Barclays Consumer Staples Conference
Ingredion, Inc.

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Ben Theurer: All right, perfect. Welcome back. Next on the stage, we've got Ingredion, a leading global ingredient solutions provider, which sells plant-based ingredients into a wide range of foods and beverages, to personal care, pharmaceuticals, and paper-making applications. Besides its core ingredients platform, which includes glucose syrup for confectionary and sweeteners for beverages, Ingredion is focused on growing its specialties ingredients platform, which consists of starch-based texturizers, clean and simple ingredients, plant-based proteins, specialty sweeteners, and ingredients to enable sugar reduction.

The company aims to showcase purpose-driven and sustainable sourcing as it brings together the potential of people, nature, and technology, all for a common goal: to make life better. We're excited to have Jim Zallie, Ingredion's President and CEO, and Jim Gray, Executive Vice President and CFO, join us for our session today.

Jim Zallie joined Ingredion in 2010 and was appointed CEO eight years later. He previously served as executive vice president global specialties and president of the Americas. And following a 12-year tenure with PepsiCo, Jim Gray teamed up with Ingredion in 2014, formerly served as vice president of corporate finance and CFO of North America.

With that, I'll hand it over to Jim Zallie for some opening remarks, and we'll then go into Q&A.

Jim Zallie: Okay, thanks, Ben. First of all, on behalf of Jim and myself, it's a pleasure to be part of the Barclays conference and to be here. It's our first time, so it's a pleasure to be here.

So, I'm going to present eight or nine slides, which is going to be a quick intro into Ingredion if you're not familiar with us. So, the title of the presentation is really about what we're transitioning to as a company. We're not the same company that we were four to five years ago. We've invested to expand our capabilities to deliver healthy and sustainable growth. Everything that I'm going to say is protected by safe harbor provisions of the forward-looking statements.

So, who is Ingredion? We are a leading global ingredient solutions provider. Revenue in 2021 was $7 billion. We service 19,000 customers in 120 countries around the world. And how you should think of us from a standpoint of our relevancy to supply the food industry, food customers, whether it be packaged food customers, whether it be quick-service restaurants, food service, is in 2021, of all the new products that were introduced, 70 percent of them were formulated with ingredients that Ingredion provides, not that we are formulated into 70 percent of all new products, but we could have been from a standpoint of the breadth of the ingredients that we supply find themselves in new product introductions.

We're global, very global for our size. We have 32 Ingredion Idea Labs, where we work with customers locally. The food ingredient industry, the innovation part of it is a very local industry, where we appeal to local tastes. We have a strong R&D orientation, with greater than 500 scientists, many of them PhDs, and a strong intellectual property or patent estate.

Essentially, we are a purpose driven company. Our purpose is to bring together the potential of people, nature, and technology to make life better. And we're committed to sustainable sourcing. We have a goal to have 100 percent of our five priority crops, which account for approximately 95 percent of all of the raw materials we use as a crop source, to be sustainably sourced by 2025. And it's all about offering great tasting and healthy plant-based solutions, so we're a 100 percent plant-based company as well.

And when you think of us, think of us as a world leader in texturizing of foods, but now also, with the investments we've made only in the last four years, a significant player in plant-based proteins, so protein fortifying, as well as a leader in reducing sugar from foods, primary with a market-leading portfolio in high-intensity, natural sweeteners, stevia-based, but also with polyols and other mouth feel enhancers to replace the bulk of sugar.

We have four strategic pillars that define our growth strategy to forge growth. One is to grow our specialties business, and I'll show you how we've done that over the last number of years and what we're aspiring to over the next four years. But it's really to broaden the higher-value, more differentiated ingredients that require customer-intimate formulating and either our, again, IP-protected, but specialties growth -- 33 percent of our sales today are specialties -- driving commercial excellence, being easy to do business with, being a reliable partner, especially today with all of the supply chain challenges and disruptions.

