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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day and thank you for standing by. Welcome to the second-quarter 2025 Ingredion earnings conference call. (Operator Instructions) Please be advised that today's call is being recorded.

I would like to hand it over to your speaker, Noah Weiss, Vice President of Investor Relations. Please go ahead.

Noah Weiss - Ingredion Inc - Investor Relations

Thank you. Good morning, and welcome to Ingredion's second quarter 2025 earnings call. I'm Noah Weiss, Vice President of Investor Relations.

Joining me on today's call are Jim Zallie, our President and CEO; and Jim Gray, our Executive Vice President and CFO. The press release we issued today as well as the presentation we will reference for our second quarter results can be found on our website, ingredion.com, in the Investors section.

As a reminder, our comments within the presentation may contain forward-looking statements. These statements are subject to various risks and uncertainties and include expectations and assumptions regarding the company's future operations and financial performance. Actual results could differ materially from those estimated in the forward-looking statements, and Ingredion assumes 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 on the company's most recently filed annual report on Form 10-K and subsequent reports on Form 10-Q and 8-K.

During the call, we also refer to certain non-GAAP financial measures, including adjusted earnings per share, adjusted operating income and adjusted effective tax rate, which are reconciled to US GAAP measures in Note 2, non-GAAP information included in our press release and in today's presentation appendix.

With that, I will turn the call over to Jim Zallie.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Thank you, Noah, and good morning, everyone. For the second quarter, Ingredion delivered another period of strong performance, with adjusted operating income of \$273 million, our highest quarter two in company history. While net sales declined by 2%, primarily reflecting the pass-through of lower corn costs, adjusted operating income increased by 1% for the quarter and 12% for the first half of 2025.

Our performance this quarter was led by our Texture and Healthful Solutions segment, which delivered 2% net sales increase and an extraordinary 29% rise in operating income. Top line growth was supported by a 3% increase in net sales volume, with clean label solutions seeing significant growth in the quarter. Segment margin expanded by 400 basis points, driven by increased utilization and improved fixed cost absorption.

Our costs were further reduced by improvements in production efficiency and improvements in integrated raw material procurement. Both of our Food and Industrial Ingredients businesses faced modest challenges in the quarter. Our Food and Industrial Ingredients LATAM results were impacted by the Argentina joint venture lapping a strong quarter last year. Apart from the joint venture results, this segment delivered a solid second quarter performance as it continued to manage customer and product demand toward a more favorable mix.

In the Food and Industrial Ingredients US/Canada segment, our results were negatively impacted by a mechanical fire that briefly shut down our largest plant in Chicago on June 22. Operations resumed before the end of the quarter, and we are working to recoup some of the loss impacts throughout the second half of the year.

Turning to a summary of our net sales volume for the quarter. Starting with Texture and Healthful Solutions. Sales volume increased by 3%, with growth across US/Canada and Asia Pacific. The majority of our priority food categories within this segment demonstrated growth, with beverages, bakery and dairy showing the strongest performance. Additionally, demand for clean label solutions increased during the quarter, with US/Canada leading with double-digit growth.

Furthermore, our US team has done a fantastic job growing customized formulations, which are bespoke solutions for specific customers consisting of two or more specialty ingredients. Net sales volumes in Food and Industrial Ingredients LATAM declined 4% this quarter, primarily due to reduced brewing volumes in Brazil and Mexico as well as macroeconomic impacts across LATAM, notably slower economic growth impacted by higher interest rates.

Our Food and Industrial Ingredients US/Can segment saw lower sales volumes in comparison to a strong quarter last year. Industrial starch sales, in particular, were lower, as corrugated box demand weakened in response to customers adjusting production schedules amidst tariff uncertainties. In addition, the mechanical issues at our Chicago plant reduced available co-product supply.

In response to the growing trend and media coverage toward health and wellness, I am pleased to note that we saw double-digit growth from our clean label solutions in the US and sugar reduction portfolio globally as well as high double-digit growth from protein isolates. We are optimistic that this trend will endure as our ingredients represent differentiated value propositions for customers that are actively reformulating towards healthier products.

