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INGR - Q1 2019 Ingredion Inc Earnings Call

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OVERVIEW:

Co. reported 1Q19 net sales of $1.4b, reported operating income of $161m and reported EPS of $1.48. Expects 2019 adjusted EPS to be $6.80-7.20.

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by. Welcome to the Ingredion First Quarter 2019 Earnings Call. (Operator Instructions) As a reminder, today's call is being recorded. I'll turn the conference now to Ms. Heather Kos. Please go ahead.

Heather Kos - *Ingredion Incorporated - VP of IR and Corporate Communications*

Good Morning, good afternoon and good evening, and welcome to Ingredion's First Quarter 2019 Earnings Call. Joining me on the call are Jim Zallie, our President and CEO; and Jim Gray, our Executive Vice President and Chief Financial Officer. Our results were issued with this morning in a 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 a few hours 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.

During this call, we will also refer to certain non-GAAP financial measures including adjusted earnings per share, adjusted operating income, adjusted effective tax rate and adjusted cash flow from operations, which are reconciled to U.S. GAAP measures in Note 2, non-GAAP information included in our press release and in today's presentation appendix. Now I'm pleased to turn the call over to Jim Zallie.

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

Thanks, Heather. And welcome to everyone joining us today. Let me start with a brief recap of our first quarter performance and recognize 2 issues, which, as expected, continue to impact year-over-year results: global foreign exchange negatively impacted our net sales by approximately $100 million and our earnings per share by $0.19 a share; second, North America continues to face a challenging raw material market and we lap higher co-product values in the year ago period.

Our volumes were down 2% driven by the planned shed of high-fructose corn syrup and industrial starch from our Stockton wet mill closure and weaker volumes in South America, partially offset by specialty growth. These and other factors combined lowered total company operating income by 17%. Operating income in North America was impacted by higher inventory and production costs, higher net corn costs and a modest impact from the extreme weather in the U.S. and Canada.

Across our other regions, we continue to experience the effects of foreign currency devaluations as well as higher net corn costs. In response, we are taking a series of pricing actions. We are also accelerating our $125 million cost mark savings program, which is expected to exceed our 2019 year-end cumulative run rate savings target of $24 million to $34 million.

Moving to our growth platforms. We are excited to have acquired the Western Polymer business, which strengthens our higher-value specialty potato starch texturizer portfolio and provides expanded capacity for future growth. Furthermore, we continue to make progress on our previously announced $200 million of strategic investments in sugar reduction and plant-based proteins.

We are on schedule to produce allulose, a rare, low-calorie sugar by the end of this year at our state-of-the-art facility in San Juan del Río, Mexico. We anticipate sales starting in early 2020. We are excited about the FDA's recent initial guidance that allulose will not need to be declared as an added sugar on the label of U.S. food products, which now follows its approved labeling in Mexico. Allulose will be a great complement to our existing portfolio of specialty sweeteners.

Moving on to our plant-based protein growth platform. We expect to be operational at our SAL Sioux City, Nebraska plant to produce pea protein isolates by the end of this year. Our joint venture with Verdient for a range of pulse-based flowers is progressing as planned. We expect to commercialize Verdient products in pet food applications in the near term and to expand sales into other consumer food products during the second half of the year.

We are also excited by our recently announced investment in and distribution agreement with Clara Foods, a San Francisco-based biotech startup with breakthrough technology to produce high-value, animal-free proteins traditionally found in eggs.

Now moving to North America. As we indicated in our fourth quarter call, we expected North America to be lower in the first half versus the second half with a contributing factor being the layout of corn costs. We also experienced extreme weather, which impacted our make and move costs across both our sweetener and starch network. Additionally, we carried in higher inventory costs related to our ongoing efforts to optimize our starch network. Operating income in North America was $125 million, down 13% from last year. Net sales were down given our planned Stockton high-fructose corn syrup and industrial starch shed. Specialty and Mexico volume increases partially offset lower U.S. volumes.

