. Excluding PureCircle, fourth quarter operating income was $26 million, up $4 million from the year ago period, driven by lower input costs and lower operating expenses.

Full year net sales were down 1%, driven by lower volumes and unfavorable price mix, partially offset by the addition of PureCircle revenues for 5 months of the year. Full year operating income was $80 million, a decrease of $7 million or 8% from the year ago period. Absent the PureCircle loss of $11 million, full year operating income was up $4 million from the prior year, as lower input costs and COVID-19 government-related subsidies offset lower first half volumes due to the pandemic.

Shifting to EMEA, our sales were up 6% for the quarter. The increase was largely attributable to favorable specialties volume in Europe and price mix gains in Pakistan. Operating income was $29 million dollars, up 4% for the quarter. The increase was driven by lower input costs and favorable mix in Europe. For the full year, net sales were flat as favorable price mix and volumes were offset by foreign exchange impacts. Operating income was $102 million, an increase of $3 million from 2019. Excluding foreign currency impacts, operating income was up 7%.

Turning to the consolidated corporate results, net sales of $1.593 billion were up 3% for the quarter versus prior year. Gross profit margin was 22.1%, up 124 basis points. Reported and adjusted operating incomes were $163 million and $186 million dollars, respectively. Reported operating income was lower than adjusted operating income due to trade name impairment, restructuring costs related to our Cost Smart program and acquisition and integration costs, which were partially offset by a benefit from a Brazilian revenue tax judgment. Our reported and adjusted earnings per share were $1.70 and $1.75, respectively.

Fourth quarter net sales of $1.593 billion were up 3% versus prior year. We experienced negative foreign exchange impacts of $26 million. Sales volume increase of $4 million was driven by the inclusion of PureCircle results as well as higher volumes in EMEA and South America, partially offset by lower volumes in North America. Favorable price mix of $66 million was largely attributable to pricing actions in South America. Please note that these results benefited from the timing of a $5 million revenue tax adjustment in Brazil.

Turning to net sales variance by region. In North America, net sales were flat versus prior year as price mix was offset by sales volume decline, driven by lower volumes in Mexico, as recovery remains subdued as the restrictions due to COVID-19 lingered. South America net sales were up 6%, driven by a price mix increase of 18%, which more than offset the negative impact from foreign exchange weakness. In Asia Pacific, net sales were up 8%, driven by the inclusion of PureCircle volumes. Excluding PureCircle, net sales were flat.

EMEA net sales were up 6%, driven by specialty volume growth in Europe, favorable price mix in Pakistan and a benefit from foreign exchange. For the quarter, reported operating income decreased $7 million dollars, while adjusted operating income increased $18 million dollars. The decrease in reported operating income versus adjusted operating income is primarily due to the reasons I previously mentioned.

Operating income was up in North America, South America and EMEA. Operating income in Asia Pacific would have also been up excluding PureCircle's $6 million operating loss. Corporate costs for the quarter include strategic investments to drive business and digital transformation and an one-time R&D expense.

In addition, our company incurred incremental expenses due to COVID-19 for compensation, personal protective equipment, sanitation and health screens. This direct expense amounted to $2 million during the quarter and $13 million for the full year, with the majority incurred in North America.

Turning to 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 an increase of $0.19 per share for the quarter. The increase was driven by margin improvement of $0.33, which was partially offset by lower volumes of $0.12 and unfavorable foreign exchange of $0.04.

Moving to our nonoperational items. We saw an increase of $0.02 per share for the quarter. Please note that financing costs were higher by $0.03 due to the impact of Argentina's hyperinflation accounting.

Year-to-date, net sales of $5.987 billion were down 4% versus the year ago period. Gross profit margin was 21.2%, up 12 basis points. Reported and adjusted operating incomes were $582 million and $659 million, respectively. Reported operating income was lower than adjusted operating income due to restructuring costs related to Cost Smart, trade name and other impairments, and acquisition and integration costs, partially offset by the benefit from a Brazilian revenue tax judgment. Our reported and adjusted earnings per share were $5.15 and $6.23, respectively.

Year-to-date net sales of $5.987 billion were down 4% from a year ago. Foreign exchange weakness negatively impacted sales by $164 million. Sales volumes declined $202 million dollars, of which $183 million occurred in the second quarter. Net sales were favorably impacted by $144 million of price mix.

