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INGR - Q2 2013 Ingredion Incorporated Earnings Conference Call

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OVERVIEW:

Co. reported that 1H13 net sales were $3.2b, reported operating income was $315m, and reported EPS was $2.61. 2Q13 net sales were $1.6b, reported operating income was $140m, and reported EPS was $1.20. Expects full-year 2013 EPS to be $5.10-5.40.

CORPORATE PARTICIPANTS

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Cheryl Beebe *Ingredion Incorporated - CFO*

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Brett Hundley *BB&T Capital Markets - Analyst*

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PRESENTATION

Operator

Welcome to Ingredion's second-quarter 2013 earnings conference call. At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. Instructions will be given at that time.

(Operator Instructions)

As a reminder, this conference is being recorded. I would now like to turn the conference over to our host, Mr. Aaron Hoffman, Vice President of Investor Relations and Corporate Communications. Please go ahead, sir.

Aaron Hoffman - *Ingredion Incorporated - VP of IR and Corporate Communications*

Great, thank you, Marla. And good morning and welcome to Ingredion's second-quarter 2013 earnings call. Joining me on the call this morning are Ilene Gordon, our Chairman and CEO, and Cheryl Beebe, our Chief Financial Officer. Our results were issued this morning in the press release that can be found on our website, Ingredion.com. The slides accompanying this presentation can also be found on the website and were posted about an hour ago for your convenience.

As a reminder, our comments within this presentation may contain forward-looking statements. These statements are subject to various risks and uncertainties. Actual results could differ materially from those predicted in the forward-looking statements, and Ingredion is under no obligation to update them in the future as or if circumstances change. Additional information concerning factors that could cause actual results to differ materially from those discussed during today's conference call or in this morning's press release can be found in the Company's most recently filed annual report on Form 10-K and subsequent reports on Forms 10-Q and 8-K.

Now I'm pleased to turn the call over to Ilene.

Ilene Gordon - *Ingredion Incorporated - Chairman and CEO*

Thank you, Aaron, and let me add my welcome to everyone joining us today. We appreciate your time and interest. As we discussed with you several weeks ago, our business is under pressure from a number of macro-economic forces. These headwinds caused us to deliver a down quarter and necessitated a downward revision to our 2013 outlook on July 14. This is disappointing to our management team, which prides itself on delivering against our commitments. We have a great track record established over many years, and we are taking the necessary actions to manage through these challenges.

Our business model, which emphasizes growth opportunities and strong risk management, remains intact and is helping us deliver good results in North America, Asia-Pacific, and EMEA, in spite of their local challenges. However, South America, particularly Argentina, poses a unique set of issues that have arisen rapidly, and thus, are difficult to offset in the short-term. Our South-American business is in a tough position this year. Cheryl will walk you through far more detail. Our team in the region is working diligently to manage the economic environment as well as can be expected.

Now let's spend a minute on each of the regions and our second-quarter business performance. In North America, in spite of low sugar costs, high corn prices, and a lackluster consumer environment, our business delivered another good quarter. This capped off the strongest first half in the region's history. We were able to accomplish this through ongoing cost-reduction initiatives, as well as mix improvement from the deliberate exit of some low margin accounts. At the same time, we also continue to pass through appropriate pricing to cover our input costs throughout the region. And our risk-management strategies, which include hedging of commercial contracts and good inventory management, has helped mitigate the impact of the commodity situation. While the back half of the year isn't expected to be as strong as the first half, we still anticipate a flat to up year, which is a reflection of the good planning and execution by our management team.

Clearly, South America is the challenge this year. The economic situation in Argentina and Brazil has worsened. In Argentina, we are facing a cost squeeze, and sweetener pricing is constrained. At the same time, Brazil's economy remained soft, and our sales to the brewing industry are down. Cheryl will provide you with much more color around the overall situation.

The Asia-Pacific region continues to deliver solid bottom-line results, as overall economic activity remains robust. Excluding the exit of our Chinese joint venture, our sales would have been flat. As we've previously discussed, the challenge in South Korea is high corn costs and lower sugar prices, while the economy has slowed bit. And, the Europe, Middle-East, Africa region delivered strong sales results, driven by good volume and price mix. We are pleased by the ongoing strong performance of our European specialty starch business; however high costs, particularly for specialty corn which is sourced from the US, has impacted the region's profitability. The other cost headwind was in Pakistan, where the energy infrastructure continues to pose cost challenges for us and our customers. We continue to actively manage the situation, using liquid propane gas and an investment in cogeneration.

Overall, in spite of a tough environment in South America and especially Argentina, our business is performing well. The business model is holding up, and we remain confident in our long-term commitment to deliver 10% to 12% EPS growth. Cheryl?

Cheryl Beebe - *Ingredion Incorporated - CFO*

Thank you, Ilene. Good morning, everyone. As I pointed out, on the first-quarter earnings call, let me remind you of a few items from last year that impact comparability in our second-quarter and first-half results. The 2012 financial numbers include the now exited industrial starch joint venture in China and the closure of our Kenyan plant. The net sales impact for the second quarter was $7.7 million and $2.1 million for the Asia-Pacific and EMEA regions, respectively. For the first half, the net sales impact to these regions are $12.6 million and $7 million, respectively. At the operating income level, for both the second quarter and the first half, the impacts for each region are minimal.

As we look at the second-quarter income statement highlights, net sales were roughly flat at $1.6 billion. Gross profit dollars were $276 million, down $19 million, and gross profit margins declined by 120 basis points. While price mix was positive, gross profit was down, reflecting increases in raw materials, energy, and labor costs. Reported operating income in the second quarter of $140 million for the Company was down $13 million, or 8%. Last year's operating income number included $15 million of restructuring impairment and integration charges.

Adjusting last year's numbers up by the $15 million, the operating income decline would be $28 million, or down 17%. The reduction in operating income is driven by South America, which was down $30 million in the second quarter. Reported earnings per share were $1.20 in the second quarter at the high end of our updated guidance issued a few weeks ago. This compares to reported earnings per share of $1.40 in the second quarter last year and adjusted earnings per share of $1.33. There is a fairly large tax impact in these figures, which I will address in just a moment.

Turning to the second-quarter net sales bridge, sales were roughly flat for the Company, and we saw a positive price mix of $78 million, which was essentially offset by a negative $52-million impact from lower volume and a negative impact from foreign exchange of $28 million. This is the 11th quarter in a row of positive price mix for the Company. As we look at the sales variance by region in the quarter, North America is up 3%, or $27 million, on a positive price mix of 6%, offsetting the negative 3% in volume. South America is down 8%, or $28 million, on weaker foreign exchange of negative 7% followed by a 6% decline in volume. While price mix was up 5%, it was not enough to cover the FX and volume challenges.

