BMO Farm to Market
Ingredion

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Ken Zaslow: Hey, good morning, Jim. It gives me great pleasure to have you at our conference, particularly as Ingredion's transformation takes hold. With Jim as CEO, Ingredion has been on a steady path to transition itself from a commodity company to a more consistent value-added ingredient company, while at the same time aggressively reducing costs, optimizing its network, and navigating the ever-evolving landscape. And importantly, in three years, Ingredion will derive more than 55% of its profits from specialty products. You've also been laser-focused on return on capital, improving processes and cash generation. Again, I can't express my gratitude for you being here with us today.

With that, I'm going to start -- kick it off with some big-picture questions. At CAGNY, you really provided a fantastic disclosure on your long-term objectives, your capital spending on your specialty business. Can you start with some of the key projects that you're doing on starch-based texturizers and Clean and Simple ingredients? And then, we'll work through all the different parts of the specialty portfolio.

Jim Zallie: Thanks, Ken. So, as it relates to our five growth platforms, two of them you just described. One is starch-based texturizers, the other is Clean and Simple. Then, there's plant-based proteins and sugar reduction, and then food systems.

The starch-based texturizers and Clean and Simple are two great ones to start with. Why? Because they're really the cornerstone of our specialty ingredients portfolio today. Ingredion is the broadest and deepest when it comes to a portfolio of starch-based texturizers. And what we unveiled at CAGNY was that we want to continue to broaden and deepen that portfolio beyond corn-based products. We feel that we have such a vast portfolio of corn-based products, and there is a trend, a gluten-free trend, for example, to go beyond corn today, or beyond grain-free-type products.

And so, we've built a tremendous franchise in potato-based products with the acquisition of Penford back in 2015, and that has continued to deliver nicely for us. We're really the world's largest specialty tapioca supplier in the world, and we continue to broaden that portfolio and have some great innovations coming into the future with that portfolio. And then, we've expanded into rice-based products, as well. Rice is hypoallergenic, also gluten-free, and offers a lot of very interesting properties.

And we've invested in starch-based texturizers for geographic expansion in Asia-Pacific, in Thailand to expand the tapioca franchise, and also in China, where we're investing $85 million in an expansion of our specialty food starch franchise. And there, we're actually ahead of schedule to commission that operation in 2022, and the growth in China is very, very significant. Our Clean and Simple portfolio, which is also starch-based, where we pioneered the category of what we call functional native starches, those that perform like chemically modified products but have a Clean and Simple label, continue to grow nicely for us. And at CAGNY, what we said is that we expect, over the next four years, $50 million of incremental growth from that platform alone growing mid- to high-single digits.

Ken Zaslow: Great. And then, as you said, you have the other platforms, as well. I know you've been big into plant-based protein with customers. What is the status of your two new facilities? And what is the potential what you're looking at over the next, again, two to three years? It doesn't have to be this year, but we're just trying to build out a little bit longer-term thought process here.

Jim Zallie: Sure. So, just to remind everybody, we've invested $250 million in the plant-based protein area starting really three years ago with the acquisition of a facility that we've retrofitted to produce pea protein isolate, and that is based in South Sioux City, Nebraska. That facility has commissioned. We had a customer welcoming event in early March with 500 customers, hundreds of samples being requested, and a great project pipeline being developed with customers right now for plant-based proteins based on isolates.

In addition to that, last year we acquired a 100% stake in Verdient Foods, a company in which we had a joint venture up in Saskatchewan, to produce a range of pulse-based flours and concentrates. So, when it comes to protein-based flours, concentrates and now isolates, Ingredion is drawing upon the success it's had over so many years with a formulaic texturizing approach with starch-based products to now think about a complementary portfolio thinking in two dimensions. One is how we make foods taste great from a standpoint of texturizing, but also the nutritional considerations of an amino acid balance to have a multi-component formulated approach for plant-based foods inclusive of flours, concentrates, and isolates.