In North America, net sales were down 4% versus prior year, as sales volume decline of 5% was driven by lower volumes in the U.S. and Mexico. South America net sales were down 4%, driven by impacts from foreign exchange weakness of minus 14%, which was partially offset by price mix increase of 12%.

In Asia Pacific, net sales were down 1%, driven by unfavorable price mix and partially offset by volume. EMEA net sales were flat as price mix offset negative foreign exchange impacts in Pakistan.

Full year operating income decreased $82 million dollars, while adjusted operating income decreased $46 million. The decrease in reported operating income versus adjusted operating income is primarily due to the reasons I mentioned previously. Operating income was up in South America and EMEA, which was more than offset by declines in North America and Asia Pacific. While Asia Pacific's operating income is down, please note that this includes an $11 million operating loss for PureCircle. Corporate costs for the year includes strategic investments to drive business and digital transformation as well as one-time R&D expense.

Turning to our full year earnings bridge. Operationally, we saw a decrease of $0.50 per share, driven by volume decline of $0.53. Unfavorable foreign exchange and other income represented declines of $0.24 and $0.02 per share, respectively. These decreases were partially offset by margin improvement of $0.29 per share.

Moving to our nonoperational items. We saw an increase of $0.13 per share year-to-date, driven by lower financing costs and other nonoperating income items.

Moving to cash flow. Year-to-date cash provided by operations was $829 million dollars. Cash provided by operations improved versus prior year as working capital cash inflow in the current year was lapping a working capital cash outflow in the prior year.

Capital expenditures were $333 million, up $5 million from the prior year due to the timing of payments for investments in our growth projects. At quarter end, we had cash and cash equivalents of $665 million dollars. During the year, we deployed cash towards the acquisitions of PureCircle and Verdient.

For the full year, the company anticipates net sales and operating income to be up modestly, driven by specialty ingredients growth, other volume recovery and Cost Smart savings. As mentioned in our press release earlier today, due to the uncertain environment, the company is not currently providing guidance for full year 2021 EPS or cash flow from operations.

Also for the full year, we expect corporate costs to be flat and anticipate reported and adjusted effective tax rates in the range of 26.5% to 28%. Capital investment commitments are expected to be between $330 million and $350 million, of which more than $100 million is being invested to drive specialty growth.

For the first quarter, we anticipate total company net sales to be slightly up and operating income to be modestly up. We are watchful of COVID-19 infection rates as well as the pace and effectiveness of vaccination rollouts, as we see net sales volume generally correlated with increased consumer activity and availability of food and beverages consumed away from home.

As far as the regional outlook, we anticipate the following for the first quarter: North America net sales to be slightly down as we lap pre-pandemic quarter and operating income to be flat. Moving to South America, we expect continued volume recovery and strong pricing gains. In EMEA, we anticipate modest net sales growth and operating income to be slightly up. Finally, for Asia Pacific, we are expecting strong net sales growth and operating income to be flat to slightly up as we expect improvement in PureCircle's operating loss.

With that, let me turn the call back to Jim Zallie.

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

Thanks, Jim. Before taking questions, I'd like to share with you some recent recognition we received. Ingredion was recently recognized once again by Fortune as one of the World's Most Admired Companies for the 12th consecutive year. Also in recognition of our commitment to diversity, equity and inclusion, we were included for the fourth consecutive year in the Bloomberg Gender-Equality Index and earned a near-perfect score on the Human Rights Campaign's 2021 Corporate Equality Index. These recognitions are a testament to the progress we continue to make to fulfill our purpose to make life better for our employees, customers, suppliers and all stakeholders.

Before closing, I'm also pleased to announce the addition of Eric Seip to my executive leadership team. Eric joined Ingredion as Senior Vice President, Global Operations and Chief Supply Chain Officer in January. Eric brings more than 30 years of operational excellence, supply chain, logistics and procurement expertise to Ingredion.

Finally, all of us in Ingredion continue to be directed by our road map for value creation. Despite the unprecedented challenges of last year, we look back with pride on the progress we made to strengthen the value propositions of our growth platforms, connect and co-create in new and different ways with customers and have our employees live each day inspired by our purpose.

That concludes my comments, and now let's open the call to 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 & Analyst*

Hi, good morning everyone. I want to ask about your 2021 guidance. I think it's notable and probably pleasantly surprising to most, but the 1Q guidance is as strong as it is in light of how much net corn costs appear like they could have gone up. I'm curious, particularly guiding to flat op income for North America in the first quarter, what's going on operationally? Whether it be hedging or product mix that you guys have seen that give you the confidence to guide that way? And then alongside that, given that 1Q looks to be one of the toughest compare of the year, it makes the full year guidance look potentially conservative. Is that just a byproduct of uncertainty related to COVID? Or is it something else?