Asia-Pacific's net sales were down 4%, or $8 million, reflecting a 3% decline in volume, weaker price mix of 2%, and a favorable currency impact of 1%. Excluding the discontinued Chinese joint venture, sales would have been flat, and volume would have been up 1% above last year on a comparable basis. For EMEA, net sales rose 6%, or $8 million, on positive price mix of 7% and volume growth of 3%, which was more than enough to compensate for the weaker currency of negative 4%. Excluding the impact from the plant closure in Kenya, sales would have been up 8%, and volume would have been 5% above last year, again, on a comparable basis. For the total Company, price mix was favorable 5%, or $78 million; volume was negative 3%, or $52 million; and foreign exchange was negative 2%, or $28 million. Again, the impact of the discontinued Chinese joint venture and the closure of the Kenyan plant equated to approximately $10 million in net sales.

Moving to the operating income bridge, total Company adjusted operating income was down $28 million. North America continued to show solid growth, delivering $104 million in operating income, up $7 million, or 7%, from $97 million last year. South America's operating income declined $30 million from $47 million last year, to $17 million this year. I will talk more about Argentina and Brazil in a moment. Asia-Pacific's operating income was up 3%, or $1 million in the quarter. EMEA's operating income at $17 million was down roughly $2 million, related to higher costs in the region and higher supply chain costs in the United Kingdom.

Given the impact to total Company operating income performance, let's take a closer look at South America, and Argentina and Brazil in particular. Argentina's decline in operating income is driven by higher costs and represents about 60% of the decline in operating income for the South American region. Corn prices climbed rapidly in May and June, reaching levels about 25% to 30% higher than last year. The cost increase is partially attributable to an increase in the export quota, announced earlier by the Argentine government, which considerably reduced the local corn supply at the key harvest period towards the end of the second quarter. In addition, low sugar prices relative to corn have negatively impacted our HFCS volume.

The Argentine government also placed significant restrictions on natural gas usage late in the second quarter, which caused us to seek alternative sources of energy at higher costs. Energy costs were up about 12% versus a year ago. Argentina is also experiencing rapid inflation, estimated to be around 25% on an annual basis. This is driving higher wage and input costs across the country, and we have seen our labor costs rise at the level of inflation as well in the second quarter. The enormous cost pressures in Argentina come at a time when the country is experiencing significant currency devaluation, around 18%, and government actions to control currency flows into and out of the country. The economic environment has resulted in extraordinary pressure to stabilize consumer prices, and thus, has limited pricing flexibility for retailers, manufacturers, and suppliers in the country. We don't expect the third quarter to show much improvement. The fourth-quarter expectations show a lessening of the margin squeeze, as raw material costs should ease.

Turning to Brazil, while the conditions are not as severe as Argentina, we are seeing the impact of social unrest and economic uncertainty. GDP in the country is projected to be less robust for 2013 than what was expected at the beginning of the year. The social unrest is also impacting currency expectations. The disappointing results in Brazil are due to higher raw material costs; lower sales to the brewing industry, which also impacts utilization rates; and a $4-million charge for the write-down of the value of our Stevia crop, due to a local fungus which impacted the quality. The real has devalued 6% in the second quarter versus last year and is currently at about BRL2.28 per $1, about 10% lower than the beginning of the second quarter. A bright spot in the country was the good performance of our food and industrial businesses. Both saw mid single-digit volume growth in the quarter.

Moving on to the earnings-per-share bridge, we estimate a $0.25-decline in the quarter from operations, driven by the significant challenges I just outlined in South America. Of the $0.25, $0.19 resulted from lower margin, $0.04 from lower volume, and weaker currencies was $0.02. Non-operational items contributed $0.12. A lower tax rate in the quarter of 21.9% compared to a 30.2% on an adjusted basis last year contributed a $0.13 benefit. Lower financing costs contributed $0.01, and a higher share count negatively impacted EPS by $0.02.

Turning to the six months ended June 30, net sales are up slightly, $8 million, less than 1%, to $3.2 billion. Gross profit dollars in the second half were $582 million, down $9 million versus the comparable period a year ago, with gross-profit margin contracting slightly to 18.1%. Reported operating income of $315 million is up $1 million versus last year. The year-ago operating income numbers included $21 million of restructuring, impairment, and integration charges. Adjusting last year's number up by the $21 million, operating income in the first half of 2013 declined by $20 million, or down 6%. South America's operating income was down $32 million in the first half and was partially offset by growth in the rest of the Company. Reported earnings per share were $2.61 in the first half, flat with last year and up $0.02 on an adjusted basis.

From a net sales variance view, price mix contributed $164 million, offsetting negative impacts from volume of $91 million and foreign exchange of $65 million. By region, the negative currency impact to net sales in the first half of 2013 was primarily in South America, representing about 90% of the total company impact of $65 million. As noted previously, weakness in the Argentine peso and Brazilian real accounted for the vast majority of the negative currency impact in the region and for the total Company. North American volume was down 3% in the first half, while South American volume was down 5%, reflecting weak economic conditions in Argentina and Brazil. Asia's-Pacific volume was down 2%, reflecting the Chinese joint venture exit. Excluding this action, volume would have been up 1%.

Europe, Middle East, Africa volume was up 2% in the first half, excluding the impact of the Kenyan plant closure, volume would have been up 6%. Price mix was positive across all regions for the first half of the year, as we continued to demonstrate the ability to appropriately pass through higher input costs. Operating income in the first half largely reflects solid income growth in North America, which was up 7%, or $15 million. South America's operating income declined 35%, or $32 million. Asia-Pacific's operating income grew $3 million, or 8%, and EMEA declined $2 million, or 4%. Corporate expenses were up $4 million, reflecting modest investments in infrastructure and capabilities.

The year-to-date reported earnings per share is up $0.02 from 2012 adjusted EPS of $2.59. We estimate a $0.17 decline from operations, more than offset by the $0.19 benefit in non-operational items. Non-operational benefit in the first half included a lower tax rate impact of $0.19, lower financing costs of $0.03, partially offset by a higher share count, which reduced earnings-per-share by $0.03 in the second half. On a year-to-date basis, the 2013 tax rate was 26%, compared to 31.3% for the same period in 2012 on an adjusted basis.