We also are very, very focused on cost competitiveness. We sunsetted, at the end of last year, a three-year what we call Cost Smart program, which was originally set out with a target to deliver $125 million of savings. That was raised to $150 million. We ended up delivering north of $170 million of savings. But we're focused on continuously driving efficiency, continuous improvement, and underpinned by operational excellence.

And at the heart of the company is really, again, this purpose-driven growth culture, where we live our values as well as really are very focused on a people-centric or human-centric approach to our employees and to the culture that we're building.

This graph just shows you how we've grown our specialties from 24 percent of the portfolio in 2015 to 33 percent today, with a target to be 40 percent by 2025 and a larger percentage of that -- and it will be certainly north of 50 percent by 2025 -- of our operating income coming from specialties. And again, specialties would be higher margin, as well as less volatile. And all of that is supported by the rest of the business, which we call our core business, which is very stable and cash generative.

And so, one of the things that we have been trying to highlight in the last few investor meetings that we've had -- we held an Investor Day on June 2nd; every year, we present at the Consumer Analyst Group of New York -- is the fact that of our core business, only

36 percent of that is in the United States. The rest of it is around the world, and around the world, the core business is growing with population growth. In the US, 80 percent of that business is very stable. It's glucose syrups that go into confectionary, for example, as well as starch-based products that go into papermaking as well as corrugating. And only 20 percent of US gross profit, or of that 36 percent, is high fructose corn syrup, and we've shared that information most recently. So, the core is very stable for us, generates cash, which we invest into specialties growth.

And this is our four-year performance outlook. We target to grow our net sales by 2 to 4 percent. In recent years, and certainly in this current year, we're growing at a much higher rate, obviously passing on inflation. Year to date, were growing at mid-double digits at 16 percent. Our adjusted operating income target is to grow operating income at 7 to 9 percent and to increase cash flow off of a normalized base of about $600 million by 10 percent per annum. And our capital investments are about $300 million per annum, and over the course of the next four years, to deploy about $100 million per year to specialty growth as well. And we're very committed to using a very sound and strong balance sheet in a very smart way, primarily to look at investments that are going to have an attractive return on invested capital.

Also, we're looking for attractive acquisition targets to enhance our value propositions for our five specialty growth platforms, whether it be texturizing, sugar reduction, fortifying with proteins, or food systems, or what we call our clean label, or clean and simple portfolio. Dividends, we offer an attractive dividend yield that's approximately 3 percent currently, and we do intend to increase our dividend payout proportionally with our increases in earnings per share. And we do opportunistically look to buy back shares when we believe our shares, where the company is trading at a value below its intrinsic value, and this past first half, as an example of that, we purchased at $83 million of shares. And in prior years, we purchased when we thought the shares were undervalued.

So, that's a little bit about who we are and our capital allocation strategy. And I'll now sit down, and Ben, over to you.

Ben Theurer: Take a seat. Thank you very much for the introduction. So maybe, obviously, you reported results just a few weeks ago, and it was a very strong first half. What have you seen more recently in the markets, and how comfortable are you with what you've laid out, in terms of your guidance anyway, for the third quarter and second half?

Jim Zallie: Yeah, so you know, the earnings call was on August 9, I think it was, and here we sit about a month later. And I'll let Jim make some comments as well, but the world continues to be a challenging place, and I think that since earnings, we put together what we consider to be a pretty balanced view for the earnings outlook for the full year. We're seeing continued strong ability to price through inflation through our pricing centers of excellence that we have stood up in all regions. And we've been focused on dynamic in-year pricing, in addition to what we pass through in relationship to contracting, and we still believe that that's going to serve us well as we go forward.

We're seeing some benefits in relationship to freight, for example, that are some of the positives as it goes -- as we go forward into the second half. From a standpoint of incremental headwinds that have surfaced or things that are watch-outs, we spoke on the earnings call about Europe. And obviously, since then, the gas flows through Nord Stream have come to a halt or have slowed, and we're all watching to see what that means as we head into the winter as it relates to allocations, potentially, to our plant in Germany. So, we have one plant in Germany, and that plant produces products that represent 25 percent of our revenues in EMEA. And so, if that was to go on allocation, that would be something that we have not factored into the outlook for the full year. But as of right now, nothing has actually surfaced, but it's a watch-out.