In South America, net sales were down for the quarter due to significant foreign currency devaluations and lower volumes. Operating income was $18 million, down 31% from the year ago period driven by ForEx impacts partially offset by pricing and cost improvements. We are experiencing lower volumes related to the economic recession in Argentina along with negative foreign exchange impacts given the continued devaluation of the peso.

Given the severity of the situation, we are exploring every measure to improve Argentina's business performance. In Brazil, we also experienced weaker co-product returns and we remain cautious about the prospects for a near-term economic recovery. Our Andean region continues to demonstrate net sales volume growth led by strong specialty growth.

In Asia Pacific, net sales were flat. Foreign currency devaluations and higher regional corn costs were offset by price/mix increases across the region. As expected, our specialty tapioca franchise has rebounded nicely after managing through a challenging crop shortfall in 2018. The pricing actions we took along with the recent reduction in tapioca costs has helped us recover margin in this strategically important product family. The region delivered $20 million of operating income, down 13% versus the prior year due primarily to a lag in pricing pass-through of higher corn costs. Currency devaluations in both Pakistan and Europe impacted the EMEA region, which experienced a 3% decline in net sales, partially offsetting this was the growth in specialty volumes in Europe and core ingredients in Pakistan. Our Pakistan team continues to pass-through the impact of foreign exchange and higher corn costs. Operating income was $24 million, down 23% driven by foreign exchange impacts and higher corn costs partially offset by favorable price/mix. Now let me hand it off to Jim Gray, who will discuss our financial performance in more detail.

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

Thanks, Jim. Net sales of $1.4 billion were down for the quarter. Gross profit margin was lower by 180 basis points driven by FX devaluations and higher raw material and production costs across the regions. Reported and adjusted operating incomes were $161 million and $166 million, respectively. Reported operating income was lower than adjusted operating income by $5 million. The difference was due to $4 million of restructuring charges associated with our Cost Smart initiatives and $1 million associated with the acquisition and integration of the Western Polymer business.

Our reported and adjusted earnings per share were $1.48 and $1.54, respectively. Q1 net sales of $1.4 billion were down $49 million for the same quarter last year. Unfavorable FX of $95 million was primarily attributable to currency devaluations in Argentina, Brazil, Pakistan, Asia Pacific and Europe. Lower volumes accounted for $27 million of sales decrease while favorable price/mix was a $73 million increase.

In North America, volume was down year-over-year driven by planned volume shed as we ceased wet milling at our Stockton facility. Price/mix in North America was up. In South America, foreign exchange devaluation was the largest driver of the year-over-year net sales decline. Volume was down 6% due to the impacts of the recession on beverage sales in Argentina and weaker dextrose sales in Brazil. Price/mix was up 19% as our teams took price increases to pass-through a higher raw material cost and recapture some of the foreign exchange impact in Argentina and Brazil.

Asia Pacific had flat net sales as foreign exchange devaluations and lower core volume growth were offset by higher price/mix due to corn pricing and FX pass-throughs. EMEA had lower net sales due to foreign exchange impacts across the region that were only partially offset by volume growth and price/mix. For the quarter, reported and adjusted operating income decreased $36 million and $34 million, respectively. North America operating income decreased $18 million due to higher inventory and production costs, higher net corn costs and a modest impact from extreme weather in U.S. and Canada. South America operating income was down $8 million driven by the impacts of currency devaluation in Argentina and Brazil and lower volumes in Argentina and Brazil versus the year ago period. Asia Pacific was down $3 million driven primarily by higher regional corn costs and foreign exchange impacts. EMEA was down $7 million due to the impacts of unfavorable foreign exchange and higher corn costs across the region, offset partially by favorable specialty volume growth.

Corporate costs were lower by $2 million for the quarter. We'll wrap up the discussion of the quarter with earnings per share. On the left side of the page, you can see the reconciliation from reported to adjusted. On the right side, operationally, we saw a decrease of $0.36 per share. Unfavorable foreign exchange was $0.19 per share while margin was a decline of $0.14 per share, attributable to lower operating income across the regions. Other income was minus $0.03 a share due to a onetime true-up in Mexico for social security contributions.