For example, our clean label native starches are leveraging proprietary plant science to deliver low temperature stability for refrigerated and frozen applications. We are also benefiting from the requirements customers have to optimize the texture and affordability of the recipes as they replace volatile ingredients such as cocoa and eggs or reformulate entirely for a healthier profile. These opportunities leverage our comprehensive portfolio of specialty starches and hydrocolloids, high-intensity, natural sweeteners, natural fibers and protein isolates.

Ingredion's solutions selling and go-to-market position is enabling us to access more small and medium-sized customers and insurgent brands that are driving disruptive category growth. Simply put, customer interest in reformulation is fueling long-term growth opportunities as consumers increasingly expect product authenticity and healthier profiles, which taste better.

Turning to the next slide. We are pleased to report that gross margins have once again expanded sequentially, establishing a higher level of profitability coming off a record year in 2024. This higher level of profitability is being sustained through a sharper commercial focus brought about by our new segment structure as well as disciplined operational execution and enhanced risk management.

Let me now update you on progress against our three strategic pillars. Beginning with business growth. Texture and Healthful Solutions delivered robust performance with strong sales volume growth and expanding operating income margins. The Food and Industrial Ingredients LATAM segment is positioning itself for long-term growth by diversifying its customer base beyond brewing and beverages. Lastly, in the Food and Industrial Ingredients US/Canada segment, we are supporting the long-term growth of industrial starches through the expansion of our Cedar Rapids plant, which is progressing well.

Moving to the second strategic pillar, cost competitiveness through operational excellence. We now expect to exceed our \$50 million run rate savings target by the end of 2025 for our Cost2Compete program. We have identified additional opportunities in SG&A and cost of goods sold savings that are exceeding initial projections. Furthermore, we continue to improve our customers' experience through better service reliability and responsiveness.

In the second quarter, we saw measurable gains in key performance indicators, such as perfect order delivery and our Net Promoter Score, reflecting the commercial excellence benefits of our investments in digital transformation. We are also exceeding our procurement savings targets through integrated sourcing strategies and by cross-functional collaboration enabled by our global operating model. Also, a quick reference to tariffs. We experienced minimal direct impact during the quarter and in the first half of the year. And as a reminder, the majority of our products are manufactured locally and sold locally.

Moving to our last pillar, our people-centric performance-based growth culture. This quarter, we released our 15th sustainability report, create the future with people who care, which highlights the meaningful progress we've made across our environmental, social and governance priorities. The report reflects our deep commitment to building a more sustainable future through innovation, partnership and care for the communities in which we serve.

As a leader of our commitment -- as evidence of our commitment, in May, Forbes recognized us as a net zero leader, listing the company among the top 200 global organizations most effectively advancing efforts to reduce greenhouse gas emissions. As we celebrate Ingredion Mexico's 100 anniversary this year, we are proud of the powerful standard for excellence that our Mexican business continues to set.

Recently, Ingredion Mexico was named 1 of the 500 most important companies in the country by Expansion magazine, while also earning a notable rating of 90 out of 100 in the IC 500 Corporate Integrity Index. Given the significance of our Mexican business, we are proud of how this team continues to lead with purpose and integrity.

Now I am pleased to hand it off to Jim Gray for the financial review. Jim?

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

Thank you, Jim, and good morning, everyone. Moving to our income statement. Net sales for the second quarter were \$1.8 billion, down 2% versus prior year. Gross profit dollars grew 7%, with gross margin up 230 basis points to 26%, a level which demonstrates the consistent effort from our teams to manage customer and price mix, reduce cost input volatility and deliver operational excellence.

Reported and adjusted operating income were \$271 million and \$273 million, respectively, with adjusted operating income up 1% versus the prior year. Turning to our Q2 net sales bridge. The 2% decrease was driven by \$27 million in lower price mix, \$15 million in lower volume and \$3 million of foreign exchange impact.

Turning to the next slide. We highlight net sales drivers for the second quarter. Texture and Healthful Solutions net sales were up 2%, driven by sales volume growth of 3% and foreign exchange favorability of 3%, partially offset by price/mix.