Secondarily, I think we're just watching the degree or magnitude of inflation and how that's going to roll through and ultimately impact consumers, and potentially impact volumes in quarter four. We still see volumes from the standpoint of our book of -- our order book in quarter three being strong. Quarter four, we don't have that visibility yet, but it's logical to assume that some customers, some companies may be wanting to be mindful of their working capital position, may reduce their working capital towards the end of the year, or consumers might cut back, especially in Europe, which is obviously getting hit very hard with discretionary spend with how much they have to spend on electricity. That's a watch-out right now. We're not seeing it because quarter three order book is strong, but it's logical to have that as a watch-out for quarter four.

The other thing is, and this is public information, on August 1 -- so August 9 with the earnings call, we really didn't get asked about this. But we have a plant in Cedar Rapids, Iowa, which produces industrial starches, primarily for papermaking. It goes into uncoated freesheet as well as corrugated boxes, etc. And the union has went on strike as of August 1, and we're entering, I guess it's the sixth week now of that strike. We're operating the facility with temporary workers. We have a network of corn wet milling plants, so we leverage talent and experience, and we are operating the facility. We've been operating it throughout the month of August, and now as we enter September. But that is something that we're going to monitor, and hopefully, we'll be able to reach an amicable settlement here in the coming weeks and I put that issue behind us for ourselves, as well as the employees of that plant.

And lastly, I guess, everybody's been seeing on the news the terrible flooding in Pakistan. So, we have a business in Pakistan. About 30 million people are implicated. The good news is that we have two of our largest facilities are in Punjab Province, and that province has been less impacted, and those plants are not impacted. The third plant is in the south in Sindh Province. It is also not impacted, but we're concerned, and we've secured all the corn we need. The concern is the impact on our customers and the impact on inbound and outbound transport, and so that's something that we're watching closely right now. But hopefully the flooding subsides, the economy can get back to some normal operations.

But those are really -- it's a quick around-the-world update, I guess, since we provided our earnings guidance, so some good news from the standpoint of strong pricing that we believe will continue, freight diminishing, but some of those watch-outs.

Ben Theurer: Actually, on pricing, just to stay on that topic, some of the discussion has shifted into trade-down consumers and trying to push back on pricing. And we've seen certain product categories, i.e., plant-based meats, for example. They've called out very prominently how the competition against real meat has gotten tougher, consumers are trading down. What have you seen amongst your customers, and is there differentiated, thought around, pushing back on pricing between what might be a more of a low-cost core seller of products versus more of a premium product seller? Have you seen any shifts here? And how do you think about pricing and the needs of pricing into 2023?

Jim Zallie: We haven't seen, yet, any reductions in volume related to or pushbacks on pricing necessarily related to the magnitude of inflation. What we're seeing -- the thing to reflect on when you consider Ingredion is the breadth of products that we supply that go into branded packaged goods, as well as private label. Private label, we're seeing our business to private label manufacturers increase. And starch is one of those ingredients all year that has been in very short supply, and so -- and it's essential. It's an indispensable ingredient, and so we're seeing still strong demand for it. And our customers are more concerned with product availability than they are with price today.

And so, that's really where our focus is, and then also, working with customers who are trying to formulate products for their customers, the consumers, that are more affordable. So, we're working very much with our customers to replace egg protein, to replace dairy protein, which are in short supply, or the prices have went up significantly from an affordable formulating standpoint. And so, definitely, we're observing our customers concerned about the consumer and what the consumer can afford. But the unique product categories that we supply, we don't see any pushback on pricing or product demand right now. We have a watch-out for quarter four on volume, but not necessarily on pricing.

