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PRESENTATION

Unidentified Analyst

Welcome back. Thank you. Let's get started. It's my pleasure to welcome Ingredient back to the conference and introduce President and CEO, Jim Zallie. As many of you know, Ingredion is a leader in the global ingredient solutions industry. And building on 35 years of food industry experience and a decade with the company, Jim has served as Ingredion's CEO since January of 2018.

Under Jim's leadership, Ingredion has successfully integrated several key acquisitions and formed a joint venture with Verdient Foods to address consumer and customer needs in the fast-growing plant-based protein space. Jim has also been the architect of Ingredion Idea Labs, which serves food and beverage manufacturers by accelerating the development and commercialization of innovation.

Last year at CAGNY, Jim Introduced Ingredion's driving growth roadmap, which in 2019, delivered outsized growth for the company's value-added global specialties business that now represents 30% of sales, up from just 5% in 2009. Jim has brought along several other members of his leadership team that he will introduce. But for now, please join me in welcoming Jim back to CAGNY.

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

Okay. Thank you, Tim. Thank you, Tim. Okay. Good afternoon, everyone. It is a pleasure to be with you, and a pleasure to introduce Ingredion and update you on the latest developments in our company, whose core purpose is bringing the potential of people, nature and technology together to make life better.

Just a reminder, that today's presentation will contain some forward-looking statements or may contain some forward-looking statements that would be covered by safe harbor provisions.

So today, Jim Gray, our Executive Vice President and Chief Financial Officer, and I are going to tag team for this presentation. And I'm going to cover our strategic focus and opportunities for growth. Jim's going to cover the financial outlook and the implications for shareholder value. And joining us also on stage today, and for the Q&A afterwards, is Jorgen Kokke, and Jorgen is the Executive Vice President for Global Specialties and also is the President of North America, our largest region, which represents 60% of the sales for the company.

For those of you that aren't familiar with Ingredion. We are a leading global ingredient solutions provider with a little bit more than $6 billion in net sales. For 11 consecutive years, we have been recognized by Fortune Magazine as one of the world's most admired companies. And we're very proud that for the last 3 years, we've been included in Bloomberg's Gender Diversity and Gender Equality Index, and also recognized by the Ethisphere Institute for the last 7 years as one of the most ethical companies.

We supply more than 18,000 customers in more than 120 countries, ranging from Mexico to Korea, where we have strategic supplier status with companies, and we have manufacturing operations in 26 countries around the world. And for the last 10 years, we've delivered a compounded annual growth rate in adjusted earnings per share of 13%. And we're doing all of that today in a very rapidly changing food industry where macro trends, such as wellness and mindful living are really driving consumer preference, choice and where consumers want to know where they get their ingredients from, their food from, and also how it's prepared. And so clean and simple trends are very, very pervasive and mindful consumption is also very top of mind for consumers wanting to understand the environmental implications of the ingredients they're sourcing as well as impacts on things like animal welfare, for example. And they want all of this with hyper convenience and instant gratification, and they don't want to compromise on taste. And so what all of this is driving is more urgency for suppliers like ourselves to work with food companies to help them innovate faster and get products to market that consumers prefer. And specialty ingredients are more important than ever from a standpoint of consumer choice, whether that be for a customer formulating for a consumer a product that would be certified as non-GMO or organic or vegan or gluten-free. Ingredients can make all the difference. And for those products to conform to, say, a keto diet or a paleo diet or a flexitarian eating lifestyle. And to make sure that the ingredients that are in those products are truly certified as sourced in a sustainable manner, for example.

Ingredion participates in a large and growing food ingredients market, estimated at $155 billion, with the largest portion of that market being in sweeteners. And with a transformation that's taking place right now in that sweetener sector towards reduced sugar formulations.

On the texturization side, whether it be with starches for hydrocolloids or fibers, there is definitely a view that texture is emerging as the new flavor, driving consumer preference and a clear preference for clean label texturizers as well. For consumers that are looking for -- to bolster their nutrition requirements or increase the amount of protein that they're consuming. Certainly, there is a drive towards mindful living, mindful consumption, and that's driving the growth in plant-based alternatives as well. So customers clearly are seeking to formulate with more on-trend, label-friendly nature-based ingredients. 82% of global consumers find it increasingly important that they recognize the ingredients that are on those labels. So today, for sure, the right ingredients matter more than ever.