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

Yes. I'll take the last question first. I think that the uncertainty that exists still around the world is the reason to be cautious for the outlook for the full year to be able to have visibility that far into the future, I think, is the reason why you may interpret the full year comments to be the way they are.

As it relates to the net corn equation, let me turn that over to Jim to talk about. Jim?

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

Yes. Ben, our North America contracting was substantially complete by mid-December. And as you know, our hedging practice has matched the changes in the gross cost of corn with the changes in the co-product values. So given the increase in corn futures layout after mid-December, we really feel like both Q1 and into the first half of the year, we hedged effectively as our customers were contracting. We've taken that into consideration.

Obviously, the run-up in corn really -- since really after mid-December, all the way up and through what we're seeing today in January, we've taken that current layout as of mid-January into our outlook for both North America as well as the company.

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

Okay. Makes perfect sense. You -- we appreciate the guidance you did provide on 2021 as it relates to the operating income. You also provided the tax rate guidance. Is the reluctance to provide adjusted EPS guidance a function of the financing costs and the exposure to Argentina hyperinflation? Or what -- that kind of that last missing variable, what caused you to be reluctant to go all the way to an adjusted EPS guidance?

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

You want to take it?

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

Sure.

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

I think two questions or two reasons. One is just as we look at the impacts of COVID, we're definitely seeing more muted impacts of a surge in infection rates on away-from-home consumption. I think if you looked at the end of the year, December, the impact of foodservice in the U.S., for example, was much, much less than the impact of foodservice back in April of 2020. Yet, we're still cautious. It's not as clear at the pace of the vaccination rollouts. And we're still going to be prudent about what a surge in cases can do to various government actions, restrictions on indoor dining and generally how people feel about consumer mobility. So that's the reason one.

I think the second reason, as you mentioned, is that if you have a devaluation of the Argentina peso, because we're under hyperinflation accounting, that will impact financing costs and puts a toggle, puts a variable into the EPS, even though it's a noncash expense. That likelihood or probability still looms out there in the future.

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

Ok, thanks and congrats on the results.

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

Thanks Ben.

Operator

Our next question comes from Ken Zaslow with BMO Capital Markets.

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

Good morning everyone. In terms of the specialty business, can you talk about what the volumes were for the quarter? And then can you -- is there a way to differentiate or is there a differentiation among geographies or products among the 32% of specialty products? And can you give some color on that now, given that it's now a sizable part of the portfolio?

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

Yes. I mean, specialty -- we were very pleased with our specialties ingredients performance in the year. They proved particularly resilient in 2020 with all the regions showing growth. And what we also felt very strongly about was that the impacts of pandemic really did not change in any way the strategy or the value propositions inherent in those growth platforms.

All of them are very complementary to one another from a standpoint of the formulating possibilities that we can offer our customers when you think about sugar reduction, for example, we use the term functional build back as it relates to providing the mouthfeel and bulk that is lost when sugar is replaced when you're using a natural high-intensity sweetener like stevia, for example. So that's a very good complement. When it comes to plant-based protein, it's not just about offering the nutritional quality but it's also about offering a complete textural solution.

So in the case of alternative meats or alternative dairy, for example, a systems-first approach for us is something that we are -- that is resonating with customers in our offerings as it relates to being able to not only structure a meat alternative or a dairy alternative but complement it from a mouthfeel standpoint with starch or a hydrocolloid, for example.

So all of them are different, unique, but all complementary, and they're supported by our fifth growth platform, which is food systems, which we continue to target for geographic expansion as well as capability build because we genuinely believe the industry is much more accommodating given changes in labor, availability for more integrated complete solutions. And the 4 growth platforms supported by the fifth really allow us that capability.

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

No, no, if you're going to answer the other part of my question, that would be helpful.

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

I think that underlies that is an insights into consumer preferences and each of the target areas that we look at for specialty is mid-single to high single-digit volume growth.

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

Okay. So generally speaking -- but is there a variance among geographies or product mix that you think about it? Or should we assume that the -- it all grows -- the 32% grows 5% throughout the whole portfolio? Are you just giving us an average? Is there any dispersion?