Cash flow generated from operations was $112 million. Net income contributed $209 million. Depreciation and amortization added $98 million. Changes in working capital used $262 million, primarily in inventory, as well as increases in accounts receivable from higher selling prices. I should point out that the current inventory build is a result of a proactive effort by our North American management team to ensure we have necessary product on hand in the third quarter when physical supply of corn is likely to be tight until the new harvest comes in. We invested $132 million in capital expenditures and paid dividends of $52 million, which reflects our recent 46% dividend rate increase from $0.26 per share to $0.38 per share, which was paid in the second quarter this year. The current quarterly run rate for dividends is approximately $30 million.

Turning to the outlook for the full-year 2013, we expect earnings per share in the range of $5.10 to $5.40, as we communicated in our press release on July 14. Financing costs are anticipated to be in line with last year, and the full-year effective tax rate is expected to be between 27% and 29%. Despite the operating challenges in South America, we still expect to generate strong cash flow from operations of approximately $700 million, consistent with previous guidance. This guidance assumes minimal impact from margin accounts and reflects reductions in working capital from the current level, primarily inventory and receivables. Capital expenditures are forecasted to be between $300 million and $350 million, which is lower than our previous forecast of $350 million to $400 million. As we have said in the past, we will adjust our capital spending to reflect the performance of the business.

From a regional perspective, we expect North America volume in the second half to be in line with the first-half trends, which is down about 3%. This reflects soft trends across the region in most consumer markets and the shedding of lower margin business as part of our North American manufacturing network optimization program. We anticipate that the pricing will continue to cover raw material costs, resulting from last year's extraordinary drought. For the full year, we expect operating income in North America to be flat to slightly up. In South America, we expect a difficult economic environment to persist throughout the rest of the year.

In Argentina, higher costs are expected to continue in the second half, and the ongoing currency devaluation will continue to negatively impact results. We expect volume will remain soft, particularly in the beverage industry, and our ability to take pricing actions will remain limited. In Brazil, we expect soft volumes in the brewing industry to continue through the second half, and recent currency headwinds will likely remain in the second half as well. For the full year, we anticipate operating income will be down significantly.

For Asia-Pacific, we expect volume and price mix will remain stable in the second half, similar to the first-half performance. For the full year, we expect operating income to be in line with last year. In EMEA, we expect pricing to cover input costs for the remainder of the year, and we expect modest volume growth in the second half, despite the impact from having closed our Kenya plant last year and the continued energy supply disruptions we are experiencing in Pakistan. Operating income for the full year in EMEA is expected to be flat to slightly down versus last year.

While it is too soon to provide guidance on 2014, there are several encouraging factors that lead us too be optimistic about next year. First, while volume weakness has been a challenge this year, there are several positive signs pointing to recovery. These include a slowly improving economy in North America, which should increase disposable income, and thus, consumer demand. In addition, the price relationship between corn and sugar in Argentina is expected to improve, which will make our sweetener prices more attractive going forward. Brazil's economy is anticipated to strengthen as the country gets closer to hosting the 2014 World Cup and 2016 Summer Olympics.

Finally, increased volume will drive better fixed cost absorption in our facilities. In the US, there is a strong indication that the US corn crop may reached record levels in terms of production, which spells price relief in the marketplace and should improve volumes for our business. Our capital investments should also provide additional revenue and operating income, specifically our investments in additional specialty starch capacity in Europe and improved utilizations at our newest facility in Pakistan. In summary, while we are facing challenges this year and managing through the short-term disruptions, we are bullish about next year in general, and confident that we will continue on our long-term growth trajectory. And now I will turn it back over to Ilene.

Ilene Gordon - *Ingredion Incorporated - Chairman and CEO*

Thank you, Cheryl. As I've said a few times this morning, our business model, which is reflected in the strategic blueprint, is working. In the case of Argentina, we are in a short-term severe situation that will right itself over time. Elsewhere, in spite of challenges, our business is doing well. Considering the macro headwinds, I'm quite pleased with our perseverance and execution. As Cheryl indicated, the early look at 2014 suggests that we have a much better environment in front of us, and that should position Ingredion for return to our historic, strong growth rate.

From a broader perspective, we remain confident in our business and our long-term outlook. We told you at our analyst day last November that we expected to deliver a 10% to 12% long-term EPS compound annual growth rate off of our 2012 results. That hasn't changed. We also have demonstrated a track record of good stewardship of shareholder capital. Dividend increases and smart M&A point to a management team working towards shareholder value creation. We sit today with a strong balance sheet and a disciplined team executing a clearly refined strategy. We believe this is a position that will benefit our shareholders in the years to come. Taken together, we believe in our prospects and our ability to deliver for our shareholders. And now we are glad to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Brett Hundley, BB&T Capital Markets

Brett Hundley - *BB&T Capital Markets - Analyst*

My first question, I wanted to focus in on South America and Brazil, in particular. So the South American margin for the quarter around 5%.

Cheryl Beebe - *Ingredion Incorporated - CFO*

Correct.

Brett Hundley - *BB&T Capital Markets - Analyst*

You guys noted that don't expect much change in Argentina. Can you talk to some of the factors that need to happen in Q3, specifically with Brazil, that start to get at least margin back on the road to recovery? I certainly understand from the top-line pressure there, as well as some of the factors that are impacting margins. But maybe talk to what needs to go right in Q3 from a Brazil perspective for margins to start back on that road to recovery.

Ilene Gordon - *Ingredion Incorporated - Chairman and CEO*

Okay. This is Ilene. Certainly in the third quarter, we start to come out of the winter season in Brazil. So as the weather warms up, we see the opportunity for consumption and volume, consumption of beer, volume in some of the food products to continue to increase. So certainly improved volume would help utilization and throughput in the facilities. We've also seen forecasts for the GDP to start to improve from its current level. And while the forecast for the total year has been reduced from 3% to 2.5%, The Economist is still showing a higher GDP during the second half of the year. So I think that a combination of the weather, GDP, and then potentially, government policies to deal with the social unrest and to really focus on the economy, should have some impact in the second half. With all those things taken together, we will have the ability to start to improve margins in the second half. I don't know, Cheryl. Do you want to add anything?

Cheryl Beebe - *Ingredion Incorporated - CFO*

Yes, and I would add that we continue to invest in what I call continuous improvement opportunities. While we can't control the economy, the things that management can control, the actions are being taken relative to speeding up short-term investments to improve the manufacturing costs throughout Brazil.