Food and Industrial Ingredient LATAM net sales declined by 5%, reflecting both a reduction in net sales volumes, partly due to slower macroeconomic growth and the impact of significant foreign exchange weakness. Food and Industrial Ingredient US/Can net sales fell 6%. Sales volume decline was impacted by the brief disruption to operations at our Chicago plant as well as softness in industrial starch volume demand.

Now let's turn to a summary of the second quarter results by segment. For second quarter 2025, Texture and Healthful Solutions operating net income was up 29%, which equated to an 18.5% operating income margin, significantly higher than prior year. This result has been driven by increased top line volume, lower raw material and input costs and improved production efficiency.

In Food and Industrial Ingredient LATAM, net sales were down 5% versus last year and down 3% on a constant currency basis. Operating income declined modestly to \$127 million, representing a 2% decrease compared to last year's strong results. This quarter's results were negatively impacted by the Argentina peso exchange rate and corresponding impact to our joint venture results. Excluding the joint venture results, segment operating income increased due to favorable raw material costs that were partially offset by lower volumes.

Moving to Food and Industrial Ingredients US/Can, second quarter net sales were down 6%. Operating income was \$86 million, down 18%, driven materially by disruptions to our operations at our Chicago plant. We estimate that this disruption has had a \$10 million impact to the quarter. Operations have resumed, and we expect to recover some of the impact throughout the second half as we rebuild inventories. For the all other Group, the 10% increase in net sales was driven primarily by double-digit top line growth from our protein fortification and sugar reduction businesses.

Turning to our earnings bridge. On the top half, you can see the reconciliation from reported to adjusted earnings per share. Operationally, we saw an increase of \$0.04 per share for the quarter. The increase was driven by an operating margin increase of \$0.22, partially offset by volume of \$0.16-minus and other income of \$0.03-minus per share.

Moving to the change in non-operational items. We had a decrease of \$0.04 per share, driven by a higher tax rate equivalent of \$0.07-minus per share and slightly higher financing costs of \$0.02-minus per share, partially offset by fewer shares outstanding impact of \$0.05 per share.

Shifting to our year-to-date income statement highlights. Net sales for the first six months were approximately \$3.6 billion, down 3% versus prior year. Gross profit dollars increased by 9% and gross margin rose to 25.9%, up 290 basis points versus the same period last year. Reported and adjusted operating income was \$547 million and \$546 million, an increase of 21% and 12%, respectively.

Turning to our year-to-date earnings bridge. The result is an increase of \$0.88 per share. Operationally, we saw an increase \$0.66 per share for the first six months. The increase was driven by an operating margin increase of \$0.82, partially offset by volume of \$0.26-minus. Moving to the change in non-operational items. We had an increase of \$0.22 per share, primarily driven by lower financing costs of \$0.09 as well as fewer shares outstanding of \$0.11 per share.

Moving to cash flow. In the first half, cash generated from operations was \$262 million, driven by higher net income, partially offset by working capital investment. In the first half of 2025, we have sold less of our accounts receivables due to the impact of higher short-term interest rates across LATAM. First half capital expenditures net of disposals were \$193 million. The company intends to continue to invest in organic growth initiatives that provide a significantly higher return than our cost of capital.

Lastly, we have repurchased \$55 million of our outstanding [\$55 million] of our outstanding common shares and have paid out \$106 million in dividends. We are committed to exceeding our \$100 million share repurchase target for 2025.

Now let me turn to our updated outlook for the year. For the full year 2025, we anticipate net sales to be flat to slightly up. Our outlook reflects lower price/mix due to the pass-through of lower corn costs and a contemporary view of the effects of foreign exchange. We continue to anticipate that adjusted operating income will be up mid-single digits for the full year.

Corporate expenses have been adjusted slightly from mid-single digits to up high single digits, driven by higher anticipated IT investments and project-related costs to advance our digital infrastructure.

Given our strong first half performance, we have improved our full year adjusted EPS range to be \$11.10 to \$11.60. We now anticipate capital investment for the year between \$400 million to \$425 million. Please note that this guidance reflects only current tariff levels in effect as of the end of July. In addition, this guidance excludes any acquisition-related integration and restructuring costs as well as any potential impairment costs.