So we introduced our driving growth roadmap 2 years ago. And it is built on 5 very much on-trend growth platforms. Starch-based texturizers. We are the market leader in starch-based texturizers on a global basis. We supply 13 -- we source 13 different types of starch basis and then modify them in a whole variety of ways so that they can perform multifunctional tasks of stabilization or shelf life extension or emulsification in a variety of food products. And those can be based on corn and tapioca, potato, rice, for example.

We also are a leader in clean and simple ingredients where functional-native starches and specialty starches and functional-native specialty flowers, which are preferred on a label, are also a cornerstone of that particular platform. And most recently, we've invested $185 million to build a new leg to our specialty ingredients platform in plant-based proteins and isolates as well as flowers and in concentrates. We're very excited about that. That combination, along with the starch portfolio gives us tremendous problem-solving capability in the area of texturization of foods.

In addition, we're very focused on the large and growing global trend towards sugar reduction and with the specialty sweeteners that we already do supply into that market segment. And food systems really encompasses it all, and I'm going to talk a little bit more about the drive towards supplying systems as well as co-creating with customers and why this combination of factors is really playing well to a company like ourselves to service customers, big and small, to deliver on innovation.

The first growth platform that I do want to talk about, though, is plant-based proteins. And this movement is really being driven by consumers' preference towards healthier eating and general their overall -- overall general wellness. 63% of consumers are selecting plant-based foods, specifically because they view them as healthier, part of a healthier diet. But equally, consumers are consuming plant-based ingredients for the concerns around the environment, animal welfare or just general overall sustainability concerns. And you can see the example given there, the amount of water necessary to produce 1 pound of either pulses or beef or milk, for example. And that demand for protein is growing. And specifically, 61% of global consumers are certainly interested in plant-based proteins. And the size of the global alternative to animal protein ingredients market is estimated to be $13.4 billion by 2024, and 70% of that is estimated to be comprised of plant-based proteins.

And for Ingredion, we feel we have positioned ourselves well to capitalize on this opportunity by the investments we have recently made, which are commissioning this year in the case of a state-of-the-art facility that we are commissioning this first half in South Sioux City, Nebraska, and that will be producing pea protein isolates. And then that's complemented by 2 manufacturing facilities that were jointly invested in to produce a range of pulse-based flowers and concentrates in the largest pulse growing region of North America in Saskatchewan. So we're very excited about what this represents for us.

The other megatrend that aligns extremely well to our specialty ingredients portfolio is specialty sweeteners and sugar reduction. And this is being driven by a variety of factors. Right now, governments around the world are imposing, have imposed, sugar taxes or taxes on high sugar or high-calorie content foods. In addition, you're seeing more labeling requirements on the front of pack that clearly communicates to consumers, the amount of sugar that's in those products. And then you're also seeing large companies establish bold goals for sugar reduction. So this also is a series of trends that really align to our focus on sugar reduction, and we have estimated for us for the ingredients that we supply that can enable sugar reduction and replace both the sweetness as well as what we call the textural build back, and that would be the mouth feel or the bulk that you replaced when you replace sugar with something that would be of high intensity. We've assessed that market opportunity for us at $4 billion today. And clearly, that's growing. 81% of global consumers are checking the sugar content of their foods and beverages, and 54% are actively working to reduce the amount of sugar that they can take. And overall, globally, we view this as the #1 trend right now shaping dietary factors for consumers. And so we've expanded our sugar reduction capabilities. Just this past November, we commissioned a manufacturing facility in Mexico to produce the rare sugar allulose. Allulose is found in nature, it is 70% as sweet as regular sugar, but with only 10% of the calories of regular sugar. And it helps manufacturers reduce sugar and calories across a range of food products. And not only that, but early this year, both the FDA as well as the Mexican version of the FDA, COFEPRIS, approved the use of allulose and for it not to be labeled as an added sugar on the label, which again bodes well for its adoption going forward.

The other growth platform that I just like to speak to, which is very versatile is our starch-based texturizer platform and that we view will continue to grow with population growth that you're seeing in the emerging of the middle class, where there will be an increase in packaged food consumption and prepared food consumption. And in addition, the clean and simple demand for ingredients will have a pull for our clean label starches as well. So starch-based texturizers are very, very versatile and find themselves in so many different types of foods and specifically appeal to the convenience trend, for example, to provide a coating around a french fry to have it be crispy and crunchy and hot when it makes its way to a consumer that might be ordering through an app, for example, on delivery.