Brett Hundley - *BB&T Capital Markets - Analyst*

And Cheryl, you think some of that can be realized fairly quickly?

Cheryl Beebe - *Ingredion Incorporated - CFO*

Some of it is. We've done a really tremendous job this year of when you look across the entire Company, despite the phenomenal increases in corn costs, as well as the situation in Argentina and Brazil. We have done a really good job of managing it, and part of that is the focus on the cost side of it within the manufacturing facilities. Because if you think about the volume decline in 3% in North America and the mid-single digits in South America, we didn't take -- if everything else was equal, the impact on the utilization of the facilities, or what I would call the absorption of the fixed costs, would've had a greater impact, had we not have had that cost focus. And I would say that while I expect the third quarter for South America to improve relative to the second quarter. And with the $17.3 million operating-income performance, I think the bar is pretty low. So, when I look at seasonality, I look at the costs as they are laid out, I expect improvement. But then, when I look at that relative to last year's number, we've taken what I consider the appropriate haircut to reflect the economic and operating conditions, both in Argentina and Brazil.

Brett Hundley - *BB&T Capital Markets - Analyst*

Yes, very much understand. Okay. Switching back to North America, can you guys establish at what price corn lends you comfort in fructose competing with sugar in certain territories again?

Cheryl Beebe - *Ingredion Incorporated - CFO*

Well if we go back and look at sugar prices, and so the three that people focus on are Mexico, which is higher than the US, and higher than world. The US is higher than world, and world is the lowest. So if I look at where we are today, and there was a bumper crop in Mexico. There has been a bumper crop, which probably takes 12 to 18 months to work its way through. If I look at it relative to the price then, we are probably back to where we were in 2009, 2010. The difference here is that we saw a phenomenal increase in the price of corn in 2013, driven by the drought situation in the United States. And so with a potential record crop, pick the number. Are we going to be at $4.50 corn? Are we going to be at $5 corn? And that should then put us back in the realm of being at a discount HFCS pricing to sugar, especially in the North American market.

Brett Hundley - *BB&T Capital Markets - Analyst*

Okay. And no matter where you are, North America, South America, Asia, do you think that for those pricing needs to drop $0.01 or $0.02 below sugar to regain share, or does it work at price parity initially? How do we think about that?

Cheryl Beebe - *Ingredion Incorporated - CFO*

Well if you think about historically, the range of -- let's take North America. So North America, HFCS would have been at a 20% to 30% discount to sugar prices. And so, again, without the specifics of the selling prices, of HFCS, if I look at it in terms of where the price of sugar is today; where I expect corn to be in 2014, I would say expectations are that we will be at a around a 20% discount to sugar prices.

Brett Hundley - *BB&T Capital Markets - Analyst*

Perfect, thank you very much.

Cheryl Beebe - *Ingredion Incorporated - CFO*

I would just add, in South America, the market that we are talking about is Argentina. Argentina, its the government policies around the export licenses for corn and the currency controls, meaning the availability of dollars, is impacting the amount of sugar that is staying in the country. So normally, we have no problem pricing at parity or slightly above sugar prices in Argentina, but with the government policy relating to the currency, we are seeing excess supply. I would expect that to right itself over -- there is no perfect prediction, but over the next four quarters. And then in Korea, which is the next market, we have managed to hold our own. And as we have said before, pricing is important to us, and we will sacrifice some volume. So we will see that squeeze more so in the third quarter in South Korea, but then it will right itself as you go into 2014 as the corn prices come down.

Operator

Ken Zaslow, BMO Capital Markets.

Ken Zaslow - *BMO Capital Markets - Analyst*

Ilene, I don't know if you meant to say this or not, but you said that you would expect your growth to return to historical levels. Historical levels are well above your long-term growth targets. And I'm just trying to figure out if that is just -- what you're trying to imply for 2014. It was a stronger statement than I would think that you would say. I was curious on if you can elaborate on that?

Ilene Gordon - *Ingredion Incorporated - Chairman and CEO*

No, good question, and certainly, we are not resetting anything. In other words, we are going from our base that we mentioned in November of 2012. And you are right, our expectation that we committed to there was long-term EPS growth of 10% to 12%. You are right that we've actually delivered more than that, but the statement really is that we expect to deliver on the commitment of the 10% to 12% growth rate. We would like to do more, but we are basically sticking with our commitment of the 10% to 12% growth rate.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. And look, there's a lot of skepticism about your ability to do that return to that type of growth level in 2014. You gave a couple of points on it. Can you elaborate it to say, look, we are confident because of this? Or can you give us a little bit more color, because there is a lot of skepticism to that? Can you help us out a little bit with that?

Ilene Gordon - *Ingredion Incorporated - Chairman and CEO*

First of all, number one, what we are talking about is our long-term growth rate from that November 2012. So taking that into account, as Cheryl mentioned in some of her remarks, we've just come off a very high corn-cost environment. We are still right in the middle of it from the 50-year drought, and all indications are that the crop will be average to above-average, maybe even record. But all we need is an average crop, and that the implication of that are corn prices that are more traditional, and therefore, we believe will drive volume improvements in our industry. In other words, as corn costs come down, and we -- in our business model, while we hold our margin, we pass on that corn price to our customers. That will manifest itself in more volume for the food companies, and therefore, for our business. And so, the consumer will get back to buying that incremental food product. So those type of volumes will help our system in its utilization, which is still in the high 80s. But there is still room for our industry to really increase that utilization. So we believe that, that is the number-one factor, corn prices being more competitive, obviously, with sugar in North America.

Number two, again going back to one of Cheryl's statements, that we actually have capital expenditures that are coming on stream this fall in Europe with our specialty starch, and especially with our patented product Novation. So that we have more capacity coming on this fall and in early winter, as well as other capital expenditures that we've done around the world should help us add, obviously, our ability to produce different types of products. And if you've got to remember also that we've had our strategy of growing our specialty ingredients from our National Starch acquisitions. And our strategy is all about being a global ingredient Company. And so, we've been investing in our R&D, and have not cut those expenditures to make sure that we are developing on-trend products for health and nutrition. And those trends and demand for those products continued to grow around the world, and we have capacity to deliver on it. So I think those three factors, putting aside any kind of GDP recovery that we are expecting in South America later in the year, should really provide the basis for us to deliver on those long-term commitments.

Ken Zaslow - *BMO Capital Markets - Analyst*

If corn is at $5 -- $4.75 to $5 on the board, what would that outlook be for Argentina in terms of the corn next year? Would you say that corn would be higher, lower year over year? How do I think about that?