Very excited about both of these investments -- Vanscoy, Saskatchewan, that investment is producing flours now, also producing concentrates, and will be producing specialty concentrates in the next few months. We're scheduled to get food grade certification in June there. We've already got food grade certification in South Sioux City, and again, have already had our customer welcoming event.

So, we're just very excited about this new pillar, or new leg of our specialty franchise for Ingredion, that we had the vision, really, to invest knowing that the plant-based phenomenon was not going to be a fad but was going to be a sustainable trend for the foreseeable future. And we genuinely believe that. It's got great drivers behind it, such as digestive health, mindful consumption, sustainability considerations. So, we're very bullish on the prospects for the plant-based protein portfolio, going forward into the future.

Ken Zaslow: When you figure out the plant-based direction of it, do you think about the customer base as being broad, or do you go deep within your customer base and say, look, I want to stay with a couple ones and just go really drive the trend with them? How is your business model built on that from the customer basis?

Jim Zallie: Yes. We typically have developed over many, many years, our sales are very diversified. They're not in any way concentrated largely in any one or two customers. We sell into so many different customer channels, retail, food service, distributors, global key accounts, regional key accounts, small and medium-size entrepreneurial innovative accounts. So, our strategy is to go both broad and deep, as I mentioned, analogous to what we've built, which is a world-class franchise with starch-based texturizers and to emulate that for plant-based proteins.

Now, clearly, there are some companies that are leading the way right now from a innovative standpoint with plant-based proteins foods, and those are coming to us because of our reputation and also excited about the prospects that we represent for plant-based products now that we've made these investments. So, we'll be, we think, supplying the gamut to a variety of customers, but we don't intend in any way to be beholden to any one particular customer or two particular customers. And also, what we do genuinely believe, at the end of the day, it's going to be a formulated systems approach to get great tasting plant-based foods to consumers.

Ken Zaslow: When you think about your customer base, and we're still going to go to sugar reduction, but I just wondered, before I get there, your innovation, is this customer-driven, or does Ingredion come up with something and then go out and sell it? And then, what's the difference between the two, and how is your model built on that?

Jim Zallie: It's really a great question. And what I would say is that we have a very integrated and thoughtful approach as it relates to understanding what consumers, at the end of the day, want. So, one of the things our marketing group does, and we've just recently consolidated a center of expertise around consumer insights that we ourselves monitor with and on behalf of our customers, as well as to provide insights to drive pockets of growth that we can pivot towards quickly that result from changes in the marketplace or that are symbolic of longer-term trends that are developing.

And so, we combine that with the voice-of-customer work, where we're listening intently to our customers. And then, at the same time, we understand where process technologies or new, innovative technologies converge. An example of that would be in the area of fermentation technology, or synthetic biology, where we just made an investment with a world-class leader in that category, Amyris, to produce a fermented Reb M, great tasting, natural, nature-based, high intensity sweetener based on entirely different technology.

So, we have a variety of, I would say, market-driven, backed by voice-of-customer insights projects, and at the same time for our R&D group, we call them the fewer, bigger bets, or the fewer, bigger, bolder bets. And we have about four projects that we are working on actively right now that we think would cut across many categories, many industries, many customers that would be true innovations when we introduce them into the marketplace. So, it's a combination of both, but that's how we go about it.

Ken Zaslow: Great. Can you talk about the sugar reduction? How is this gaining steam, and what progress are you seeing with PureCircle in terms of the integration and the profitability? It seemed like it got off to a little bit of a tough start, given the COVID situation, and then now it's getting better footing. Can you just talk about the progress there as well? That'd be helpful.

Jim Zallie: Well, I mean, we're very excited by the prospects for sugar reduction. The total addressable sugar reduction market between now and 2024 is estimated to be $5 billion, and the Stevia market alone in that timeframe will be about $1.6 billion, is what the estimates show.