Turning to our full year outlook for each segment. We have made a few adjustments. For Texture and Healthful Solutions, we have now raised our estimate for operating income profit growth to be up low double digits. For F&I LATAM, we have lowered our net sales outlook to be flat to down low single digits. Our operating income outlook is now up low single digits due to the combination of weaker macroeconomic business environment and weaker foreign exchange, which we anticipate for the second half of 2025.

For F&I US/Canada, we have now lowered our outlook for operating income to be down low single digits based upon the second quarter's disruption to operations. For the third quarter 2025, we expect net sales to be flat to up low single digits for the company, and operating income to be flat to down low single digits as we are again lapping a very strong third quarter from last year.

That concludes my comments. Now let me turn it back to Jim.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Thank you, Jim. Following our strong first half performance, we feel good about the momentum we are carrying forward into the second half.

Our Texture and Healthful Solutions business is delivering strong sales volume growth, fueled by deepening customer engagements and a robust innovation pipeline. We expect this momentum to continue as we co-create solutions for our customers who are actively reformulating in response to consumer health and wellness trends.

Given our leading market position in LATAM, we have the experience to navigate short-term macroeconomic headwinds. And our focus in Food and Industrial Ingredients US/Canada for the second half is to maximize production in order to meet customer demand and rebuild inventories.

We are guided by our aspiration to be the go-to provider for Texture and Healthful Solutions that make healthy, taste better and are committed to delivering long-term shareholder value.

Now let's open the call for questions. Operator?

QUESTIONS AND ANSWERS

Operator

Thank you.(Operator Instructions)

Kristen Owen, Oppenheimer.

Kristen Owen - *Oppenheimer & Co Inc - Analyst*

Hi, good morning. Thank you for taking my question. Maybe starting with a little bit of a simplistic question here, but you're tracking well ahead of where you guided each quarter. Q1, you beat by \$0.50. Q2, call it another \$0.05 to \$0.08. But you've looked at the guide, maybe \$0.20 since we started the year. So one might ask if your guide is still too conservative at this point. Maybe help us unpack some of the offsets here and provide a bit of color around the scenarios for the upper and lower end of the EPS range at this point.

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

Sure, can I start with that. Thanks, Kristen, for the question. And I think it's a very fair question. Throughout this year, I mean, even starting in early February as we were finishing up our Q4 and full year 2024 call. Two days before our earnings call, we had an announcement around tariffs that might impact US and Canada. You roll through Q1 and Q2, and you still have tariffs. Some of them have been paused, some of them have been pushed out 90 days. Our US government is getting to negotiations with specific countries.

And it's not so much that we have already persecuted all of our analysis kind of for all of our country pairs, and we've spoken to that risk. Jim highlighted it here that the first half, tariff impacts has been very minimal. It's that some of our customers are also facing uncertainties. And as they either feel like their demands are shifting or they're looking at potentially higher costs, they're thinking about what are the levers that they pull in order to drive their revenue and drive their profit expectations.

So I think we're just -- we're cautiously optimistic. We do see that, I think, within our US/Canada business, that we still think that there's pretty strong underlying volume and Jim knows that if Argo runs well for that division, we have an ability to really amortize a lot of the fixed costs, some of which we absorbed in Q2. So I think that's a tailwind for us.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Yeah. I think I would just complement what Jim is saying in relationship to a lot of the noise that's out in the world right now, in relationship to perhaps indirect impact to consumers that we just don't have a view on yet because the full implementation and settling of the tariffs that are getting implemented gets implemented. So it's prudent to be somewhat cautious in relationship to the outlook for the second half.

Now that being said, what I'd like to do is just put in perspective, if I could, quarter three, because we have guided flat to down in operating income growth for quarter three. But I want to just put this in perspective. It's important to remember, we are lapping the highest quarter three operating income that we've ever had and the second best quarter in the company's history for quarter three.

We see right now some macroeconomic headwinds in LATAM, particularly Brazil and Mexico, and a couple of our very large customers have spoken about that as well, impacting their business. We're also expecting though top line growth in -- we're also not expecting, I should say, top line growth in Food and Industrial Ingredient.