Cheryl Beebe - *Ingredion Incorporated - CFO*

I would expect corn prices to be lower. Again, historically, Argentina has had the lowest net corn cost in the world. And it is really what we saw in the second quarter, Ken, is that the government policy right at the harvest, and they had a record harvest, which should have driven corn prices down, had just the opposite. They went up because they increased the export quota. All right? And so, I would expect that there would be a little bit more normalcy in the market and that their corn costs would decline in 2014.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay, and then my last question is, look, you guys have $569 million cash.

Cheryl Beebe - *Ingredion Incorporated - CFO*

Yes.

Ken Zaslow - *BMO Capital Markets - Analyst*

Based on your commentary, you're going to get another $300 million in cash in 2013. I would argue that that $300 million is probably conservative if you believe corn is going to be lower.

Cheryl Beebe - *Ingredion Incorporated - CFO*

Correct.

Ken Zaslow - *BMO Capital Markets - Analyst*

And then, I'm assuming that maybe basis will also go your way, so that's also obviously for operating [product]. But (inaudible), you will have about -- more than $11 of cash per share on your balance sheet. Look, it's getting close. Are you guys going to buy back stock?

Ilene Gordon - *Ingredion Incorporated - Chairman and CEO*

Okay, this is Ilene, and again, good question. As we've said before, we are looking for appropriate M&A. If we can't find M&A that will create good shareholder value, we've raised the dividend, so that that, in terms of buying back stock is certainly in that realm of being a good steward of shareholder cash.

Ken Zaslow - *BMO Capital Markets - Analyst*

So when will we start to be able to see your good stewardness, if that's a word, of using the cash for buying back stock?

Ilene Gordon - *Ingredion Incorporated - Chairman and CEO*

Remember two weeks ago when we talked about this, we said last November that certainly you should be able to see that from last November in 12 to 18 months. And I would not change that timeframe; it could be earlier.

Operator

Tim Ramey, DA Davidson & Co.

Tim Ramey - *D.A. Davidson & Co. - Analyst*

Was there anything in the South American performance that would have been more balance-sheet or translational related? I saw the $4 million charge on the Stevia crop, which I think is operating, but there is also a balance-sheet component to that. Is there anything else that would look like that, that we should be aware of?

Cheryl Beebe - *Ingredion Incorporated - CFO*

No, it was really the $4 million. It's part of our specialty portfolio and having from farm to processing, the -- our Stevia farms encountered a particularly bad fungus, which limited the output, and frankly, the quality. And so, as opposed to taking -- dribbling it in, we said, look, the quality is so bad, we are writing off the farms. And normally, the [leads] would've sat in inventory and then been used as the production, but with the severity of the fungus, we wrote the whole thing off.

Tim Ramey - *D.A. Davidson & Co. - Analyst*

Okay. And it's difficult, you can imagine to -- we got your guidance on Argentina being not much better for the Q3. But hard to know exactly how that figures into the South American EBIT margin. Should me margin that up a [scoche]? I know you don't want to give quarterly guidance too much, but presumably --

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Cheryl Beebe - *Ingredion Incorporated - CFO*

Let me give some color. We, again, reported number, $17.3 million in the second quarter, and the first quarter was $43.4 million. I would expect our guidance incorporates an improvement in Brazil. The seasonality of the Andean region, or our Columbian operations, also picks up in the third quarter. And Argentina basically stays the same. I -- the fourth-quarter guidance, fourth-quarter layout I should say, again, these are all relative to the 2013 as it improves versus the third quarter, as a result of the fourth quarter is normally the strongest quarter from a seasonality standpoint. As Ilene said, the weather improves, the harvest is in, and so we will sequentially get better than the second quarter, both in Argentina and Brazil. But it will be significantly below what last year's numbers were. So if I take last year's number in the second half, for South America, you're talking about -- I'm going to round the number, $106 million. We are substantially below that when you look at how the guidance was put together. And so, I guess if you want to say the good news is sequentially we get better; we start to recover. But we are still going to be below last year. Is that a little clearer?

Tim Ramey - *D.A. Davidson & Co. - Analyst*

That is helpful, Thank you. And a comment echoing Ken's points, not a lot you can do about the things you can't control, but one thing you could have controlled was the $0.03 of EPS drag year to date from higher share count, which I really just find baffling. At least buy back enough stock so that you don't dilute your EPS from share count [creep]. You can control that, and it's disappointing.

Ilene Gordon - *Ingredion Incorporated - Chairman and CEO*

Well, certainly, we are looking at that, and we -- right now we have been in a blackout period. So we obviously have to abide by that. But I think it is a good point, and given our strong cash position, we have a lot of options. And we don't have to make choices; we can do several things. And so we continue to look at M&A. The dividend in March was -- we were happy to be able to raise that 46%, and so now, we obviously have our good cash outlook and feel like we have a lot of opportunities.

Operator

Farha Aslam, Stephens.

Farha Aslam - *Stephens Inc. - Analyst*

When does the blackout period end?

Ilene Gordon - *Ingredion Incorporated - Chairman and CEO*

We actually are lifting it in the next 24 hours. Normally what happens is a few weeks near the end of the quarter, for our employees it blocks out.

Cheryl Beebe - *Ingredion Incorporated - CFO*

And let me point out is that we normally have a blackout period that starts in the third month of the quarter, and it runs until we've done the earnings call and the market has cleared the information, which can be 24 to 48 hours. We are appropriately conservative. And so, again, relative to some of the commentary on the buyback for the $0.03 dilution from a share repurchase, clearly we went to the market on the 14th. We would have been in blackout in June, and so, there is limited opportunities relative to this. But, again, we hear the message. We have demonstrated through many years our commitment to shareholders. We are in an extraordinary period of time. We did not see the Argentine blowup until we hit later in June and very quickly got on top of it and talked about it to the market. We still are not through the third quarter, which is where basis is at extraordinary levels. There is some concern that there will be a shortage of physical corn as you go from the old crop to the new crop, and we haven't changed our stripes relative to being, what I would call, a prudent management team. Our $700 million of cash flow is predicated on reversing the inventory and receivables billed, which I am fairly optimistic will happen, again, based upon detailed reviews with the operating teams. But I am also not naive to think that the third quarter is not a challenge relative to the supply.

Now, again, our risk management policy is prudent. North America [builds] inventory in anticipation of potential supply chain. I would like to see that cash come back. And again, we are very committed, and have demonstrated it time and time again, that we are shareholder-focused and will do the right things for our shareholders.

