# 2022 CAGNY Presentation Transcript

**SLIDE #1**
Hello, and welcome to Ingredion's 2022 CAGNY presentation. For those of you not familiar with Ingredion, and who might be hearing about our company for the first time, or for those of you who know us and are looking for the latest update on our strategy and plans, we hope you leave today with a clear impression of a company that is purpose and values-driven, customer and growth-focused, and that is transforming itself with an expanded solutions capability and opportunity set that aligns with sustainable trends that are shaping the global food and beverage industry.

**SLIDE #2**
Before starting, I need to mention that our comments today may contain forward-looking statements that will be covered by safe harbor provisions.

**SLIDE #3**
I'm Jim Zallie, President and Chief Executive Officer of Ingredion and today I'll be joined by Jim Gray, our Executive Vice President and Chief Financial Officer.

**SLIDE #4**
Ingredion is a global leader in the food ingredient space that takes plant-based raw materials and turns them into highly functional, specialized, and increasingly, customized ingredient solutions for food manufacturers around the world. We have a diversified customer base with more than nineteen thousand customers in more than one-hundred and twenty countries and approximately seventy percent of new product launches in the food industry in 2021 contained the types of ingredients we produce. We co-create with our customers, both in-person in our thirty-two idea labs around the world, and virtually at our creative culinary studios, leveraging the talents of our more than five hundred food technologists and scientists that are actively formulating and developing new ingredients every day.

**SLIDE #5**
Every day, we strive to live our purpose - to bring the potential of people, nature and technology together to make life better for all stakeholders. This is true through our sustainability commitment to have 100% of our six priority crops be sustainably sourced by 2025 as well as by our commitment to diversity, equity and inclusion and our concern for employee well-being. Additionally, we're mindful of the products we produce and sell, and the impact they can have on the environment and the enjoyment of consumers and the impact to overall health.

Think of Ingredion as 1) A leader in Texturizing with the broadest and deepest portfolio of specialty starches from corn to potato to tapioca to rice and a growing portfolio of hydrocolloids and texturizing fibers; we have unmatched understanding of how texture impacts taste. And we believe texture will increasingly be as important as flavor to drive consumer preferences.

2) We are also a rapidly emerging supplier of pulse-based proteins with a range of protein flours, concentrates and isolates that are used to formulate nutritious alternative dairy and alternative meat products and fortify healthy snacks, baked goods, and sports nutrition supplements.

3) Third, we are also the leader in high-intensity natural sweeteners for sugar replacement, a very large and rapidly growing opportunity.

**SLIDE #6**
Over the last six years, we've steadily increased the percentage of higher value, higher-margin specialties in our portfolio and specialties now represent thirty-three percent of our total net sales, up from twenty-four percent in 2015.

We have market-leading specialties positions with high barriers to entry. We've enabled specialty growth through organic capital investments and accelerated it through strategic M&A.

Our total sales have increased by almost a billion dollars and specialties represents over eighty percent of the increase. In line with our long-term profit growth outlook, we expect our overall net sales to grow on average, three percent annually through 2025 with Specialties growing mid-to-high single-digits reaching 40% of the portfolio, while our stable, Core ingredients exhibit modest to low growth and are managed for margins and strong cash flow.

**SLIDE #7**
The ability to pursue specialties growth is supported by a stable, cash-generating, globally diversified Core sweetener and starch product portfolio. These ingredients, which include liquid sweeteners, dextrose for pharmaceutical applications, polyols for personal and home care, and starch-based strength additives for corrugating and papermaking applications have important relevance in the local markets where they're sold.

Outside of the U.S., comprising 65% of the Core, these ingredients are projected to grow with population growth over the next four years and at an accelerated rate of that in EMEA where we have a very successful and growing business in Pakistan.

In the U.S. and our other large Core ingredients markets, we have deep experience in managing volatility through our global hedging practices, pricing, contracting, co-product and working capital management.

**SLIDE #8**
An example of our Core ingredients business model at work shows that we are able to pass through corn cost inflation through pricing. While the timing of this pass-through varies by country and contract type, it is generally three to six months where we do not contract annually. For example, in Brazil, you can see that our average selling price moves with corn costs on an approximate quarter lag.

In the United States and Canada, where the majority of customers contract annually, approximately fifty-five percent of our Core customers' agreements pass through, which is essentially a tolling agreement where the customer is responsible for managing corn cost exposure. The remaining forty-five percent of customers are based on a firm price where Ingredion manages the corn cost exposure through well-established hedging practices which mitigate volatility while also taking advantage of the natural hedge between gross corn and co-product pricing movements.