Moving to our nonoperational items. We saw a decrease of $0.04 per share for the quarter, largely driven by unfavorable tax and higher financing costs, partially offset by lower average shares outstanding. Financing costs were $0.06 per share decrease driven by a higher debt balance and higher interest rates as compared to the year ago period. Higher adjusted taxes contributed to a $0.10 per share decrease, primarily driven by lapping tax benefits from share-based payment awards in the prior year.

Shares outstanding contributed a benefit of $0.13 a share. First quarter 2019 cash provided by operations was $18 million, lower than last year as a result of timing and working capital and lower net income. Given the increase in short-term lending rates versus the prior year, it was more cost-effective to fund accounts receivable balances rather than access supplier financing programs.

Additionally, inventories are higher given the timing of corn purchases in Pakistan and Mexico. Capital expenditures of $80 million were $15 million lower year-over-year driven by lapping prior year's higher investments of our specialties growth platforms.

Finally, as Jim mentioned earlier, we completed the acquisition of Western Polymer in the quarter for an investment of $41 million.

Turning to our outlook. We anticipate 2019 adjusted earnings per share in the range of $6.80 to $7.20. We are lowering the top end of our adjusted EPS guidance range to reflect an anticipated deeper and more prolonged recession in Argentina, continued higher-than-historical North America production costs as we continue to optimize our starch network and an anticipated incremental FX impacts in EMEA and Asia-Pac.

Our guidance excludes acquisition-related integration and restructuring costs as well as any potential impairment costs. We are expecting adjusted operating income to be flat to slightly down for the year. We anticipate that the impact of foreign exchange will be negative for 2019, and we expect significant negative currency impact of $30 million to $35 million during the first half of the year relative to prior year.

For the full year, we expect a negative currency impact to EPS of $0.40 to $0.45. We expect operating expenses including corporate expenses to be up year-over-year as we invest in global business process optimization, innovation and digital investments to drive both cost savings and an improved customer experience. We expect financing costs for the year to be in the range of $82 million to $87 million due to higher interest rates on our floating rate debt and a higher debt balance.

Our adjusted effective annual tax rate is expected to be between 26.5% and 27.5%. We anticipate a slightly higher tax rate as we have taken into consideration our expected mix of South America operating income. We expect total diluted weighted average shares outstanding to be in the range of [68 million to 69 million for the year considering the impact of the accelerated share repurchase agreement.

Lastly, we have accelerated our Cost Smart program to identify additional ways to organize people and processes to drive structural savings. We anticipate exceeding our cumulative Cost Smart run rate savings of $24 million to $34 million by the end of 2019 and against an anticipated inflation of 2.5% to 3%.

In North America, we expect net sales and volume to be down. For the full year, we expect operating income to be flat to slightly down. We expect the first half down significantly due to the lapping of higher co-product values in the first half of 2018 and continued starch network optimization efforts. And the second half is expected to be up as we lap onetime manufacturing cost impacts from 2018.

South America net sales are expected to be flat to up modestly versus the prior year. Volumes are expected to be up modestly. Given the magnitude of FX devaluations as well as the effects of the Argentine recession during the first quarter, we expect operating income to be in a similar range to prior year. We remain watchful of economic reforms, inflation and the impact of the upcoming election in Argentina. We continue to focus on cost discipline and business performance improvement. Asia Pacific net sales are expected to be up and operating income is expected to be flat to up modestly. We expect weaker operating income in the first half and a stronger second half. In EMEA, we expect net sales to be up. We anticipate strong specialties performance in Europe and core growth in Pakistan. Although, we expect flat to modest operating income growth, we anticipate a weaker first half versus the second half due to currency impacts throughout the region, raw material cost overlaps in Pakistan and a prolonged Brexit. In 2019, we expect cash from operations to be in the range of $630 million to $680 million. We expect to invest between $330 million and $360 million in capital expenditures around the world to support growth as well as cost and process improvements. Importantly, we remain committed to investing in opportunities to accelerate our growth platforms, which provide attractive returns to our shareholders. That brings my comments to a close. And now back to Jim Zallie.