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

Yes. Ken, at CAGNY last year, we talked about the different growth prospects or the net sales outlook for the growth platforms for the 4-year period going back to CAGNY last year. And just to give you the specifics, I'm just going to remind you of what we said in CAGNY last year, starch-based texturizers, 3% to 5%; clean and simple ingredients, 5% to 8%; plant-based proteins would be up significantly because they're off a small base; sugar reduction and specialty sweeteners. That was pre PureCircle, we had said 10% to 14% and food systems was up 7% to 10%. Just as a little bit of a teaser, we will be discussing this at CAGNY and revising and updating this at CAGNY in a couple of weeks. So if that's helpful?

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

That would be helpful. And then my last question just to understand. The North American business, you talked about the pricing and the dynamics there. In the -- can you remind us how it works outside the U.S.? And what is the typical lag? And is there some sequential improvement throughout the year as you get more pricing given the higher corn price? How do we think about that on a cadence throughout the year? And how do you think about the pricing dynamic outside the U.S.?

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

Let me start, and let me then have Jim complement what I'm going to say. So let me take Europe, for example. So Europe goes through a traditional annual contracting cycle, very similar to the United States, and that is complete. And we feel good about where that ended up. Pakistan will have two corn crops and will price throughout the year. So -- and that business has -- and the pricing has proven to be very resilient.

In South America, South America over the last number of years has demonstrated, I think, tremendous pricing agility to be able to price through. Typically, there is a lag of 3 months, we say, but they have developed increasingly strong pricing muscles that have enabled them to push through, in fact, on one of the earnings calls, not that long ago, I talked about, I think, we got to almost 90% of our pass-through within a quarter. Typically, it's about 70% to 80% and then it catches up thereafter.

And in Asia Pacific, it's an annual contracting period. And there are always, though, new opportunities that develop throughout the year. And so we're pricing as we go based on new wins, for example, in that region. I think you're very familiar with U.S. pricing and contracting.

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

Great, I appreciate it.

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

Thank you Ken.

Operator

Our next question comes from Robert Moskow with Crédit Suisse.

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

Jim Gray, I just wanted to make sure I understood the explanation for how the price negotiations in December came out. And then what happened after -- I think you said that corn costs started rising after that. So are you saying that you think the negotiations went well that you covered where corn was in December, but then there was an increase after that, that needs to be coped with, specifically in North America or am I misunderstanding?

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

Yes. Let me -- Rob, let me take it since it relates to contracting piece and then let me let Jim add any color commentary. When we go back to, say, the beginning of contracting in early November, prior to the news of an effective vaccine coming out on November 10, I think, it was, the industry was facing uncertainty regarding the important recovery in food service demand in the U.S. and then the subsequent demand for beverage consumption away from home. So that was the kind of climate as we entered into contracting.

As a result, we expected to see and we expect to see increased consumer mobility and volume recovery in 2021. So against that backdrop, as we went into contracting, contracting for us ended up with expected volume gains and some modest margin compression. That said, we expect full year profit growth in North America from manufacturing productivity and strong operating expense control.

Jim, do you want to add to that?

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

Yes. Maybe, Rob, just will tune in to help you with the time line, right? Because you did see corn was kicking around as a futures layout between $3.80 a bushel, $4.15 - $4.20 a bushel up until about mid-December. And we were largely complete with contracting and it followed our hedging practices, as we mentioned previously. As you see the corn futures move up to what we're seeing the layout today with the first half of '21 futures higher and in the back half of '21 futures lower, the co-product values have also moved and the co-product values are that offset. So we're seeing some balance. So we're just going to watch the market, and we'll talk about the layout of the corn as we move through the spring planting and expectations for what this summer harvest looks like. But we are watching and we've got our hedges placed, and we're looking at the co-product values relative to the elevated cost of gross corn, and so that's what we'll watch as we go through the year.

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

And I think it's fair to say, Jim, that the comments that you made earlier and the comments that you're making now relate to where corn sits today. So obviously, we're going to just continue to watch it. And hopefully, there's nothing extraordinary manifests itself with planting and all of that.

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

Okay. And a quick follow-up. In terms of the net corn cost layout last year, was the toughest comparison already passed you by the time 2020 started? Like, I remember, fourth quarter was really pretty hard. But were the byproducts improving in 2020? So how does -- what are your easiest comps in '20 as these quarters move ahead? Or is -- are there any comps?