And our acquisition of PureCircle back in July of last year was a fantastic acquisition of a company that was the pioneer in Stevia, with a great heritage and a great intellectual property portfolio and tremendous technology in this whole space for leaf extract and bio-converted, great-tasting Reb M-type products.

What we've subsequently done with the most recent alliance that we have formed, as well as joint venture investment in a manufacturing operation in Brazil with Amyris, is to bring to market a great-tasting fermented Reb M. So, we have what we are calling the trifecta of Stevia, high intensity, nature-based sweeteners that we are seeing tremendous opportunities, tremendous possibilities, and a great customer pipeline.

And just specifically on PureCircle, I would say that, since we acquired PureCircle, we really haven't been swayed by COVID despite operations being in Malaysia. And we've really executed extremely well, and that has to do with -- when a company like Ingredion buys a company like PureCircle, we benefit tremendously by having such a global presence and a great position in Asia Pacific, leveraging talent there. Singapore, we've leveraged talent from Singapore to help with the whole integration. We've delivered above our expectations on cost synergies, so we are tracking very well. Our sales are increasing month after month since the acquisition. March was the highest month on record of sales. So, we really feel very good about the prospects there.

And now with Amyris, it gives us, again, this complete portfolio that we think appeals to the range of customer interests, as well as labeling requirements around the world, and we're basically going to follow consumers and customers and what they want on their products. But what I can tell you is we combine that also with great tasting, what we call functional build-back. When you replace sugar, you need something that's going to replace the mouth feel. And so, we have a great portfolio of ingredients there as well to offer, again, a whole systems approach to sugar reduction.

Ken Zaslow: When I put it together and I look at how you thought about this, again, 2024 number, there seems to be somewhat of a wide range of what you're looking at. Kind of back of the envelope, it was 470 to 560. How much of that variance is within your control and operational? And then, how much are you thinking about how it is incorporating industry growth? So, when you kind of built out your model for 2024, how much of that is in your control, either the upside or downside? And then, how much are you relying on the operating environment to help you? And how do we think about that?

Jim Zallie: Yes, I think what you're referring to is the incremental profitability from our specialties portfolio that's projected between now and 2024. So just to clarify--.

Ken Zaslow: --I'm sorry, yes.

Jim Zallie: That's okay. And so, in relationship to that, I would say it's going to be a combination of both. We're looking at growth predominantly coming from plant-based proteins, sugar reduction. Specifically, what we said at CAGNY, with plant-based proteins, is between now and then, we should develop a greater than $100 million franchise. I think the number was $120 million or $130 million. For sugar reduction, we're looking at double-digit, 15% growth off of a PureCircle base when we bought it was north of $100 million of sales just in Stevia alone, but an aspiration to get to a $250 million sugar reduction portfolio.

And that's not to forget that, because of the large base of starch-based texturizers, that is also going to drive a significant amount of growth, as will Clean and Simple. So, we think it's going to be a combination of the just operational execution of the Clean and Simple and starch-based texturizers established growth platforms, and then the very much on-trend high growth rate platforms of plant-based proteins and sugar reduction being pulled along by the strong market demand.

So, it's really going to be a combination of both, and that's a nice position to be in, where you're going to be appealing to market trends and being very on-trend. But as it relates to the cornerstone platforms that are the foundation of our specialties, those we just know, based on our existing customer relationships, that we will continue to grow nicely, incrementally, steadily across the world and with the diversified customer base.

Ken Zaslow: Great. Changing topics, and just moving into the pricing side of it, Ingredion over the years has had -- really been able to price through so many different operating environments. You started recently, I think over the last year or so, you've made key changes and improvements with the Pricing Center of Excellence. Can you talk about what are the actions that have changed with the development of the Pricing Center of Excellence? And how does that create greater pricing ability, and what's the end result of creating this Pricing Center of Excellence? I don't think you've talked about it enough and I wanted to get that out there.