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

Thanks, Jim. I want to highlight a few milestones, of which we are particularly proud. On Earth Day, we released our eighth Annual Sustainability Update that outlines the progress we have made toward our 2020 goals. In addition, earlier this year, we were once again named to Bloomberg's Gender-Equality Index, and we were also recognized as one of Ethisphere's World's Most Ethical Companies for the 6th consecutive year.

In closing, I want to take a moment to highlight the driving growth road map we introduced at CAGNY, which defines our strategic direction and the value proposition we offer customers and the value creation opportunities for shareholders. The road map is anchored by our purpose and performance-driven culture. Our growth ambition in core food and industrial ingredients is supported by sustainable and trusted sourcing and supply chain and operational excellence.

Our specialties growth strategy across 5 growth platforms is aligned with consumer trends and the changes that are shaping the food industry. We deliver value through customer co-creation and differentiated go-to-market capabilities. And lastly, we are committed to living our purpose of bringing together the potential of people, nature and technology to create Ingredion solutions that make life better. We remained focused on executing our strategy and delivering shareholder value. And now let's open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And first in line is David Driscoll with City Research.

Cornell R. Burnette - *Citigroup Inc, Research Division - VP and Analyst*

This is Cornell Burnette, calling in for David Drisco. Just wanted to dig in a little bit on North America and kind of the guidance, especially in the back half. So when you say that you're expecting profits to be up in the back half and there's a number of kind of transitional onetime items that probably don't hit this year. Just wondering if you can put a dollar number around some of the kind of transitory items from the back half of last year that you don't expect to recur this year. And then secondly, kind of excluding those issues, would you have expected the back half to be up anyway, just given perhaps the way your net corn costs are going to be laid out across the year?

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

Let me ask Jim Gray to take that.

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

Yes. I think, Cornell, from last year, we spoke about some difficulties that we had in Argo in Q3, which also then carried into Q4. That was around approximately $10 million and then we also had some other kind of operational efficiencies that was about another $10 million. We would expect to be lapping those more as one-timers. I think the majority of that has occurred in the second half of '18.

With regard to how the corn lays out, really, the difficulty is, in the first half of '18, the value of meal and the value of corn oil was higher. And so we just don't see -- we're lapping that in the first half. I think when you look forward to the second half of '19, right now and the way that we really kind of look at our expectations is, we really kind of take what the current values are for our core products relative to our gross cost to corn. So don't really see that improving. There's no signals to us that says that that's going to tighten up for the second half of '19. We don't see it necessarily getting worse either. There is some anticipation that if the U.S. and China come to some trade resolution, you may see some of the soy market and the corn market start to clear more in the second half. But we really think that's going to take some time.

Cornell R. Burnette - *Citigroup Inc, Research Division - VP and Analyst*

Okay. And then just kind of comparing kind of using spot rates, when you get to the back half of the year, kind of of how would those co-products compare with where co-products were kind of last year in the back half of '18. Is it more kind of a flattish comparison or is it still a headwind?

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

It's more of a flattish comparison. Although, I'd say there's recent slight weakness. But generally, I think it's a flattish comparison.

Cornell R. Burnette - *Citigroup Inc, Research Division - VP and Analyst*

Okay. And then the last question for me. I know it's relatively small in terms of your exposure to ethanol through the Penford deal, but I think kind of weak ethanol margins is something that you called out last year as being a hindrance to the North American profitability. And it felt like in the first quarter, it seemed like the ethanol markets got even a bit weaker than perhaps what we saw them last year. So just wondering what's your take on that? And is that something that's creating kind of incremental pressures for the North American business this year as well?

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

Jim, do you want to take that?

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

Yes, sure. Cornell, I would say that for us in Q1, we saw system of modest improvement in ethanol, albeit, at a very, very low margin level. And so we -- right now, we're not anticipating that something that's materially better for the year.

Operator

Next we'll go to Rob Moskow with Crédit Suisse.