Farha Aslam - *Stephens Inc. - Analyst*

And that is helpful. And then in terms of your inventory position, and that is really in North America that you're speaking of, and about what percentage of your use is covered by your inventory right now?

Cheryl Beebe - *Ingredion Incorporated - CFO*

Say that again?

Farha Aslam - *Stephens Inc. - Analyst*

What percentage of your third-quarter use is covered by your inventory position? So have you basically [put] all your third-quarter needs?

Cheryl Beebe - *Ingredion Incorporated - CFO*

No, we've got a fair amount, I don't have a percentage in front of me --

Farha Aslam - *Stephens Inc. - Analyst*

So you are fairly comfortable that you will be able to manage through this bridge period. And then going into the fourth quarter, we should have the crop, that should help out your cash flow. Is that where you could see some accelerated share-repurchase activity? Is that what you're thinking?

Ilene Gordon - *Ingredion Incorporated - Chairman and CEO*

Well, I think that certainly what we've said is from a crop availability, we have worked very hard, even starting talking about it a year ago, knowing the drought was coming, to make sure that we are able to access the corn. And so, certainly we've been able to be able to do well in terms of that. But, we've also said that, you've heard Cheryl talk about we feel good about our cash position, and that we see -- we still continue to look at M&A at the same time. So we are looking at M&A; we are running our business. We raised the dividend and that we look at share buybacks all the time.

Farha Aslam - *Stephens Inc. - Analyst*

Okay, and then the last portion is really on CapEx, because that is the other use of your cash. Now you scaled back CapEx. But could you break out for us what is maintenance CapEx? In terms -- on your growth CapEx, what returns you are expecting that growth CapEx to return annually?

Cheryl Beebe - *Ingredion Incorporated - CFO*

Let's start with the maintenance CapEx, and we basically look at about $75 million, as what I call stay in business. And so that number hasn't changed. The reduction in the CapEx this year is a reflection -- first of all, we have always said that if we are not performing at the operating income line, we hold the management teams responsible to cash flow as well. And so if we are not seeing the volume growth, then what are we accelerating investment in capacity for? It just becomes a timing issue. And so if I go back and I weave the pieces together, what Ilene said about M&A, working capital, timing, if we do not have M&A activity, if we get our cash flow from operations from the inventory and receivables, and we continue to stay at the $300 million to $350 million in CapEx. And I'm not expecting that to change, because I don't expect the world to change in the next six months, that says that there is excess cash above and beyond the operating needs that we need to redeploy in a share-repurchase program.

Farha Aslam - *Stephens Inc. - Analyst*

Okay, and back on growth CapEx, is there a return that you would like to achieve?

Cheryl Beebe - *Ingredion Incorporated - CFO*

Sure, we always look to have a return on invested capital that runs at 200 basis points, 300 basis points of our cost to capital. Now, it will vary by region, because we look at the cost of capital in South America is higher than what is in North America. And depending upon where you are in EMEA or APAC, it will carry the appropriate market view with regards to a weighted average cost of capital. But we generally, and you can see it in our return on capital employed numbers year over year, we tend to get that, call it, 200 to 300 basis points above the cost of capital. So nothing has changed relative to our outlook on what we expect.

Operator

David Driscoll, Citi Research.

David Driscoll - *Citigroup - Analyst*

So, I appreciate the commentary on '14 and the pieces of it. I would say that there are so many factors that are going on, that it is still pretty tough to understand. To Ken's question, did you say that Ilene, that your comments about the growth rate in EPS is just a long-term growth rate and that was not necessarily to be applied to 2014? Or, were in fact, you trying to apply that growth rate to 2014? Can I start there?

Ilene Gordon - *Ingredion Incorporated - Chairman and CEO*

Okay, well first of all, I was trying to reiterate that 10% to 12% EPS is our long-term growth rate starting from the base of November. I am also trying to avoid giving you 2014 numbers now, because as you say, there is many different factors that are going on here. But I did say that I was confident that we could continue to deliver on our 10% to 12% long-term growth rate from last November.

Cheryl Beebe - *Ingredion Incorporated - CFO*

Dave, it is Cheryl. So if I add to Ilene's comment, the 2012 EPS number on an adjusted basis is $5.57. And so, we just want to be very clear, our long-term growth target is predicated upon that base, not let's take that 2013 guidance and take the middle of the range, which is $5.25. So we want to make sure that there is no misunderstanding as to what the trajectory is off of what base. It's off the $5.57. Then if we go to 2013, and again, the middle of the range is $5.25. And if you went to the middle of the long-term growth rate, that means you would be at $5.83. So we all have calculators and can do that math.

If you think about higher utilization rates, we have not seen these kind of volume declines in North America or South America. You add in the supply chain costs associated with the specialty grains, plus the issues around logistics for the US business, lower not only gross corn costs, but net corn costs, making us effective in terms of pricing against Mexican sugar. You add in continual cost improvements that we have invested in, plus then adding in the capital investments for growth in the specialty starch in Germany, and some of the cost containments, for example, in Pakistan with energy, and the second year of utilization for that plant, I think there is a strong story that stands here that says there is credibility as to why we would not be off our growth projections. Without giving an absolute number, because I think six months ahead of time is a bit premature and sticking to the qualitative factors is appropriate. That is why Ilene is confident in the trajectory for the business.

David Driscoll - *Citigroup - Analyst*

One comment I would make is that because the guidance started out at $5.60 to $6, and if we go from $6 down to the low end of your new range of $5.10, that is a 15% swing, a fairly dramatic fluctuation. So, it seemed as if you guys want to give us guidance, but something is holding you back there. Maybe it is [errand]. But I would only say that at this point, it does feel like it would have been useful if you could have come out and said flag in the sand, $6 or north of that, or $5.80 or north of that or something like that. I think you're trying to do that, but there's still a lot of factors. If I just moved on before I run out of time here, on Argentina, what I'd like to understand is if in October, post the elections, we get a further and significant devaluation, would this be a negative impact to your guidance? Or do you already have a much more significant devaluation embedded within the current '13 forecast?

Cheryl Beebe - *Ingredion Incorporated - CFO*

Dave, I think we have appropriately haircutted the view on Argentina to take into account further currency devaluation and cost pressures, with lack of pricing. So significance of the Argentine number, we have haircutted the Argentine operating income by 50% year over year, full-year, full-year comparison. And so I can never give you an absolute guarantee, again based upon experience and a few of the facts, as I know them today. We are comfortable that we have incorporated sufficient room in the guidance to cover challenges in Argentina.