Jim Zallie: No, thank you so much for the question. One of the things that we feel, by the way, very glad we did what we did, which was back two years ago, to establish Pricing Centers of Excellence in every region of the world and have them share best practices as it relates to how to price through raw material cost increases. But also, some of this was borne out of urgent necessity, because one of the things I've highlighted in previous earnings calls is how much Ingredion has navigated over the last four years in relationship to foreign-exchange headwinds. It's been massive. It's been north of $900 million that we've offset with necessary, needed price increases.

And an example of, or a testimony to that work of Pricing Centers of Excellence is the work we've done in South America, which obviously has had extreme currency volatilities, specifically devaluations when you look at Brazil, when you look at Argentina, and even Colombia of late. And the team down there has systematically developed muscles to put through price increases to manage the raw material cost increases, whether it be corn or the foreign-exchange devaluations.

And this past quarter, what we've said on the earnings call, was the first time in recent memory that South America actually delivered a price increase in a quarter in excess of foreign-exchange devaluation. We always typically, because it moves so quickly, are in a lag situation where we get through about 70% in three to six months, and then it's a catch-up situation. But the teams have worked to look at many different aspects of the value we bring to customers, looking at value-based pricing and looking at our inter-company transfer prices for products that are shipped around the world and making sure that we also have the right -- proper incentives for our sales teams locally, and our finance teams are working extremely well with each of the regions.

But we've required every region to develop expertise and competencies based on skill sets and resource then in a dedicated capacity to just work on pricing excellence based on best practice methodology. And they're sharing that around the world, and I think we're seeing the benefits of that. And the example I gave you for South America is, I think, testimony to the success we're having.

And by the way, I would just say -- and by the way, I'm sorry, I would just say that, when you think about the period that we may be entering, or we are entering right now with inflation, what I said to the team is don't you feel good now about all the hard work we've done to stand up these Pricing Centers of Excellence as we head into 2022, and what we're seeing even now and into the back half of this year with inflation beginning to rear its head?

Ken Zaslow: That was exactly what I was going to -- can you bring -- I think you've always done a great job in South America. Can you bring that to other areas, either the U.S. as well as Europe, right? Europe, you made a point about value-based pricing. I'm assuming Europe has a lot of value, right? That's your highest specialty business. So, is there more pricing dynamics there than typical because of this pricing dynamic that you're creating? And then, the other part is can you bring this -- better practices into the U.S., and how will that affect the U.S. business, over time?

Jim Zallie: Yes. I think our attitude is we can bring -- this is universal, and it's applicable around the world. So, we're going to bring this competency and best practice to each and every region of the world. In Europe, for example, and you cited it, it has the highest percentage of specialties of any of our regions in EMEA. It's about 54% specialties, the same, by the way, as Asia-Pacific. Europe itself would be higher because, in EMEA, we have Pakistan.

But the approach there is to really understand the value you bring to customers when you're solving a problem for them and to make sure that it's capturing all the elements of service, supply, convenience, being easy to do business with, and make sure that we are also creative and relationship to appealing to different customers with different needs from a standpoint of length of contracts, financing perhaps in relationship to payment terms. So, we're very integrated in our holistic approach to bring that suite of capabilities to think of it in a customer-centric way, but at the same time making sure we're educating the customers along the way. And especially in these times with inflation, it's very, very important to do so. So, I think it's universal, really, across all regions.

Ken Zaslow: Do you think that there's demand built up in the U.S. to be able to price through the higher corn prices as you go through the next year or two, not just -- not this year. It doesn't matter as much. I'm talking about '22 and '23. Is the improvement that you've made in pricing going to be enough, couple that with a rebound in demand, to be able to price the corn over the next couple years? How do you think about that?

Jim Zallie: Yes. I mean, right now, our policy typically is to not comment at this time of year on pricing for the following year. What I would say is, again, those full techniques, muscles that we've developed will certainly help us as it relates to -- we know that everyone is experiencing inflation right now, right, whether it be labor inflation, whether it be chemical inflation, especially with the storm that hit Texas and the south-central part of the country. Freight and logistics, increases going through there while the supply chains remain disrupted and very tight. So, whether it be in packaging, chemicals, freight, or raw materials, we're seeing inflation. Everybody's experiencing that. We obviously are tracking that, have a good handle on that.