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

Jim Zallie, I guess I'm a little bit confused about the $200 million investment that you're making in plant-based. And can you give us a little more color as to what kind of return we should expect from this investment going forward? And what areas of the market it's going to get you to? When -- is it just kind of like part of your overall plan for shifting the mix to specialty value-add? Is there a big margin that you're seeing right now in those products that just -- that can -- that are twice the margin of your commodity just like you said for the rest of the portfolio? You talked about this in your CAGNY presentations, but maybe just a little more clarity I'd appreciate.

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

Thank you, Rob. Yes. So just to first clarify on the $200 million figure. The $200 million figure was a figure for the total specialties investments -- growth investments that we have made and are making across the growth platforms. And I specifically called out sugar reduction, which would relate to allulose as well as pea protein isolates as well as the Verdient pulse-based flowers and concentrates. So it's across those growth platforms. As it relates specifically to plant-based proteins, it's about $125 million to -- $125 million. So as it relates to the attractiveness of that space, we had a CAGNY called out a revenue opportunity that we see over the next 4 to 5 years of about $100 million of incremental growth related to something that is extremely on trend. It just going to last 3 years. The compounded annual growth of plant-based non-soy-based consumption is up 51% and there's a lot of drivers behind that. So right now, we still see a supply deficit certainly coming from non-Chinese sources of these products, strong demand and good pricing. So we think that the market offers a lot of opportunity for accelerated growth as well as a good margin structure relative to how tight the market is and will remain based on those growth rates and based on the small number of suppliers and the position that we're going to have as a domestic supplier sourcing from the pulse belt I guess for the pea protein isolates and where we'll be producing at a facility that was a state-of-the-art soy protein facility that we are retrofitting to produce the pulse-based isolates -- or the pea protein isolates. The pulse-based flowers and concentrates are also obviously very much on trend and that business is continuing to grow.

So -- and just one -- just -- and then -- so that's basically an answer to your question.

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

And how quickly do you think you'll realize a return from these? Because the commodity markets just seem to be getting tougher, not easier. I guess you need something to get you back to your algorithm. What's the timing?

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

I think that we see -- I think we see all of these investments contributing -- starting to contribute in a ramp up capacity over a 4- to 5-year period. So with both allulose having strong drivers for growth, especially related to now the labeling change here in the United States that's impending and the growth of, again, the plant-based proteins sector, so we're going to see growth in 2020, in 2021, and it's going to be ramping up we believe at a pretty fast clip. But from a standpoint of the capital and the return on those investments, you're probably looking in the years 3, 4 and 5. Jim?

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

Yes. And, Rob, as we've mentioned in the past, so today, we are selling pulse-based proteins to customers, really understanding their needs, understanding the exact mandate from customers, that's allowing us to fill our pipeline. As the assets come online and we have expanded capacity then the sales teams really have the greenlight to really go forward and strongly commit to the quality level of the plant-based protein, whether it's an isolate or a concentrate or a flower that our customers are seeking to work into their innovation, work into their recipes. And as we've mentioned in the past, we usually think about the ramp up over a 4- to 5-year period.

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

The other thing, Rob, that I would just want to mention and something that we're very committed to as a company and you've heard me call it out previously, is in relationship to the emphasis we're bringing to customers around customer co-creation. And we believe that the 5 growth platforms and the product portfolios in those growth platforms, specifically the starch-based texturizers, the clean and simple ingredients, the plant-based proteins and the sugar-reduction capabilities all lend themselves to cocreate systems and solutions for customers that will help actually boost the growth across all 5. So as we look at the return on investment for something that is extremely on trend, that is driving so much innovation. Plant-based proteins and sugar reduction, it's where we're working with customers right now. And having that in our portfolio is we think going to enhance starch-based texturizers and the clean and simple portfolio as well. So I think that the return on investment, we're going to have to look at, in hindsight, 3 years from now, as to what it's lifted in regards to our overall specialties portfolio because that's the intent of working with customers, which are very receptive right now, both small- and medium-size entrepreneurial customers are receptive to solutions and systems as well as the larger customers that are looking for efficiencies in their supply chain.