**SLIDE #9**
Ingredion's product portfolio has been significantly broadened through more than $700MM of organic growth investment and M&A over the last four to five years. Over this time, we've added hydrocolloids, and rice starch to our texturizing portfolio while increasing tapioca starch capacity in Thailand and more than doubling our modified food starch capacity in China.
We've built a very respectable position in plant-based proteins in the US and Canada with significant headroom for growth and we acquired, partnered and invested our way to being the market leader in high-intensity natural sweeteners with a rapidly growing position in Stevia and Reb M.

In addition, we've enhanced our capabilities in the U.S. and Europe to formulate more customized ingredient systems for a range of customers. Essentially, we're not the same starch and sweetener company we were four to five years ago with the same growth prospects. Our solutions and opportunity set has been expanded and transformed.

**SLIDE #10**
And this is opening up new possibilities for us to innovate with and for our customers. As an example, I was recently asked by a customer about our new Customer Value Proposition – "Be What's Next" and whether I could give an example of a food innovation that we could enable now that we couldn't four to five years ago. And I thought about a very large, global market segment where we have never had an ability to play and win. I answered the question by saying, today Ingredion could enable a low calorie, sugar-free, dairy and animal-free, plant-based, clean label and indulgent ice cream. We now have the plant-based protein to replace dairy protein, we have the natural high-intensity sweetener to provide taste while replacing sugar and calories along with the hydrocolloids to control ice crystal formation and impart a rich, creamy indulgent mouthfeel. This is just an example of how our opportunity set has been widened. It's also worth noting that in this industry, four to five years to commercialize new ingredient development is not long and that we believe the investments we have made position us for solid growth over the next four years.

**SLIDE #11**
So, we play in large and growing markets, and we're combining our growth platform offerings in Texturizers, Clean and Simple Ingredients, Plant-Based Proteins and Sugar Reduction and Specialty Sweeteners to build our fifth growth platform, a customized capability called Food Systems.

**SLIDE #12**
This capability, which was established with foundational acquisitions of TIC Gums in 2017 and last year with Ka-Tech allow us to appeal to a growing customer need, that for simplified batching and reduced labor handling. We're seeing this demand from not only small customers but increasingly larger customers. We believe formulated systems can grow double digits and offer higher gross margins and are less capital intensive and thus deliver attractive return on invested capital.

**SLIDE #13**
From an individual ingredient category standpoint, the two most significant global mega-trends where we have invested are plant-based proteins and sugar reduction. Plant-based solutions are supported by consumers that are mindful of the environment, animal welfare, sustainability, and digestive health.

Sugar reduction is a global goal on the part of not only consumers but governments and health professionals to improve metabolic health and curb the rise in obesity and diabetes. The sugar reduction products we sell allowed consumers to replace over one billion pounds of sugar last year, or the equivalent of over one point-eight quadrillion calories.

**SLIDE #14**
We are excited about the opportunities and are bullish on the prospects for plant-based proteins. The market is $10 billion and is projected to grow high single digits with one-third of consumers seeking to increase their consumption of plant-based foods.

And, our opportunities are not limited to one application like alternative meats but are more diversified across very large segments like alternative dairy, healthy snacks, fortified bakery and sports nutrition. Our project pipeline with customers remains strong, with new product launches planned in 2022 driven by consumer demand.

**SLIDE #15**
Sugar Reduction is also a significant opportunity for us. The total addressable Sugar Reduction ingredient market is currently estimated at $5 billion dollars growing to nearly $7 billion dollars by 2026 and is growing high single digits.

We are the global leader in natural high-intensity sweeteners following our acquisition of PureCircle in 2020. PureCircle has been a great turnaround story with net sales up over sixty percent in 2021 off an annualized 2020 base. Our partnership in 2021 with Amyris, a leading biotechnology company, to manufacture and market a great-tasting Reb M sweetener produced sustainably by fermentation rounds out our Stevia portfolio, forming what we call a "perfectly sweet trifecta" of offerings in extracted, bio-converted, and fermented Reb M.

**SLIDE #16**
Validating our belief in the differentiated value propositions for specialties and demonstrating their resilient growth potential, these products have grown through the twists and turns of the last two pandemic years. Last year, Specialties grew 17% driven by both strong volume and price mix and during the most challenging period of the pandemic in 2020, our Specialties still grew low single digits. Growth was evident across the five growth platforms and across all four regions.