And we've expanded our leadership in starch-based texturizers this past year with the acquisition of Western Polymer, which provided 3 manufacturing facilities to give us headroom for growth in the specialty potato starch market in North America, and we've also expanded our rice starch and rice flower capability in Thailand with a facility we bought in 2017, and this lends itself particularly well for gluten-free applications as well as for clean label applications, such as infant nutrition and baby food.

And while all of these consumer trends are certainly influencing our focus as an ingredient supplier to appeal to customers who want to pivot towards those consumers, we are also very mindful of the consumer landscape. Our customer landscape that is changing, where small and midsized companies are driving more industry growth. And not only more industry growth, but also introducing more new products and an increasing percentage of the new product dollar sales. For example, you can see small and midsized companies from 2013 to 2018 went from 38% to 46% as a percentage of new product sales dollars that they represent. However, the large companies are not standing still, and they're fighting back. And we're seeing that, and they're leveraging their resources and scale and trying to become more nimble, and it's going to be very interesting to see in the next 2 years how this looks because I do think that the large companies, many of them are becoming much more innovative. And what that all means for a company, a company like ourselves, is opportunities to work with companies big and small, the small companies that don't have as much resources to draw upon that are more dependent upon an ingredient supplier or the large companies that have downsized their research and development and now need to compete with the small companies. So we're taking 2 new approaches to work with these customers. One, we're calling a system's first approach and this is enabled, again, by the broader portfolio of ingredients that we have, the investment in plant-based protein certainly helps. But take, for example, an alternative meat burger that you see picture there. We would provide the pea protein isolate that would structure the majority of the texture of that product. We could also supply a starch or a hydrocolloid that could help with the binding and/or the juiciness or succulents of the product, also a beet extract to provide the coloring or the red bleed of a product like that. Potato starch can also go in the bun, for sure. And also the hydrocolloid or starch can help with the sauce.

And so we are offering systems now, which would be combinations across all 4 platforms in things like alternative meats, alternative dairy, gluten-free applications as well as sugar reduction, so not necessarily selling a singular ingredient. Equally, we're seeing more and more customers. And we have to be very selective -- want to work with us on very tight time frames to get a product from concept to marketplace within, say, 60 days, and to do that and work in an open, flexible manner with other co suppliers, in our case, perhaps other flavor companies to innovate faster and co-create, and we're doing that as well.

These are the 4 strategic pillars upon which our strategy is based, and I've talked to you extensively just now about specialties as well as commercial excellence.

Jim Gray is going to talk to you shortly about Cost Smart, which is not only delivering savings, but is also transforming the way we work. But I just want to close my section, talking about our purpose-led culture. And specifically, what we're doing in the area of sustainable and trusted sourcing where we have made a commitment to be 100% sustainably sourced for the vast majority of our ingredients by 2025. Today, 2.7 million metric tons of our products, or about 25% are sustainably sourced. And this would be through certifications of social, ethical and environmental protocol standards for sustainable sourcing. And very shortly, on Earth Day, we're going to be releasing our 2030 sustainability goals, which would be in line with the UN's sustainable development goals. So this is one of the key elements of our purpose-led culture.

I'm going to now turn it over to Jim Gray, who's going to cover the financial outlook and talk about the implications for shareholder value, and I'll come back to close the presentation. Jim?

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

Thanks, Jim. I'll keep my remarks -- I'm going to briefly cover 2019 financial performance and then I'll move to discuss our 4-year profit growth outlook. And finally, I'll conclude on cash and capital allocation preferences.

In 2019, our company delivered $6.2 billion in sales. In 2019, we faced significant foreign currency challenges, which contributed almost negative 5 points of growth to our top line. In our business, we overcome that by taking price both to cover FX as well as to cover changes in our raw material costs. And we gained back almost 4 points through pricing actions and mix improvement. Our adjusted operating income was $705 million, and we delivered 11% operating margins. For 2020, our guidance includes an outlook or an expectation for net sales to be up as well as adjusted operating income to be up. And our current adjusted-EPS guidance is between $6.6 and $7.2.