Operator

Next we'll go to Adam Samuelson with Goldman Sachs.

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

I was hoping, first, if you could provide a little bit more color on some of the margin pressure that you felt in South America? It seemed like that was a bigger driver of kind of you taking the high end of the range down and in terms of making more cautious comments about Argentina specifically. But specifically around the volume outlook for that region and the specific margin pressures that you felt in the quarter.

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

Yes. Let me take it first and then Jim can add some additional comments. We had a slow first quarter attributable really to the harsh recession and the unfavorable ForEx in Argentina and higher net corn costs in Brazil. And the impacts really were significant and caused us to moderate our self-American outlook. The recession has proven to be harsher in South America, which has had a dampening effect on consumer spending and volumes. So in that country, that's what we're experiencing. Jim, do you want to make some additional comments?

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

Yes. And Adam, I don't -- we obviously look at corn and the cost of corn as well as to how we can look at pricing. And so I think the team does a really nice job of trying to manage the price/mix relative to the cost of corn. So I feel more confident in our ability to manage margin. What really is I think new for us is that the volume takeaway, some in Argentina, but also a little bit of soft volume in Brazil, that's really a more of, what, the indicator or contributing factor for us to reduce our guidance for the full year with regard to South America operating income.

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

Okay. And then in EMEA, the margins, is that -- is the decrement year-over-year and really relative to the last several years just purely Pakistan? Or is there some more competitive competition in Europe that you're seeing? Just make sure we clarify that.

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

Yes. It's mainly Pakistan ForEx and a little bit of Europe.

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

Europe.

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

A little bit Euro ForEx as well. So it's mainly Pakistan ForEx and Euro ForEx. And then the little bit of catch-up as it takes time to pass through the price increases related to the corn run-up in Pakistan as well.

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

Yes. And -- but I would not say -- I would not characterize that the competitive intensity has changed at all. Europe's a modest market and we're fine there.

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

No. We feel -- right. We feel very, very good about our EMEA business as it relates to it -- in the specialty -- it is mainly a specialties business and it continues to perform very well.

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

Okay. And then just finally for me. In North America, one of your competitors announced that they're going to be kind of switching some of their HFCS-42 capacity over to more food and industrial grade starches. And I'm just -- it doesn't seem like it's going to cost very much to actually make that shift. I'm just wondering how you think about the competitive intensity or you see the competitive landscape evolving in the U.S. in your base starch business as overtime? And are you worried that if the declines in HFCS, both 42 and 55, continue or accelerate that others might look to do that versus just shutting the corn mills entirely?

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

Yes. I mean really it's -- regarding the specific news announcement that you referenced, it's really too early to make any assessments. And our policy really is not to comment on what competitors are doing. Reminder, we took out industrial starch capacity and high-fructose corn syrup capacity with our Stockton closure. So that was in reaction to what we see happening in the market, and I'm sure the market's going to continue to evaluate its supply/demand dynamics going forward. But really, it's too early to make any assessments in that regard.

Operator

(Operator Instructions) And we'll go to Brett Hundley with Seaport Global.

Brett Michael Hundley - *Seaport Global Securities LLC, Research Division - Research Analyst*

I actually wanted to stay on that same topic and ask the question a little bit differently. So same competitor news from last week about the repurposing. My question has to do with the draft guidance that you guys mentioned from the FDA on allulose and whether or not this could lead Ingredion to make some finishing channel changes here in the States. You guys are formally in the process of adding allulose capabilities in Mexico right now, but can you talk about any desires to maybe follow through on this in the U.S.? And then whether or not that could further display some meaningful amount of core product production at any of your American facilities?