**SLIDE #17**
Speaking of the pandemic, one of the achievements that we are particularly proud of is the way our go-to-market and technical support teams have pivoted and adapted to engage and co-create with our customers. This gives us confidence in our ability to be part of our customers' new product launches and in many ways increases our availability, speed and efficiency to connect.

2021 saw approximately two thousand five hundred more virtual engagements versus the prior year. In-person engagements also increased over thirty percent as vaccine availability increased and we were once again able to safely meet with customers. This resulted in over fourteen thousand customer engagements during the year. Around the world, we have 160 Technical Service employees engaging with customers daily. They conduct live digital sessions from our 32 Idea Labs, helping customers and providing Ingredion solutions in real-time. We are particularly encouraged by fourteen new plant-based protein product launches that originated from our Ingredion Idea Labs in 2021.

**SLIDE #18**
I've already discussed three of our four strategic pillars to forge growth including, our purpose-led, people-centric culture, our specialties growth strategy and our commitment to drive Commercial Excellence.

**SLIDE #19**
Our last pillar focuses on Cost and has served us extremely well over the last three years delivering $170 million dollars of run-rate savings, a thirty-six percent increase over our original Cost Smart savings target. Our focus on cost and efficiency will continue, and Cost Smart will now evolve into Cost Competitiveness driven by Operational Excellence. Jim Gray will describe how Cost Smart helped us develop the muscles to pursue continuous cost reduction going forward. The program enabled us invest nearly $10 million dollars of savings back into R&D and digital enablement.

**SLIDE #20**
As demonstrated over the last six years, value-creating M&A has been and will continue to be an important part of our sustainable growth strategy. Our focus will be on opportunities that enhance the value propositions of our growth platforms, enable us to buy growth and acquire talent. We have a

track record of investing strategically in opportunities that deliver a return well above our weighted-average cost of capital by integrating quickly, delivering synergies, and investing capital with attractive returns. M&A will continue to play an important role in our transformation.

With that, I will turn it over to Jim Gray who will update you on our four-year Outlook and our focus on total shareholder return.

**SLIDE #21**
Thank you, Jim.

Let me begin with a brief recap of 2021's performance

**SLIDE #22**
We completed 2021 with net sales growing 15% year over year, up $900 million dollars largely driven by over $600 million dollars of price mix increases, bringing our total net sales to $6.9 billion dollars. As Jim highlighted earlier, our business model passes through the change in raw material costs. When the cost of corn rises rapidly, as we experienced in 2021, our operating margin percentage may decrease. We view the growth in operating margin dollars as a more meaningful metric of our business performance.

And our adjusted operating margin dollars grew 4% year over year, as we absorbed and overcame almost $900 million in cost of sales increases.

Adjusted earnings-per-share grew seven percent year over year to $6.67 cents in 2021.

**SLIDE #23**
Cost Smart, our three-year cost reduction program, has beat our $170 million dollar savings objective. Our global team stayed focus throughout the pandemic to drive large-scale optimizations of our production assets, restructure our warehouse network and reorganize our workforce and approach, standing up and expanding three shared service centers globally.

Our organization has developed the capabilities and mindset to continuously drive cost reduction.

**SLIDE #24**
As we look forward, Operational Excellence will be central to managing costs, especially in our current environment.

Our Operations team continues to progress a better balance of our manufacturing network, debottleneck and improve efficiency in order to drive greater capacity at a lower cost.

Recognizing that greater volatility is here to stay, we are assessing pricing more frequently, updating contract terms and embarking upon expanded hedging practices to reduce value at risk.

Cost Competitiveness, our updated cost reduction initiative, embraces thousands of individual activities undertaken by our team members to recognize that costs are deliberate resource choices and being mindful of these choices can reduce costs.

**SLIDE #25**
Turning to our four-year outlook, we anticipate two to four percent net sales growth on average annually over the horizon.

Our annual average adjusted operating income growth is expected to be between seven and nine percent.

Our Outlook assumes real operating margin dollar growth. We expect to manage pricing year to year to recover changes in raw material costs. Our actual margin results may vary quarter to quarter due to raw material cost moves and foreign exchange fluctuation.

As the pandemic has impacted volumes, costs and pricing, we have approached Cash Flow from Operations as an average for 2020 and 2021, which is just over six hundred million dollars per year. This run rate is in-line with our historical cash generation, and our expectations for cash flow generated over the next four years. Cash Flow from Operations is expected to grow as adjusted Operating Income grows.