And then, the other thing that I would say is, as it relates to some indication about next year, is one of the things that we're kind of encouraged by is the fact that, especially here in the United States, and that was, I think, the specifics of your question, we're seeing increased and pretty robust economic activity developing and building. And people are increasingly vaccinated. I believe here in the United States the percentage of the population with at least one dose is well north of 50% now, and with two doses is north of 40%.

So, people are feeling more confident. Some of you that may be listening to me may be experiencing what we're experiencing here at Ingredion, where people are coming back into the office increasingly and, interestingly, people want to be there without masks. And spontaneously, they're taking off masks and they're asking out of courtesy their colleagues, well, if everybody's been vaccinated, can we just get on with business without masks.

So, you're seeing a very progressive attitude based on increasing confidence. Caseload certainly here in the United States coming down. That's led to increased demand outlook, and that increased demand outlook I can genuinely say has increased capacity utilization in the marketplace and in the industry, in our industry, and that all collectively bodes well, I think, or bodes better for pricing than maybe it has in recent years.

But every year is unique. Every set of circumstances is unique. And it's a long way between now and contracting for 2022.

Ken Zaslow: Very rarely does an analyst take a more positive view than a company. In co-products, how sustainable do you think co-products can be? And I understand that Ingredion expects co-products to fall. But let's say, in a situation they don't fall, and they stay as strong as we think they would be. Can you dimensionalize what type of opportunity that provides for Ingredion over the next year to two years?

Jim Zallie: Yes. I would say that, certainly as it relates to the first half of the year, what we've indicated, and what we indicated for quarter one, is we have benefited from co-product prices going up and where we had covered, certainly in the first quarter as well as the second quarter, gross corn costs, and so we've benefited from that not only in the United States but also in Brazil.

Right now, China appears to be still continuously buying corn, and so there's a bullish I think view towards corn purchases and a tight supply-demand outlook. And I think the trend towards biodiesel and soybean oil, and you're seeing increased soy crushing facilities coming onstream. So, all that is in response to a projected bullish demand for co-products and this potentially projected super-cycle for commodities.

So, we're monitoring it, and I think that that's factored into our guidance. And were taking a, I think, very realistic view, and that's really all we can do right now, is take a very balanced, realistic view, and that's all factored into our guidance. But we've been encouraged so far by the overall implications on our net corn costs, and we've taken a view on that for the second half, factoring in again, I think we said on the earnings call, projected out about -- factoring in about $6 corn. And so, that's all factored into our guidance, and that's kind of the view we are taking on co-products right now.

Ken Zaslow: Okay. Brazil and Mexico, those markets have been much healthier than we, and it sounds like even you guys, have thought. Can you talk about what the key attributes are of why those markets have been more resilient and actually have really stayed on course with expectation, if not exceeding expectations?

Jim Zallie: Yes, thanks for raising those two countries which don't get a lot of press or a lot of airtime in the analyst calls typically. We have just really great market positions where we've been in both countries for a long, long time. So, we're really market leaders in both countries, with long, long heritages and great customer relationships.

Those countries, as we all know, have gotten hit very hard by COVID. So, during the worst of times, Mexico got hit not just by people sheltering in place, like Brazil, but equally, it was impacted by government mandates that shut down the brewing industry, for example. So, what we saw were consumers and an industry, a food industry, that really needed to adjust quickly. And boy, has it adjusted in both countries.

And Brazil took a different approach than Mexico as it related to stimulus, so they were very aggressive with stimulus. Mexico, less so. But both countries also benefit by having larger proportions of core as opposed to specialties products in those countries. So, South America, we say, South America has about 19% specialties, the remainder core. And Mexico, we don't divulge the breakout, but it is in similar percentages with core versus specialty.