We look at products that provide a unique value to our customers and demonstrate higher growth as well as higher margins and also have some differentiation versus other ingredients in the marketplace as specialty. Here, you can see, in 2019, that specialty product lines comprised 30% of our net sales. And as we look forward, we expect mid-single digit to high single-digit growth from our specialty portfolio and believe that specialties may comprise up to 36% of our sales by 2023.

In the middle box here, we illustrate the 5 growth platforms, which are primarily all of our specialty portfolio. And as you can see in the navy blue, as we look forward, we think that the growth from specialty is in the mid- to high-single digits combined with stable net sales in our core and other businesses, illustrated in the gray here, such that the company, on a weighted average basis, can achieve 1% to 4% net sales growth over the next 4 years.

At the bottom of this chart, I highlight an estimate of our adjusted operating income split between specialty and core and other. And as specialty continues to grow at a higher pace as well as sell for higher price per ton than our core business, we believe that specialty will comprise more than 50% of the estimated adjusted operating income by 2023.

When we look at those 5 growth platforms, we identify about $600 million of sales incremental to the company. Starch-based texturizers and clean and simple ingredients really comprised $300 million or almost half of that sales growth. The other 3 platforms comprised the remainder. And in the bottom row here, we show estimates for expected growth in each of these platforms, anywhere from mid-single digits to low double-digit growth. And I think it's important when we look at specialty, that we recognize that this growth, along with an improvement to our mix, and there's higher price per ton because it's more value-added to the customers is really what drives a lot of the top line growth as well as improvement in gross profit.

We report our business and manage our business in 4 regions. I'd like to highlight a few aspects of each region's performance. First, I'd like to point out that specialty sales across each region are a significant proportion of each region's sales and highlight that in Asia Pacific, the third column over, and EMEA, the fourth column over, specialty is almost half or more than the total net sales within that region.

What we'd also like to highlight, though, is that given where our business is positioned, we believe that we have an ability to serve customers in large -- in countries that have large populations and growing populations. Again, I highlight here in Asia Pac, the region represents 57% of the world's population, yet it's only 25% of our customer base. And so as the world population grows, we believe that both our specialty and our core businesses are really well positioned to benefit from that growth. We -- Jim and I spent a lot of time and Jorgen, talking about specialty, but I think we should also spend just a few moments on our core business. And so we'd like to update everybody here with how this core and this other business perform. So sweeteners comprised 36% of our net sales globally. And all types of our HFCS comprised about 12% of our sales globally. And so I often get asked, well, Jim isn't HFCS in decline? Isn't that a concern? Well, yes, they are declining. We've talked about that. We've also, though, taken actions to match our capacity with that demand. We've sold the plants in Canada. We've closed a plant in California, and that's representative -- if you look at this chart, in 2015, HFCS was 16% of our sales and now it's only 12% in 2019. However, what many of you may not see is that we actually sell our very robust portfolio of other sweeteners. And over this same time period, our other sweeteners have grown on average 2% annually. Other sweeteners include things like glucose and dextrose, maltose derivatives, non-GMO syrups and Polyols.

We believe that the growth in specialty, as we've outlined, along with a stable net sales delivery from our core and our other businesses, can contribute to our 4-year profit growth outlook. So we expect 1% to 4% net sales for the company on average over the next 4 years. We expect to deliver mid- single-digit operating income and high single-digit adjusted EPS as we invest in M&A or we return cash to shareholders through share repurchase. Yet every growth plan needs fuel. And as we look at our overall cost position and how we're organized, we announced, in 2018, a broad savings program, which we called Cost Smart. At the end of 2019, we've achieved $74 million of cumulative run rate savings through our Cost Smart initiatives. We've impacted our cost of sales and our freight costs as well as our SG&A. And we recently announced in our earnings call that we're increasing the savings target to $150 million by 2021.

Let me turn to my third part of my remarks and talk a little bit about cash. So cash from operations, we expect to be between $640 million and $710 million. And we anticipate investing approximately $300 million towards capital investments, of which about $180 million to $200 million to stay in the business capital or capital for the maintenance of our facilities and our systems and approximately $100 million will go towards growth supporting plant-based proteins as well as our other specialty platforms. With the remainder of the $350 million to $400 million of cash, we'll pay out a dividend to shareholders of approximately $175 million. And then we use the remainder to either consider M&A, which accelerates our position in our specialty or we consider share repurchase.