Our capital allocation prioritizes organic Specialty growth. As we note here, we have been and anticipate investing nearly $100 million dollars each year into organic Specialty growth opportunities with expected returns above our weighted-average cost of capital.

**SLIDE #26**
As Jim highlighted in his comments regarding our Specialty ingredients, we anticipate that Specialty net sales growth, supported by a stable Core, will contribute to average annual net sales growth of 2 to 4%

We expect that our current Specialty portfolio will grow net sales organically in the mid-single digit to high-single digits on average annually.

To call out, we have already made the investments to support Specialty net sales growing to 40% by 2025.

Many of our Investors and analysts have asked if we could provide more clarity regarding how our Specialty investments will show up in our expected results.

**SLIDE #27**
Here we are sharing for each of our Region Operating Segments, the net sales growth expectation, the proportion of net sales attributable to Specialty or core ingredients and our expected change in the Region's Operating Income margin.

Let me note that for each Region, we are at an elevated position of what we would consider a rising corn cost market. As corn costs rise, our price increases are chasing that inflation. When corn costs fall, our price declines tend to lag and our margins expand.

For North America, we anticipate average annual net sales growth of 2 to 4% and Operating Income margin to expand 30 to 50 basis points annually driven by an increase in Specialty Texturizing ingredients, as well as, the continued growth of plant based proteins.

We anticipate that plant-based proteins net sales will grow from $16 million dollars in 2021 to over $150 million dollars in 2025.

As we continue to ramp up production, we expect to hit breakeven in late 2023. We expect that plant-based protein operating losses will improve and that this business can generate mid teen's operating income margin by 2025 which represents a fifty-to-sixty million dollar swing in operating income over the next four years

We expect South America net sales to reflect continued growth in Brazil and Andean, and over the next four years, recover the net sales reduction created from the contribution of Argentina to the Arcor JV.

**SLIDE #28**
In Asia-Pacific, we expect average annual net sales growth of 6 to 8% driven by growth in Pure Circle, as well as expansion of Specialty Texturizers in China.

Asia-Pacific operating margin expands at a greater pace as Pure Circle reaches higher margin levels expected in our acquisition case.

In EMEA, we anticipate net sales growth in the mid-single digits as our Europe team drives clean label texturizers and expands upon KaTech's food systems growth.

Already high Operating Income margins are anticipated to remain relatively flat. As we go forward with specialty growth, as well as changes to our core ingredients in our Region Operating Segments, we will provide updates via this outlook format.

**SLIDE #29**
From our remarks, we hope that you take away that we are focused on executing our business strategy and believe strongly that Investment in the Business, at attractive rates of return, will lead to greater net sales, operating income and cash flow growth.

We are also committed to driving greater total shareholder return.

We are committed to a dividend payout in line with growth in adjusted earnings per share. Our current dividend payout ratio is approximately 40%.

We consider share repurchases after funding our growth investments and dividends. And we will access our strong balance sheet, when appropriate, to capture opportunities to deliver higher total shareholder returns.

**SLIDE #30**
We have demonstrated our commitment to creating attractive shareholder return by increasing our dividend every year since 2012. Even through the Covid pandemic, our products have proven to be resilient, and our business continued to generate cash which we have returned to shareholders thru increases in the dividend.

We continued to invest in growth through both organic capital investment and strategically through value-enhancing M&A to accelerate specialties growth all with a disciplined approach to ROIC greater than our current WACC.

And during the last four years, we have repurchased over $660 million of common stock outstanding.

That concludes my comments on our financial outlook and shareholder value creation.

Let me handoff to Jim.

**SLIDE #31**
Jim just discussed how we think about capital allocation to create value for shareholders. Before closing, I want to remind everyone of our Driving Growth roadmap for value creation for our customers. It's

organized around our five growth platforms and underpinned by our culture and a strong belief in the importance of controlling and certifying the supply chain, while co-creating with customers to enable consumer-preferred innovation. As we do that, we will grow and we will create value for our customers, for our shareholders and for all stakeholders.

**SLIDE #32**
And we want to grow responsibly operating within a clear ESG framework that we developed as part of our 2030 All Life plan. This includes a focus on the communities in which we operate and giving back, reducing water stress in our agricultural supply chain and protecting human rights, to name a few.

We are very proud of our progress against the All Life plan in 2021 and we are committed to deliver against our 2030 goals.

**SLIDE #33**
Thank you for joining us and thank you for your interest in Ingredion.