David Driscoll - *Citigroup - Analyst*

That was very clear. Last question for me is on Mexico and HFCS and the sugar conversation. So back in 2009 and earlier, there were not appreciable US exports to Mexico related to all the long-running NAFTA battles that we had. So it turns out that '09 and earlier, it's not really a good or fair comparison to look at the sugar battle versus fructose, because of course, they didn't use fructose. So now as I look back at the Mexican price series, the sugar data series, you haven't really seen prices this low in Mexico since a time before fructose was ever really down there to any material extent. So with that setup, are you totally confident at a $5 corn number in the United States, and with the translation that you have to ship corn from US to Mexico, that with these current prices, $0.28 and $0.27 for Mexican sugar prices, fructose is competitive in that market in '14?

Cheryl Beebe - *Ingredion Incorporated - CFO*

The answer is yes, but let me also add some additional color. We saw the market open up for fructose. The tax came off, and the market opened up, and it really started in 2008. So to say that the dynamics were not present in 2009, I'm not quite sure how that relates, considering the fact that, again, 2008, the market was fully open. The second piece, and I think perhaps this is where the discussion is, is that when you look at the price of local sugar in Mexico versus what the US price is, it says that there will probably be more sugar that remains in Mexico than is exported into the United States. And so the pressure is then will they drop pricing below the current levels? And again, based upon our historical experience, we think that we should be able to price effectively against sugar at the $5 corn prices.

The other piece that I would point out is, Dave, is that we have a local operation. And so, we continue to do well in the local operation. If I look at the North American numbers, and again, given the challenges around high sugar, low sugar prices, high corn prices, a decline in the exports of HFCS into the Mexican market, our North American numbers are up year over year. And so it's we were effectively able to price and maintain our spreads and we were effectively able to manage our manufacturing facilities, both in terms of the plant utilization and to look for cost savings. So I think, again, I don't disagree that there are always challenges, but we have demonstrated, even in this year, the ability to manage it.

Ilene Gordon - *Ingredion Incorporated - Chairman and CEO*

And this is Ilene. The other thing I would add is part of the North America story, again, as I said a little earlier, is our growth in our specialty products. And again, our investment in National Starch and our product development to develop healthy food ingredients to follow the trends in, certainly around the world, and particularly North America, is part of our optimization of the entire network. So it is not just -- high fructose in North America is only 19% of the total, so there is another 81% that is based on other ingredients in terms of optimizing our system.

Cheryl Beebe - *Ingredion Incorporated - CFO*

And I would add one more color commentary, Dave, is that if there was a doom-and-gloom scenario relative to capacity, we would continue to do network optimization in order to manage that situation and keep growing utilization rates up.

David Driscoll - *Citigroup - Analyst*

You answered well more than my question, and I appreciate the additional color. Thank you so much.

Operator

Akshay Jagdale, KeyBanc.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

So with all the questions that have been asked, I think you have done a good job explaining how you can continue on your growth trajectory longer term. So my question is more about the bottom end of the earnings scenarios, if I may. So longer term, obviously, you are going to continue at some point with your growth trajectory that you had outlined before. But I'm just trying to understand the bottom end of the range. And so we have taken a step down. So first off, this quarter, the -- excluding the tax issues, if I take that out, normalize the tax rate, you're around $1.09 to $1.10 in operating income type of -- or ongoing EPS, if I may. So if I -- first of all, is the right way to look at it?

Cheryl Beebe - *Ingredion Incorporated - CFO*

No.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Okay. Go ahead.

Cheryl Beebe - *Ingredion Incorporated - CFO*

Include the releasing of the Korean tax valuation. And so you have to do it on an apples-to-apples basis, which is why you have to look at the adjusted tax rate being 30.3%. The quarter number is down because we had a few discrete, but if you do it against the full-year number, we're looking at 28%. So, the $1.09 is a bit off.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Okay. So let me take it in another direction. So, obviously, you have adjusted earnings estimates down, and that's a result of what happened in South America. So that's -- first of all, why can't just playing Devil's advocate, why won't things get worse in Argentina? It seems like you're modeling status quo from where we are today, which assumes a worsening from where we were a couple of months ago, obviously. But why won't things get worse? Typically, when you see a shoe drop, it continues to drop for a little bit longer than people expect. So why won't things get worse in Argentina, and perhaps Brazil? And if that happens, why wouldn't you have taken your guidance down even more? So I think you said it is conservative enough, so I'm just trying to address that a little bit.

Cheryl Beebe - *Ingredion Incorporated - CFO*

Again, based upon past experience, it's not the first time we've seen in the history of the Company Argentina blowup. And so, when we factor in our experience in these situations, we look at the details behind volume projections and cost projections. I think we have appropriately haircutted these numbers. A 50% haircut relative to OI is substantial. And so if I look at, again, as I said, we will be sequentially better, but we are substantially down year over year. So, there comes a point in time where you just take it to zero? I don't think that would be appropriate. And so, it's based upon the local team's knowledge of the marketplace, plus the executive experience of having gone through these situations before.

Ilene Gordon - *Ingredion Incorporated - Chairman and CEO*

The other thing I would add is, when you look at Brazil, we said this in our comments, that the food side of the business, food and some of the industrial actually had some decent growth. So that the demand for food in Brazil continues to improve. And going back to my earlier comments with the seasonality and the weather coming back, the GDP coming back, we showed a discrete item in the second quarter only, so that won't repeat. The Stevia fungus write-off was a one-time event, that $4 million. So again, you made the comment about Brazil that we see Brazil by the end of the year starting to show some of the improvement. And let's not forget about while there has been some social unrest reflecting the World

Cup and the Olympics, there is still a big commitment by the government in Brazil to deliver on their commitments in those events. And they are getting ready with infrastructure and people in construction. So that continues to be a positive in the future of Brazil.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Okay, and then just going to North America, and again, I share your view that the situation -- or the environment is shaping up pretty positive for you in '14. But again, playing Devil's advocate, and the reason I'm doing that is because it seems like what is happening in South America is a factor of some macro factors that people saw coming a while ago, which is GDP growth slowdown in emerging markets, high inflation, and commodity costs being up. It all came together at once, it seems like. So it seems as though in North America, too, you could argue that all that could go wrong has gone wrong right? The price relationship, sugar HFCS is as negative as it's been, corn prices are -- have been at historical highs, and you've still done very well. So, is there a shoe to drop? I don't think there is in North America, but is there a shoe to drop? And what could those big risk items be in North America that we should look at?