One of the questions that we get as well is, Jim, when will the specialty investments become evident in the income statement? When will we see the growth? Well, clearly, if we're talking about mid- to high single-digit growth in specialty, our company needs to look forward and think about where is the demand going to exceed our capacity and how are we going to plan investments. And we do that -- usually, it takes us 1 to 2 years from the idea to the planning to the construction of a facility, and then anywhere from 2 to 5 years to fill out that capacity as the sales teams sell those products that are coming off those new capabilities. I wanted to highlight 1 example of this. This is an investment that we made in the spray dryer in Hamburg, Germany several years ago. We increased the capacity for our clean label products in Germany. This was about a $40 million dollar equivalent investment. And clearly, the profit generated from the products coming off of the spray dryer, were more than sufficient to exceed our targets and exceed our cost of capital. And we were very -- and I guess I'd look back at this, and I would say that one of the things that our teams do really well is that our manufacturing teams think about continuous improvement, and they think about ways that they can continue to optimize the asset to squeeze more capacity out of that investment. And our sales teams are always working with our manufacturing teams to think about what's the right mix of high-value products that we can get through our production lines. And that's how you achieve returns, like 24% IRRs and 19% ROICs.

We also use our strategic cash flow towards M&A. And as Jim highlighted, we've recently expanded our rice starch acquisition that was in Thailand. And we also acquired and expanded into potato starches through the acquisition of Western Polymer this year.

And finally, we try and strive to maintain an investment grade. Our net debt to adjusted EBITDA is 1.7x. And we really believe that a strong balance sheet leads to financial flexibility. If and when that marketplace opportunity comes along, we would be ready to act.

With that, let me turn it back to Jim.

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

Okay. All right, Jim. Thanks. I just want to conclude with our 4-year performance objectives, and that is clearly, at the heart of our strategy is to grow our specialties business. We are targeting to grow our specialties business, an incremental $600 million to $2.3 billion of net sales -- greater than $2.3 billion to $2.5 billion of net sales by 2023. That would represent 34% to 36% of net sales, 1 percentage point expansion in our margins, and high single-digit targeted adjusted-EPS growth with a targeted adjusted return on invested capital of greater than 12%. And we are operationalizing or driving growth road-map, which is all about executing against the 5-growth platforms. And it's really underpinned by sustainable and trusted sourcing and working with customers very closely to co-create. And when you think of Ingredion, you should consider us a company that enables, on behalf of our customers, consumer-preferred innovation. So with that, Jim and Jorgen and I would be very glad to take your questions.So I see 1 hand here and that is Adam. Adam Samuelson.

QUESTIONS AND ANSWERS

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

So just going through the slides, and you gave some breakdown of specialty ingredients' contribution to profit. And you gave the same slide last year, and it would seems to imply that specialty actually was the source of most of the EBIT decline in 2019, based on the 2 slides. I'm just trying to think about what that would be? And just help me bridge the decline in commodity versus specialty.

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

Yes. So that's a very astute question that you compared it to the last time, and Jim has the explanation for that, Jim?

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

Yes. No. So specialty has grown in profit year-over-year. When we restated the revenue -- not restated the revenue, when we moved freight and warehousing into cost of sales, and we look at our SG&A allocation. The SG&A allocation that we have now, we think, is a really fair reflection of how much SG&A should be against the specialty types of businesses, for the innovation and the tech service versus what's against the core. So -- but specialty, year-over-year, the profit pool has grown. It's just a clear representation, I think, of where we're starting. That said, I think that if you look at specialty, it means that as we grow specialty more, it has more of an opportunity to contribute to the profitable going forward.

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

Yes. That same directional shift that we signaled the last time we provided that information hasn't changed. So the directional shift is still for an incremental portion to come from there.

I'm going to get to your question, Rob. I'm going to go to David Driscoll, and then I'm going to come to you. David?