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

Yes. I mean we're obviously very excited about what the potential for allulose offers, especially now with this FDI -- FDA issued draft guidance, which again would exclude allulose from being labeled in total and added sugars on nutrition labels. So that we feel lends itself very well. Also with the strong demand for sugar reduction solutions in Mexico, where it's already approved, not to be added as a sugar as well as now in the United States, so we're very enthused about that and we do think we're going to have very strong customer receptivity starting in early 2020. So looking forward, we'll continue to evaluate how the market develops and we've got a great partner in Matsutani with great technology in this space. They've been researching rare sugars for 15 years. So we'll look at it. We'll continue to evaluate it. And our intent is to grow, to have this be as a central part of our growth platform for sugar reduction. So I think one step at a time. We want to get the customer wins under our belt in 2020 and then we'll evaluate and it'll be part of our strategic investment plans certainly going forward with a great partner.

Brett Michael Hundley - *Seaport Global Securities LLC, Research Division - Research Analyst*

Okay. And then I do have a question about the drop-off in volumes in North America. I'm admittedly a little confused there. I know you're talking to Stockton as the reasoning but I'm curious if there was any follow-through on business loss from closing Stockton? Because if I go back and look at the numbers and just look at 2 years stack performance for volumes inside North America, your volume change in Q1 was a minus, call it, 1.5% over 2 years. And then in Q4 of last year, it was plus-3.5% or higher on a 2-year basis. And I went back and looked at your transcript from Q4 and you guys were talking about how other parts of your business had offset volume declines from Stockton at that point. So with Stockton presumably closed during Q4, I don't understand why that would be a reason for a sequential volume falloff in Q1. And so I'm just trying to understand the change a little bit better or maybe I'm misunderstanding.

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

Yes. I'm just going to just mention one thing, just for clarification sake and then Jim can comment from his perspective. Just to kind of correct the record in relationship to the Stockton closure. The Stockton closure I guess you could say officially closed in December month. It was I think officially closed in November, mid-November or something like that and then you take into account the holidays. So really, it wasn't for the full quarter of Quarter 4. So Jim, do you want to comment just on volume? Because we are attributing certainly the majority or if not all of it on the back of the shed?

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

Yes. And Brett, I mean, as we purposely thought about serving the customers on the West Coast, really, we saw probably some of that shed really start to hit us mid and midway through Q1 for what we kind of purposely went after. We were very much okay with servicing and retaining customers from other sourcing locations, be it Cedar Rapids or other plants in the Midwest, as we have been used Stockton as a break station to get out there. I think, maybe, overall, if you look at kind of a 2-year trend, one of the things that we didn't call out in '18 was that generally, there was some weaker sweetener volume mostly attributable to kind of HF 55 into beverages. So I'm just wondering if, as you gain more time and a little more data, you might have seen that that's stepped down from '17 to '18, played out and then we'll see kind of a different run rate for 2019 as we go forward for HF.

Brett Michael Hundley - *Seaport Global Securities LLC, Research Division - Research Analyst*

Okay. I mean that makes sense. I mean, real quickly, do you feel like HF is falling off incrementally here as we move into this summer compared to last summer?

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

No. I think it's staying -- it's declining at...

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

Long-term historical rate.

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

Yes, yes.

Brett Michael Hundley - *Seaport Global Securities LLC, Research Division - Research Analyst*

Okay. That's helpful. And then just one quick one for me and then I'll get out of here, is Korea -- do you have a view on when Korean corn cost could moderate a little bit or your ability to get corn in there? I think getting corn in there from outside is a little bit more structurally tough. But can you just give us an update on when corn cost can moderate there? Because I hear you, on the margin side, it would be nice to see some of your reboot come through from your recovery in Thailand as well as some of the mix changes that you've made in Asia. So I think some of us are really expecting that margin profile to get better. I just didn't realize that Korean corn cost would be this big of a hit.

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

It's really a continuation from Q3 and Q4 of last year. So I think once we get through Q2, we'll start to see much better net corn cost into Korea as well as our other Asia-Pac countries in the second half.

Operator

And with no further questions in queue, I'll turn it back to the company for any closing comments.

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

Okay. Well, I just wanted to thank, everybody, for joining us today, and we look forward to seeing you in the near future. Thank you so much.

Operator

Ladies and gentlemen, that does conclude your conference for today. Thank you for your participation. You may now disconnect.