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

Well, I think the -- in Q1 of last year, we started to see some co-product values increase, particularly corn oil. And then, in Q2 and Q3, you saw, I think, easier comps from a lower cost of corn. Right? And that's really from Q4 really you see there's gross corn, right? So now in Q4, you see your -- in 2020, you saw your gross cost of corn starting to spike up.

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

Ok thanks a lot.

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

Thanks Rob.

Operator

Our next question comes from Adam Samuelson with Goldman Sachs.

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

Good morning everyone. So I want to just maybe clarify a little bit just on the guidance. So on the full year, the point on sales to be modestly up. If I'm looking back to 2020, volumes were down 4% and so especially with the second quarter, when you were down 13%, I mean, you're going to be lapping that. So the modestly up, on a global basis, with really easy volume comparisons where some just important customers and (technical difficulty) work off-line, I presume you're not expecting to repeat. I'm just trying to make sure I'm thinking about like why volumes -- I mean volumes, why are they only modestly up against that? And I presume also that there should be some price/mix tailwinds given some of the corn pass-through that would happen both in your tolling contracts in North America, but also outside the U.S. So maybe just I'm trying to parse that a little bit first.

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

Yes. I would point to quarter 1 for us was a strong quarter. For the most part, Asia Pacific, obviously, was beginning the pandemic at that point, but quarter 1 for us was a strong quarter. And so --

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

So Jim, can I just ask that, I mean, your volumes at the corporate level were flat in the first quarter of 2020, just so I'm clear on the comparison?

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

Yes. I understand that.

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

It's a mixture.

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

I think it's a mixture from a standpoint of the various regions and how that all worked out. But what I think we're saying is we're taking an outlook that reflects continued uncertainty and lack of visibility when you consider the fact that we're still in lockdown and/or partial lockdown in many places around the world. And so we and what we factored into our guidance have indicated that, that will continue through the first half of this year and then start to ease in the second half of the year. And so that's what's taking into -- that's what we've taken into effect as it relates to our sales guidance.

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

That's the biggest variable, Adam, which is that when you look around not just what we're understanding in the United States, how a vaccine rollouts and Europe, but also in South America as well as Asia Pacific, which seems to be much more kind of government controlled based upon a flare-up with the pandemic and more restrictive movement. What we're looking at is, "Hey, how can we see the return of the volume demand from some of the categories that really move." So your HF and your beverages, some of our brewing inputs, some of the sweetener volumes that go into either bakery or confectionery, right? The -- the demand from our customers is tied to kind of greater consumer mobility, shopping at informal channels, going to pubs and restaurants. And so that's -- we just -- look, there's a pace to that recovery, and that's what we're taking into consideration.

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

And the other consideration is that the amount of stimulus that went into certain countries, certain regions, we don't believe we'll be injected at the same degree. Brazil is an example of that. So Brazil is sitting on very high deficits, of course, like most countries, but they infused a tremendous amount of stimulus which helped with volumes in quarters 3 and 4. That expired in December 31, and the economic minister has come out with some cautionary tones in regards to what they can do going forward. So those kind of things we're all taking into consideration as we put together our outlook.

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

Despite those things, Adam, I mean, we're still saying that we're looking at net sales to be up modestly.

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

Yes. Okay. And then in the operating income up modestly against that sales outlook, you've talked about targeting $63 million of incremental run rate savings from Cost Smart. I believe that's a gross kind of number, just from a productivity perspective. What's the net kind of cost savings that we should be thinking about in the 2021 bridge as it relates to customer? That's a run rate, so that might be year-end. So I'm just trying to think about what actually hit the P&L in 2021?

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

Yes. So obviously, we have savings that are coming out of initiatives that we ended the year in 2020. And so some of that will be a benefit to 2021 as we enable and take actions in 2021, as we get to the end of 2021 with our targeted $170 million of cumulative run rate savings. We'll see a difference in that benefit that you highlighted, spread between '21 and '22. That's how I'd characterize that.

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

Okay. And then I just want to clarify one...

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

That $60 million is spread. There's benefit in 2021 from in-year savings, and there's also be some carryover into 2022 from that.

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

And then I just want to clarify kind of some of the earlier points on corn. So from a hedging perspective, trying to say that, I mean -- especially in North America, you're hedged on corn for the year? And so if there's -- if corn stays at these level at '21 -- at '22, I should say, is when we have to think about the pricing actions to offset cost inflation? I'm just trying to make sure I'm understanding those comments properly.