Unidentified Analyst

I wanted to ask about the plant-based protein facility that you're constructing. And just to understand, given that there is such excitement in that market by some brands that were we're all familiar with here in this audience. Can you say that the production output of that plant is already sold out? And then just a related question, when you're trying to get those ingredients into the formulation of some of these brands that are on shelf right now, are you already in those formulations? So I'm just -- again, I'm just trying to get a sense as to how much of a lock is the output of that plant at this point? Or is it, you'll build it and eventually they'll come because the market's going to fast?

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

Yes. I'm going to turn it over to Jorgen here in a minute. Let me just make some opening comments. So we're very excited about the amount of customer interest and customer demand in projects that we're working on with customers. So there's a growing pipeline. There is clearly demand, certainly in North America that is outstripping supply today, and that's forecasted to -- we've modeled that going forward despite additional investments in the space. So we're very confident that our facility will not in any way be in an overcapacity situation. It's going to remain in a deficit capacity for the foreseeable future. But Jorgen, do you want to answer that from a standpoint of where we're at and also the commissioning and the customer interest that we've seen so far?

Jorgen Kokke - *Ingredion Incorporated - Executive VP of Global Specialties & President of North America*

Yes. For sure. Well, David, just building on what Jim was saying, I would also say that we can leverage the existing customer relations that we have. As you know, we have a very sophisticated go-to-market force. And we're working with all of the CPG companies, big and large, throughout North America as well as basically the world. And those very companies that are active in the plant-based space, as Jim was showing in the presentation, they will not only buy plant-based proteins, such as pea protein isolates or concentrates, but they will also buy starches as well as our TIC Gum hydrocolloids as well as our Kerr Concentrates juices and food extracts. So we're seeing a tremendous interest and we believe we're in a really good spot, in a really good place because we have access and relationships with these companies.

As Jim was also saying, this is a very dynamic and growing space. And we believe that the North American market is underserved, and so there's imports coming in from not only Europe but also from China. And so clearly, the market is looking for domestic supply of these very high added value ingredients. And so that's obviously where we come in. Now our project is progressing very well. It is a state of the art facility in an outstanding location. And we're making very steady progress. As you can imagine, with a new facility, there is a commissioning that has to take place. There's also the approval process that we have to work through with our customers. And so that's what our focus will be this year, and we expect to be in business in the second half of this year.

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

And I think it's also noteworthy to indicate that this would be the only second pea protein isolate facility in the United States. So with the deficit that exists, there's a tremendous amount of interest and demand. And again, we, to your point, have extensive relationships with all of the customers that we'll be interested in buying from that facility. So we're feeling very good about it.

So Rob Moskow?

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

Sure. Maybe Jim Gray to clarify again on the specialty margins and how the cost allocation of SG&A worked. Just a follow up to Adam's question because I wasn't -- is your -- are the margin -- is the margin definition still the same that it's twice the margin of the rest of the business? Or has something kind of accounting-wise changed so that are they getting more -- hit more by SG&A because the margins are lower than they used to be?

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

No. I mean we used to discuss specialty in terms of a gross-margin basis. But we would get questions and say, well, wait, I mean, a doesn't specialty companies require more SG&A because of the sales effort, the technical service, the R&D.? And so as we move forward to how do we think about the SG&A as it applies appropriately to our specialty business as well as to our core. And we've -- look, some of the allocation methodologies were based on sales, and so we've clarified that, and we think we have a methodology going forward that we can apply both globally as well as to every region as specialty grows. The margin, as you get down to the op income, it's still higher for specialty by a significant amount versus our core as well as -- and that's margin percentage, but also in terms of dollar profit pool, it's larger because it's less volume, higher profit per ton.

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

Yes. Okay. And then a follow up. I think on the last call, you said that your specialty business in Brazil was starting to kind of percolate and get some momentum. And you also -- I think you guided for profit growth for Latin America overall. How important is specialty growth in Latin America to achieving that growth objective this year.

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

Yes, it's very important. In fact, specialties growth in South America and in Latin America, in general, if you include Mexico, was the highest of any region of all of last year. So the team down there has done a very, very good job. We've got very, very strong leadership of that whole specialties organization. I would say, dairy, gluten-free applications, snacks are growing very well. I just happen to be in South America twice within the last couple of months, and it's doing quite well. And we're seeing growth also from the midsized and small companies as well as the large customers. So it's -- that phenomenon is not a U.S. or North American phenomenon alone. We're seeing that in South America as well.

So Ken?