The point to make there is, in COVID times, comfort food, packaged food, is what has been in demand, food at retail while food service has been hit. And food service, in many cases, and food deliveries to homes has increased quite significantly. So, we've been a beneficiary of that for affordable foods, as well as just mainstays, staples, and retail foods in those countries. And they've really come back, to your point, with a vengeance.

At the same time, again, great work in South America and in Brazil on being able to price through the increases in corn. And in Mexico, also, we're seeing opportunities with the re-labeling of products to appeal for health and wellness. There's a lot of innovation opportunities. We're seeing great receptivity right now for our sugar reduction ingredient, allulose, in Mexico, where concerns over obesity and diabetes are very, very high, and we're benefiting there from growth.

Ken Zaslow: Great. Would you also say that the composition of the employee base is a little different than the U.S. and Europe, and that kind of created an ongoing need for people to be more out and about and (inaudible)? Did that help as well in your emerging markets business? Is that fair?

Jim Zallie: It's the nature of those markets, right? They have people on the base of the socio-economic pyramid that, by nature of them being able to make a living, have to be out with people on the streets, and the workers have to earn a living. And to do that, that creates opportunities for certain food types that lend itself well for the products we produce and the market position we have in both of those countries. And so, as those countries go and GDP continues to come back, so does our business, basically, because we're naturally tied to that.

Ken Zaslow: Great. I'll end it with one final question. What do you think the key variant -- say two and three on each side, above and below, that would be variances to your long-term growth algorithm?

Jim Zallie: Yes. So, we call it our long-term profit outlook. And what I would say is there's a few things that I think are really key and important. One is the rate of growth, the pace of growth for our specialties franchise. We've made really key strategic investments in plant-based proteins, sugar reduction, and we'll continue to support and diversify beyond corn and starch-based texturizers and Clean and Simple.

And in the new growth platform where we also have been investing in, especially with the acquisition of KaTech most recently in Europe, is to geographically have capabilities to formulate integrated food systems for customers around the world with higher-margin products. And so, I would say the mid- to high-single digit assumptions in our long-term profit outlook for specialties growth is one key variable, and we hope to deliver that, or over-deliver that.

The other is we really have done a great job on cost management over the last three years with our Cost Smart program. Just a reminder, for those of you that are listening, we set out initially that program in 2018, and we had a target of $125 million of Cost Smart savings at the end of the three-year program, run rate savings. We raised that target to $150 million, and we raised it again to $170 million target, all within the same three years. We didn't extend the time period. And we're going to hit that target by the end of this year.

That has put us in really good stead. We've embraced digital transformation to drive efficiency and streamlining. And my new Head of Operations and Global Supply Chain is uncovering opportunities there. So, I would say the efficiencies that we've driven in business transformation with IT and finance, and now HR and parts of marketing in shared service centers in Guadalajara, Kuala Lumpur, all of that to help our go-to-market people be able to focus more time and energy with customers has been another key enabler.

And lastly, it's how our core business performs. And all I would simply say is one of the things that we wanted to highlight at CAGNY, which I'll highlight again, is when you think of our core business, don't think of it just as U.S. high fructose corn syrup. Our $4 billion, or 68% of our sales which are core, 36% is in the United States. About a third of that -- some new news here -- about a third of that goes into corrugating, which is going into boxed growth for e-commerce shipments. It's low single-digit growth, but it's growth.

And so, when you think about our core business, it's growing in the great positions we have in Canada, Mexico. Pakistan's growing mid-single digits in core. And then, we have a great position in South America, as well. So, those are the three elements that I think we really are managing holistically, specialties, our cost side of the equation, as well as core.

Ken Zaslow: Great. Honestly, that was fantastic, great insights, and I appreciate your time, as always.

Jim Zallie: Thank you so much, Ken, appreciate it. Bye-bye.

Ken Zaslow: Be well.