Jim Gray: I'd just add that for many years, our customers are very aware of our underlying raw material cost chain. So, whether that's corner tapioca or whatever, as it changes, it could be that in a particular market, that cost is higher because of some foreign currency impact locally, then we're increasing the price or passing through the cost of that raw material. And corn is up this year versus last year, and so there's both an expectation of the pricing that we executed in the fall for this year. And then, even going forward, still corn will be up, so I think that we're communicating that to customers.

Jim Zallie: And our and our customers understand that agricultural commodity costs are a primary input cost, and thus the need for us to recoup that with price increases, and so they understand that. The degree of price increase that I think we're looking at as we head into next year will be much less than what we experienced this past year, hopefully, hopefully, right now.

Ben Theurer: Sticking on that topic, actually, maybe we'll take one question we had for later, now. You also talked about the hedging policy and how you've changed the hedging within the raw material exposure, particularly on the corn side. Maybe you want to remind us and refresh us, what are you doing different now, and how that gives you more visibility, short to medium term?

Jim Gray: Yeah, we used to hedge about two-thirds of our corn then rely upon the open position on the corn and the sale of the coproducts, which is the corn oil, the gluten meal, or the feeds to kind of naturally offset. And as we've looked back through kind of the back half of '18, '19, '20, between other global trade wars, demand from China, different shipping patterns of global ag, we just wanted to expand that. So, now we're covering anywhere upwards of 80 to 90 percent of our corn, and then we'll have to hedge part of the coproducts to basically balance that hedge out. And when it's done this year is obviously, after February 23, there was a constraint, or an expected constraint, in the global corn market because Ukraine was such a large provider of corn into the global market. Corn prices shot up, and we were somewhat significantly insulated in the in the back half of this year because of that expanded hedging policy. So, we're just trying to bring consistency, more greater consistency to our profit outlook.

Ben Theurer: Perfect. Now more of a technical question, shifting gears a little bit. Sugar reduction is one of the key items you have talked a lot about. And there's obviously -- we're seeing it how certain customers just work on trying to get down sugar, but there's a replacement factor. There's a volume factor. There's a lot of things that need to be taken into consideration. So, can you give us or guide us maybe through a couple of examples of how you work with your customers in between what is your own innovation, how you work with the customers to actually achieve the goal of what might be a sugar reduction or whatever, 40, 50, 60 percent?

Jim Zallie: Yeah, so you had the, I think, good fortune of joining us for Investor Day on June 2 and getting a chance to see some of the work that we do at our -- for our largest Innovation Lab, which is Bridgewater, New Jersey, our world technical headquarters. And we really work with customers from a standpoint of cocreation and understanding, what is it that they want to achieve? What whitespace of innovation are they targeting for their product when it comes to sugar reduction? Is it a product that will be sugar-free, or no added sugars, which is typically less than 0.5 grams of sugar per serving? Or is it sugar-reduced, greater than 25 or 30 percent sugar-reduced? And so, first it starts with a concept development, and then we'll also share what our consumer market insights are telling us for that particular product category, so we actually provide that marketing insight to work with customers and talk their language.

At the same time, we'll work on prototype development on their behalf, often times with them, with the customer in our labs, and we're literally cocreating and formulating together, and basically testing those products with trained sensory panels. So, as it relates to sweetness, we've developed a language to characterize sweetness, which we call a sweet tabulary. We also have a language around texture, which we call a texicon. And so, we're profiling products related to how the sugar-reduced formulation or sugar-free formulation mimics both the sweetness profile, as well as the mouthfeel characteristics of the sugar-containing or added-sugars containing product. And so, that gets us very close to the customer, and that's really how we work with customers.

What we're leveraging is we're leveraging a market leading position with a very on-trend product, which is a high-intensity, natural sweetener called stevia. We have three types of stevia and a whole portfolio within each one, which is leaf extract stevia; something called bio-converted leaf extract stevia, which is treating leaf extracts with enzymes to get the best tasting stevia constituents; and then a wholly sustainable product derived from fermentation, which is what we call reb M, and that is a very, very clean tasting product. So, the category of stevia has evolved unbelievably in the last 10 years. The first products that you may have tasted 10 years ago, even five years ago, had licorice off taste. The products today are so much better and really closely resemble sugar in many ways.