Cheryl Beebe - *Ingredion Incorporated - CFO*

The risk factors haven't changed at all; it's what we've discussed all throughout the year is that it would be a challenging year given the drought, given the availability of specialty corn, and the economy. And so, despite the challenges that exist, the North American numbers are up year over year. Again a record high, a record six months, and so I don't know what else to say. I can list all of the -- what gets us above the numbers, what gets us below the numbers, it hasn't changed what happens with volume. And volume will drive fixed cost absorption, what happens with currencies. We have said on the call, in the first quarter, we thought the currencies would be $0.15 to $0.20. In the updated outlook, on the 15th call I said $0.20 to $0.25. I think we have appropriately put $0.15 on either side of the midpoint of the range, which would reflect weaker volume or stronger volume; currencies are factored in there. And so, I think we are appropriately balanced.

Ilene Gordon - *Ingredion Incorporated - Chairman and CEO*

And I would add that we've come through this 50-year drought. We've done very well. We have a great business model. And although our remarks basically say, it is one region that has had some issues; the rest are as expected in North America, again with our business model, our acquisition, our integration went well, and our specialty ingredient growth continues to focus on what the consumer wants in North America, around the world. So I think we are very consistent.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

To me the two major risks that you haven't discussed as much is one, Mexico and utilizations there, which I think you talked about. But the other risk that I don't think you've talked about at all is the risk that other corn, Wet Miller's, who have -- who are in the ethanol business might switch capacity. That I know has been your argument for a while and has never happened. So ethanol companies have never switched, even in the worst economic scenarios and ethanol into HFCS. But any consideration for them, and what are your thoughts on that risk? Is it a big risk? Is it not a risk all, and why?

Cheryl Beebe - *Ingredion Incorporated - CFO*

Let's go back and talk about the fundamentals. You have two types of ethanol production, dry mill and wet mill. Dry mill cannot move into sweeteners; that technology doesn't exist. So then you are talking about where there is swing capacity and a producer has the choice to swing between sweeteners, starches, and ethanol. And so we haven't seen a change in the utilization rates. And frankly, I don't think we will, because the economics don't necessarily favor switching. But I think that is a question more appropriate for ADM than for Ingredion.

Ilene Gordon - *Ingredion Incorporated - Chairman and CEO*

And with the lower corn environment coming, I think that you're not going to see a lot of change there. And we've always said that when you look at the utilization of our industry, the high 80s, it has been a decent environment. And that I think that our industry has -- nobody has announced any new capacity, and that takes five years to come on. It is very expensive, and we just don't see that happening.

Operator

Christine McCracken, Cleveland Research Company.

Christine McCracken - *Cleveland Research Company - Analyst*

A few quick points of clarification on some of the earlier questioning. You mentioned that at some of the geographies that you're looking at and spending in those geographies relative to the pressure you're seeing there. Has the environment, in terms of the number of opportunities available, changed with some of the pressure that presumably some of your competitors are under and maybe loosening up some possible investments? And then how would you look at those investments, given some of the political risks in Argentina, for example, or slower growth in other areas?

Ilene Gordon - *Ingredion Incorporated - Chairman and CEO*

Well I think you are alluding to some of the M&A that we've talked about geographically and broadening the portfolio. And certainly, we've continued to see a lot of opportunities. If you go to Asia, certainly while China has slowed down, it's from 9% to 7% to maybe a little less. And India and Eastern Europe, all those areas are ones that we're looking at. And so as those opportunities continue to be there, it's all about how do we create value with those opportunities? And certainly some of the broadening portfolio opportunities, even in Europe, continue to be there. And that may be the one area where there may be even some more opportunities than had been, given the economy in Europe. But again, we are always looking for the right value proposition, and how it creates value for our shareholders, our Company and our customers. So I would say that the areas that we are looking at for M&A, we have not seen any change in exciting opportunities.

Christine McCracken - *Cleveland Research Company - Analyst*

All right, and then one on the expectations that net corn will come down with this larger crop. Can you talk about how you think about the pricing? That your mix has changed over the years since we've seen maybe this large of a drop in corn costs, and I'm trying to think about how the pricing should move lower. If some of your products are a little stickier, and you might be able to hold on to some that pricing and really see the margin bump when corn costs come down? Or do you think most of that will pass along to your customers?

Cheryl Beebe - *Ingredion Incorporated - CFO*

I think it depends upon the portfolio, where there is more value add. So I will call is some of the specialty, the specialty sweeteners or specialty starches. I would not expect a complete pass down, but on your more core, I would expect the relationship, which as we have talked in the past it's the spread. So the change in the net corn cost, you tend to go up or you tend to go down. If I do the math on what the price increases have been over the last 11 quarters, it's well in excess of $1 billion. And so de facto, the way the math works with the revenue line coming down as a result of the net corn costs coming down, and the margins holding, and expanding from mix and cost savings, you will see a movement in the OI percentages to revenue. The thing that I'm most focused on is the absolute growth in the OI dollars. And that really comes from, again, the focus on the innovation and providing the value-added ingredients to our customers and the relentless focus on costs.

Christine McCracken - *Cleveland Research Company - Analyst*

And then one on -- because you are caring this inventory. And given the later timing of the harvest, is it fair to assume that you'll still see some of that higher cost into the fourth quarter?

Cheryl Beebe - *Ingredion Incorporated - CFO*

Absolutely, where we have contracted farm price business, we are covered. And so therefore, we will see the higher corn costs on the grain-related formulas, where it moves down with the price of corn. Then I would expect the revenues and the corn costs to come down on that piece of the book of business.

Christine McCracken - *Cleveland Research Company - Analyst*

Do you have an update on that mix?

Cheryl Beebe - *Ingredion Incorporated - CFO*

It is still generally runs about 50/ 50.

Ilene Gordon - *Ingredion Incorporated - Chairman and CEO*

Okay, so I think we are over our time right here, and I -- as we -- before we sign off, I want to reiterate our confidence in our long-term outlook and our business model. And as we've answered all your questions, we remain keenly focused on shareholder value creation, and we will use all our avenues available to us to deliver the best possible results and actions for our shareholders. So again, thank you for your time and interest. And this brings us to the close of our second-quarter 2013 earnings call. Thank you.

Operator

That does conclude our conference for today. Thank you for your participation and for using AT&T teleconference service. You may now disconnect.