Now with that said, the momentum that's behind Texture and Healthful Solutions is anticipated to be an offset and could be better than our forecasts. And lastly, if the Argo facility runs very well, we can make up a lot of ground to offset some of the negative impacts we endured in quarter two, and we've seen that in the past.

Hopefully, that just provides a little bit of a window into how we're viewing the backdrop of the second half and specifically, quarter three, that's right in front of us.

Kristen Owen - *Oppenheimer & Co Inc - Analyst*

Jim and Jim, really, really helpful on that context. And it does bring me to my next question, which is on the leverage, the operating leverage in Texture and Healthful Solutions, mean the nearly 30% growth in operating income on 2% volume. Can you help us understand what's driving some of that? How much of that is operational execution, how much of that is just running the plants at higher utilization?

And then, I guess, I am still a bit surprised by the negative price mix in that category. So just help us unpack some of those mechanics, what's driving the leverage there? And then do we, at some point, get to a positive price/mix impact there to get that incremental leverage? Thank you.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Jim and I will tag team on this one again. I'll let Jim go first.

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

Okay. So the one thing I wanted to just really highlight is that as you expand the portfolio in Texture and Healthful Solutions and we add things like hydrocolloids and we're selling natural fibers and we're looking at other raw material inputs, these are smaller inputs in our business and sometimes they can have more variability.

We recognized this about two years ago, and I have to say our supply chain and our procurement teams really stepped up and met the segment leadership team where they're at, and we've done a better job just building in capabilities using demand forecasting, how we look at procurement and really matching some of that raw material risk that we might take in gums with what we see as demand and the subsequent pricing.

So I feel like what we wanted to highlight was that, that really showed up as a benefit, a unique benefit, a step change benefit in our Q2 Texture and Healthful results. And so we did highlight this as extraordinary because I think that step up is permanent as we go forward.

More to your question, though, is that as we see strong volume in Texture and Healthful and we are selling at higher price points per ton, we are going to see that kind of high single-digit, low double-digit type of op income growth that might be recurring.

And then just the last piece, just to note on the price mix, we did have lower tapioca costs in Thailand, and that impacts not only all of our more functional starches, but we also have just some remaining syrup and industrial business that also had nice volume pull-through, and we're seeing that through 2025. It just sells at a lower price per ton, and so it's just impacting the weighted average a little bit.

We're really quite pleased with where tapioca costs are. It's enabling us to really drive a lot of volume growth, not just through Asia Pac, but kind of throughout our portfolio in North America and in Europe.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Yeah. And just to complement what Jim said. I think that point that he's making in regards to -- actually, it was a little bit of a slight decrease in corn costs as well as tapioca costs. It's not in a change -- not a change in anticipated volume, and that's kind of flowing through the sales forecast impacting average selling price.

This year, as we entered into contracting in comparison to last year, we had to moderate some of our pricing a bit, but the pricing lever is no longer having to be adjusted coming off of 2024 where there needed to be an adjustment, very little in 2025, and it's kind of working its way out of the system and normalizing.

And if anything, we're probably looking at prices probably lifting as we head into next calendar year. So that might explain some of it. We do expect some of the innovation that's coming through with customized formulations to be at higher margins and over time, lift the margins for Texture and Healthful Solutions.

Kristen Owen - *Oppenheimer & Co Inc - Analyst*

Thank you very much. I'll turn it over.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Thank you.

Operator

Ben Theurer, Barclays.

Benjamin Theurer - Barclays Services Corp - Analyst

Yeah, good morning, Jim and Jim, congrats on the results. Wanted to follow up a little bit on the conversation here, particularly in Texture and Healthful Solutions. So I was wondering if you could help us bridge a little bit the second half outlook. You've had, call it, plus/minus flat year-to-date on sales, but you're still looking for some mid-single-digit growth on sales into the full year.

So we would need to see some high single digit in the second half. So just wanted to understand, where do you think this is coming from? Like between volume, price mix and FX, what are your assumptions for the Texture and Healthful Solutions piece for the second half?

James Gray - Ingredion Inc - Chief Financial Officer, Executive Vice President

Yes. It's a little bit of -- as we're working through the corn cycle, so the second half for Texture and Healthful, I think that the price/mix will not be a headwind, it will be flattish to possibly even a tailwind or yes, tailwind. And then we'll still see kind of the sales volume carrying through.