So, we're formulating with our customers a variety of products. We could formulate a sugar-free beverage, a reduced-sugar beverage, or a sugar free-yogurt, for example, all with a combination of our high-intensity natural sweeteners, polyols, as well as mouthfeel enhancers, all to replace sugar.

Ben Theurer: And within light of that, and you've mentioned that you obviously have to serve different tastes globally, and there are different taste profiles, how much do the different centers of expertise, so to speak, work together? Like how do you connect what you have in Asia with South America, with Europe, North America? What are the differences? And have you seen any change in consumer taste preferences over the last couple of years pivoting towards a certain direction? Or how do you think about the need to adapt on regions?

Jim Zallie: Yeah, so I think that clearly, one of the things that has emerged from the pandemic is consumers' focus on nutrition, health, and wellness. And so, any of the comorbidities that contributed to some of the serious impacts of COVID, people are very concerned about those, whether it be diabetes, whether it be concerns around obesity, et cetera. So, we're finding that sugar reduction and/or protein fortification, anything around nutrition, health, and wellness, consumers are very, very focused on. Our 32 Idea Labs communicate continuously as part of an innovation network, and we actually have digital links between labs where we're sharing recipes. And in fact, we, during Investor Day, I believe we did a live linkage of a formula, or a recipe, that was being developed simultaneously at our Bridgewater labs, as well as our Hamburg, Germany labs, along with a customer, live. And so, we were actually formulating a product in a digital cocreation. It's great to see that we're getting back together again, in person with customers. But the pandemic taught us that we can actually do some amazing things, just through digital connections as well. So, we leverage all of that and share best practice on a continuous basis.

Jim Gray: Let me add just that a lot of times, when we're seeing these mega consumer trends moving towards either more nutrition because it's emblematic of better health or wellness, immunity, that pull from the consumers, as reflected through our customers through their marketing departments, I think the one thing that comes out of the pandemic is sometimes you have pushes, right? So, you actually have countries that had weak public health systems, that were very concerned with either the state of COVID plus the comorbidity that Jim referenced, and pushed, and pushed very hard on sugar and sugar regulations.

And so, Mexico being an example where, you know, everything is now front of pack with a black hexagon that calls out the added calories or the added sugar. That has an impact on a brand, I mean when you walk into an XO (Ph) or supercenter and you see that branding. So, we're seeing that a bit more in some countries, where added sugar has become a public nemesis, and so therefore, then, now your consumer-packaged goods companies, your ready-to-drink beverage companies are really forced into solutions, where they say, well, I really need something that's in stevia, or I need something that's kind of a natural, but significantly attacks the added sugar. Because then they can escape excise taxes or added taxes, or they can escape the labeling.

Ben Theurer: You know how they've escaped the labeling? A little anecdote. Just make the packaging so small, you can put the label on it, and then it only three labels. Seriously, they do --

Jim Gray: -- a period.

Ben Theurer: Exactly, (indiscernible) labels, done.

Now put that aside, and of the interest of time, just a couple of other things. And you still lexicon have it in here, obviously, the priorities between investments, dividends, share repurchases. Why don't you elaborate a little bit on what you're seeing on the needs for CapEx growing from a capacity perspective, where you stand within different expansion projects, and how you balance what is your green/brownfield expansion CapEx versus M&A and where you see opportunities, and where you think you need to further accelerate investments to get to the position where you want to be.