Unidentified Analyst

Want to touch base on pricing opportunity. Can you break down or at least qualitatively divide up the pricing opportunity by pass-through by FX, capacity constraint/growth commodity-driven innovation? And then maybe there's other ways to which you get pricing. But those are the 4 kind of ideas that I get in my head. Can you -- for the next year or so, which one will be the key driver? And which ones can you build on? And just how do you think about the pricing opportunities throughout the portfolio?

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

Yes. Let me turn it over to Jim to kind of break it down? And then maybe let Jorgen complement him with some comments about North America pricing, which is most material given some of the raw material, corn and co-products and net corn, et cetera. But let me have Jim just kind of break it down.

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

Maybe just to characterize, so outside of North America, as we've seen FX devaluations and corn trades really in dollar terms across the globe. In certain countries, we've had very significant pricing actions. Those pricing actions have been ahead of local inflation rates. And we're actually seeing that kind of catch-up, I think, as we go into the first half of 2020. So we've spoken about Brazil and Argentina as well as in Pakistan, there I really see kind of more pricing actions driven by kind of both FX catch-up as well as kind of covering the higher cost of corn. Maybe for North America. Jorgen can comment more.

Jorgen Kokke - *Ingredion Incorporated - Executive VP of Global Specialties & President of North America*

Okay. Okay. Well, yes, I mean, first of all, in North America, FX would not be a factor. Mexico is part, but the Mexican peso hasn't really weakened versus the U.S. dollar. So I would think about it in terms of low single-digit increases across the board for the North American business. I would also highlight a mix improvement with -- you saw that specialties represent 25% of our revenues in North America. We expect to grow the specialties in the mid-single digits, ongoing growth there, which will drive the price mix, as it is shown in the business. And if you then kind of move to the cost side, we would see kind of flattish corn cost. We would see the basis kind of coming, which is exceptional here in the first half of the year and was exceptional in the latter part of last year, we see that normalizing towards the end of the year. And yes, so all in all, we see kind of a small margin expansion, slight margin expansion for North America.

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

Okay. I have 1 question over here, and then I think that'll be perhaps it.

Ann Holden Gurkin - *Davenport & Company LLC, Research Division - Research Analyst*

Ann Gurkin with Davenport. I just had 2 questions. One is [mega] update regarding demand from the brewing industry in South America over the next 12 to 18 months? And then second, mega update on the timing of trade with China, how that should maybe should unfold as the year progresses?

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

Yes. So I'll take the demand for brewing. We're actually expecting strong demand from brewing in South America for this calendar year. Brazil, we actually have forecasted increased volumes. And equally, in Mexico, we'll have solid demand as well. So as it relates to China trade, I'll just make a comment, in relationship to the China trade dispute, which impacted us over the last couple of years, just related to the impact on soybeans, and this a knock-on effect on our net corn costs, we have taken a very conservative view towards Chinese purchases of soybeans. And we're not in any way in our guidance, anticipating that there's going to be some sudden bounce back and return to any kind of normalization. So that's not factored into any of our guidance going forward. And I would just say, as it relates to China, and I know you didn't ask specifically about coronavirus. We're just monitoring that situation. And our guidance does reflect, based on the time our guidance came out, say, a quarter-1 impact that we could assess but anything beyond that remains to be seen. We're just evaluating the situation right there, right, in that respect. But for the audience's sake, what I mentioned on the earnings call was that China, for us, represents 2% to 2.5% of our net revenues. So Jim, do you want to make any other comments on China trade?

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

Just maybe just to clarify on China. So we have 2 facilities in China. One is continuing to function and operating. The other facility -- just one of our production lines is down just as operators and our key employees return to work, and we -- we're expecting to be up and running fully this week.

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

And one other piece of information is that China did lower some tariffs on some products in response to the U.S. lowering some tariffs in relationship to phase 1, China trade. And so imports, for example, in modified starch have come down by 2.5%. So that helps, a little bit helps. And I think the overall, there's a fall. And there is -- the environment is improving. It's just -- it's a shame what's happening right now with coronavirus with the macroeconomic impacts.

Okay. So thank you very much. Thank you for your attention. Thanks.

Unidentified Analyst

Thank you, again, very much, Jim and Gray for the presentation. Management will be available in the breakout room next door for any additional questions. Thanks again.