So we see that -- we're going to see a little bit of a reverse in terms of that price mix. We had some pretty low corn costs and passing through in the second half of 2024. And so just as we look at the top line for Texture and Healthful Solutions, that going to read through.

I think the other piece then is just also is that right now, and we highlighted -- Jim highlighted on the call the kind of the demand for clean label solutions. Most of these higher functional native starches that we're selling are higher price points, and we're actually seeing consumer wellness trends and some of just the greater awareness we have of what's on the label is impacting some of our customers.

Our customers, both small and large, are leaning in and wanting reformulations that are usually leading to kind of a higher price per ton, just better mix upgrades for us. I think that will positively continue to impact Texture and Healthful not just in the second half, but even into '26.

Benjamin Theurer - Barclays Services Corp - Analyst

Okay. Got it. And then Food and Industrial LATAM, well, we've seen obviously a little bit of a weakness in some of the consumer companies that buy your products, right? I mean we've seen this -- on the beer side, we've seen it on the soft drink side. There was a lot of adverse volume performance throughout the second quarter. And I mean, at least looking at some of the fundamentals in certain areas, it doesn't look too good yet just for the third quarter, maybe fourth quarter is going to be a little bit better.

You've lowered the guidance for the Food and Industrial piece LATAM. But as you -- as you look into your order book, as you look into like what these companies are ordering from you, are you seeing signs of sequential improvement from them? Or is it still just very weak and uncertain just given the macroeconomic uncertainty that is out there both markets, be it Mexico or Brazil, is obviously the two key regions within your portfolio?

James Zallie - Ingredion Inc - President, Chief Executive Officer, Director

Yes. I think it's interesting to point out that some of the large customers that obviously reported results with large presence in Brazil and Mexico described their results or the weaker results as somewhat idiosyncratic and actually highlighted abnormal weather, for example, in Brazil in relationship to impact on brewing, for example, and even in Mexico to a degree.

But when we look at -- let's take the Brazil economy. It is currently experiencing relatively high inflation at 5%, with an outlook of 4% inflation for '26. GDP growth is expected to be soft to a maximum of 2%. The local currency has depreciated by 9% and interest rates are currently near 15%. And then there is the uncertainty of the tariff situation with Brazil, and really household consumption is being pressured by persistent inflation.

The outlook for the second half, that's the backdrop macro economically, they are going to be entering their summer, and so that typically is more robust from a standpoint of volumes for the products that we sell into brewing and beverageing, so that will be a positive.

And the Mexican economy has slowed, also with GDP now anticipated to be flat to down slightly, and interest rates are above 7% and inflation is projected to be 4% for this current year 2025. But all that being said, our market position as well as the experienced management team we have in Mexico, we're confident that given that, that we'll quickly see the benefits when customers and consumers -- when economic conditions and consumer sentiment improves.

So both of those economies are somewhat in a period of some uncertainty, but also we believe some of the volume impacts that we saw is accurately being portrayed by what our customers are saying in relationship to weather-related abnormalities in the last quarter, quarter two, and that should not repeat itself in the second half. So we're kind of taking a tempered view towards LATAM, I guess, I would say. Now that all being said, we actually delivered, I think, if you look at the results apart from the Argentina JV, a very solid performance in quarter two.

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

Maybe just on color. I always point out that the Mexico business is much larger and goes across many more categories. And so Ben, directly to your question, right, there are -- the agility of our team in Mexico, given its broad customer base and kind of how high we run on utilization, we're always looking like, okay, well, where can we improve the mix and which customers can we serve.

And then finally, I'd just highlight that when we created this LATAM segment, we always thought that there were synergies across how we operate and how we supply product. And I think the team continues to work on that. So I do think that there's a little bit more of a tailwind behind LATAM as we continue to look at where we manufacture, what's our manufacturing cost and how can we be just further optimizing that?

Benjamin Theurer - *Barclays Services Corp - Analyst*

Okay, perfect. Thank you very much, Jim and Jim. I'll pass it on.

Operator

Ben Mayhew, BMO Capital Markets.