Jim Zallie: Let me start it, and then I'm going to turn it over to Jim pretty quickly. So, one of the things that we shared at Investor Day on June 2 is that one of the things that we have experienced the last couple of years is exceptionally strong demand for our starch-based texturizers. And that has to do with the snapback in food being consumed away from home, hospitality, leisure, food service, quick-service restaurant growth. And so, that demand has been exceptionally strong, whether it be in China, whether it be in Europe or in the US, as people get back to living their lives and traveling, et cetera, along with a higher level of in-store purchases compared to pre COVID for packaged goods, which is more people working from home and consuming products in home. We've seen that as well. So, starch-based -- the demand for starch has been very, very strong.

And one of the things that that has opened our eyes to is the fact that supply chains have been constrained during this period of time. So, I'll give you an example, and it's one of the things that we do share publicly, is ocean freight transit times have increased in some cases 100 days from the time it used to take us to ship something from Asia to the United States or to Europe. And so, that has required us to rethink our supply chains to invest more locally, so we announced a $160 million investment to produce more specialty starches in China. Tomorrow, I'll be part of a commissioning, virtual -- my participation will be virtual, but we're going to have a ribbon cutting, virtual ribbon cutting, or a live ribbon cutting in China for our new modified starch facility. We spent $100 million there, but we're prepared to spend more, and looking to produce more specialty starches, whether they be in Mexico, whether they be in the United States, to have a more sustainable environmental footprint, but a more robust supply chain that's more local, for improved service to customers and to meet the increased demand.

I'll let you comment, then, beyond that, as far as how we're thinking of other capital investments and what kind of returns we look for.

Jim Gray: Yeah. I mean, we're facing kind of really, again, three mega trends, right. So, as countries move more to urbanization, there's more demand for convenience or processed foods. It really drives texture, the move towards alternative plant-based proteins and nutrition as well as in sugar reduction. So, against those three growth platforms, we really have organic investment opportunities around the globe to continue to build our market share and our competitive position.

And so, we invest anywhere between $90 and $100 million a year in organic capital. And as Jim just mentioned, at our investor day, we announced the $160 million towards our texturizer capacities, because we're just -- we're up against limited headroom available for future growth. We need to plan 1, 2, 3 years out. We're looking at returns now that are well above -- we hope to get ROIC that's greater than 10 percent by year two, and we're looking at IRRs that are kind of in the high teens, mid-20s right now.

Jim Zallie: The $160 million is between now and 2024 for just the starch-based texturizer.

Jim Gray: To start, yeah.

Jim Zallie: For our Clean and Simple, we brought forward the capital investment in Indianapolis for our Clean and Simple franchise that commissioned in May of this year. And one of the things that Jim and I do is, we have to play referee with the very ambitious general managers and the chief innovation officer, who are vying for capital. So, the good news is, we're not at a loss of ideas; we're just trying to make sure that we prioritize the investments with the highest returns first.

Jim Gray: And I think it goes to say, so we've highlighted that we've put together -- put to work almost $700 million of growth capital --

Jim Zallie: -- five years.

Jim Gray: -- and then in the last five years, and probably only $200 million, $250 million of that is actually in our P&L with results. So, from that $400-plus million yet to come, that P&L result will be showing up in the next one, two, three years --

Jim Zallie: Contributing positively to our P&L.

Jim Gray: Yeah, so driving revenue capacity growth, driving positive incremental profit income growth, which will be mostly plant-based proteins, continued growth in sugar reduction, plus some of what we've done in food systems. So, we've really kind of -- and that's reflected in our four-year outlook and why we're quite confident that we can get to that operating income growth that we think is in the high single digits. You know, add the dividend on top of that, and we think we can deliver a fairly attractive TSR.

Ben Theurer: Which, in the end, is also aligned with the focus on the specialty side and actually getting that to the, I think, 40 percent level by 2025.

Jim Gray: Forty percent of revenue and greater than half of our profit pool, right, which we think then is much more insulated, and we've got a much deeper competitive moat around the future of the business.

Ben Theurer: And less (indiscernible) volatility.

Jim Gray: Well, that's the hedging on the other side. Still got to watch that.

Ben Theurer: Perfect. All right. Well, thank you very much, Jim and Jim. Good to having you on stage, and thanks for coming.