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

Yes. So I think any modest exposure we may have in our U.S. flat price or fixed contract business in the second half due to the continued recent run-up in corn costs, we think will be mitigated by concurrent increase in the co-product values, along with the anticipated kind of volume recovery that we referenced earlier, right? So we intend as well if there's any kind of net exposure there. We're looking at both manufacturing, productivity as well as op expense to be able to mitigate that.

Adam L. Samuelson- Ok, I really appreciate all of that color.

James D. Gray- You got it Adam.

Operator

Our next question comes from Donald McLee with Berenberg.

Donald Delray McLee - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Good morning guys. So I was hoping that you could maybe give your thoughts on last week's announcement of a product development partnership between one of the major global food and beverage companies and then an emerging packaged food name. I guess within that, just, first, are these types of arrangements novel? And then second, would you consider it as complementary or maybe in competition with the value that Ingredion adds in the product development cycle from the Food Systems business?

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

Are you referring to the joint collaboration, joint venture between PepsiCo and Beyond Meat?

Donald Delray McLee - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Correct, yes.

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

So what I would say is that just provides, I think, us opportunity because we have offerings from an ingredient standpoint, food systems formulating standpoint that would appeal to both of those companies in their quest to formulate a range of plant-based snacks. Jim Gray was pointing out to me when we were discussing this because he joined us from PepsiCo and reminded me of their meat-based snacks, which everybody knows those high-protein meat snacks are growing. So an alternative meatless plant-based version of that is a great concept, and I'm sure those 2 companies will be working on that, and we hope to be certainly working with them and other companies as we formulate our approach towards food systems, leveraging again, plant-based proteins and a whole range of other specialty portfolio ingredients that we have.

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

Yes. Donald, I just -- I think you're touching on something which is a confluence of what generations or younger generations might want to eat. So is what they're eating and the choices that they're making both sustainable, but also delivering the nutrition makeup. So is it more protein, less carbohydrate or a balance, right? But then also the combined with, is it snackable? Is it on-the-go? Is it convenient? And I think there's not just PepsiCo but other customers of ours have really looked at this space. And think that it's not just about a tasty carbohydrate and a fat or oil but can we change the nutrition makeup. And so we've been talking to that, and as Jim referenced, is that when you start to change the underlying ingredient components, that's when you really engage Ingredion to help with not just maintaining the texture but the taste and then also delivering the nutritional value.

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

Yes. And we also feel that one of the things we've learned from the many years of formulating with specialty starches that you need a portfolio of ingredients. And that's why having a range of pulse-based flowers, concentrates and isolates that all increasing in protein along that continuum and having the formulating capabilities gives us the most optionality to help customers, from a food system standpoint, for these different snacks and alternative meat type products that they will be developing.

Donald Delray McLee - *Joh. Berenberg, Gossler & Co. KG, Research Division - Analyst*

Ok, thanks that is really helpful. I turn it over from here.

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

Thank you.

Operator

Our next question is a follow-up from Robert Moskow with Crédit Suisse.

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

Just a quick follow-up. Do you have an estimate for what the incremental benefit in 2021 will be from PureCircle compared to 2020? And also Verdient, like will Verdient contribute positive profit and maybe PureCircle gets back to flat or something like that?

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

Jim?

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

Yes. Sure. So Rob, as we think about the 5 months of the impact that PureCircle had within the 2020 financials, we noted today that there's an $11 million dollar operating loss. As we look forward to 2021, we see a loss that's less than that for the full year and working -- because as we noted, the $14 million of cost synergies that we've actioned, those will start to reduce the overall OpEx. And so we'll see PureCircle at a run rate of a loss in Q1 of still kind of 2-ish to 3-ish, and then we're going to be working that down as we get to more to Q4, and all of the cost synergies, savings or impact are affected on the business.

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

Okay. And Verdient?

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

So Verdient right now, we're working on that integration. I think what we're going to come back to is just talk about more of a plant-based protein overall platform, and we'll shed some more light on that as we get into CAGNY.

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

Ok, thank you a lot.

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

Ok

Operator

This concludes the question-and-answer session. I would now like to turn the call back over to Jim Zallie for closing remarks.

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

Okay. Thank you for joining us today, and we look forward to continuing our discussion later this month, virtually at CAGNY. And in the meantime, to everyone, please stay safe, vigilant, and look forward to talking to you at CAGNY.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for participating. You may now disconnect.