Benjamin Mayhew - *Bank of Montreal - Analyst*

Hey, good morning, guys. Curious to get your thoughts on the recent news pertaining to the use of cane sugar versus high fructose corn syrup. So what do you think is the most likely outcome as far as you can see? And do you have any other products that could help offset any potential near-term shift of corn syrup business, for example, in your Texture and Healthful Solutions portfolio?

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Yeah. Thanks for the question. We don't believe that we will have any noticeable impact on HFCS demand. We were very pleased with Coke's statement in support of high fructose corn syrup regarding its safety, its availability and its affordability.

The reason, I guess, for our belief is that the impact will not be material is that Coke has announced that the new product will not be replacing the existing recipe but rather be a complement to their core portfolio. The company said that this product will feature US cane sugar in glass bottles, thus targeting premium channels and different occasions. Because Coke sees an incremental growth opportunity as opposed to any cannibalization, we do not see this as having a noticeable impact on HF demand.

It's also noteworthy for us, HFCS used in beverage manufacturing in the US represents approximately 4% of Ingredion's total sales, to put it in perspective. And so we don't really believe this is going to have a noticeable impact.

We're always working with our customers, in answer to your second part of your question, on sugar reduction, which we highlighted that this last quarter, our sugar reduction portfolio of sales increased double digits. And when we replace sugar with our high-intensity natural stevia solutions, we're always working to what we call build back mouth feel, build back texture and build back that functionality.

And so we do have products in our product line that do add mouth feel properties that typically are replaced when sugar, whether it be high fructose corn syrup or liquid sugar, is replaced. So we're continuously working with customers to balance the texture when sugar is replaced. So we'll benefit from that, and we are -- and we did this past quarter as well in quarter two.

Benjamin Mayhew - Bank of Montreal - Analyst

Thank you for that response. That's very clear. And just one follow-up question. Is there any update on the status of the potential sale of the Pakistan asset?

James Gray - Ingredion Inc - Chief Financial Officer, Executive Vice President

Ben, this is Jim Gray. We're in process. I would say that we've been working right now with kind of three companies that have interest in acquiring a majority equity stake of the Raffan Maize business. And so more news to come, but it's progressing kind of as expected on a normal type of process like this.

Benjamin Mayhew - Bank of Montreal - Analyst

Great. Thank you very much. I'll pass it on.

Operator

Pooran Sharma, Stephens.

Pooran Sharma - Stephens Inc. - Analyst

Thanks for the question and congrats on the quarter. I just wanted to maybe further ask a follow-up on Ben's question on the Texture and Healthful Solutions, kind of the second half outlook. I appreciate the color on kind of the tidbits on getting the top line correct. But just want to focus on the operating income piece. And a, I noticed you had really strong margins.

You called out some strength in clean labeling and some other areas across the portfolio in the prepared comments. But I'm just trying to work through the math here, and I wanted to ask if you expect margins to kind of trend back down to a more normalized level? Or how do you expect about -- how do you feel about the sustaining the 18%, 18.5% operating margin going forward?

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

Sure. I do see right now, I think we are being just maybe a little bit cautious on the second half with regard to where we're potentially moving product and some of the cost of sourcing. I still think that the operating income margins are going to be in that kind of high teens, but they may pull back a little bit from Q2. Q2, we had -- again, as I highlighted, the kind of the step change in our raw material procurement.

But if we don't have some of those costs that we might be kind of planning for due to kind of impacts the tariffs and how we're moving products Asia to the US or to Europe, then I think we have a bit of an upside to how we forecast.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

I don't see margins, Jim, decreasing back to the levels of 2024. And to make it very clear. And I think the level that we're at is going to now remain within a fairly narrow range of maybe plus or minus 0.5% to 1% perhaps, perhaps 1% plus or minus from where we're at currently.

And the benefits, again, on the raw material procurement that we talked about, the fixed cost absorption of the plants. The plants in Texture and Healthful Solutions actually ran very well, and we anticipate that will continue. The clean label solutions will lead to a higher mix, along with the customized formulations, a higher mix.

So we believe that the step-up that we've seen will continue to operate within a range, maybe plus or minus 1% of maybe where we're at today going forward.

And then going forward over time, of course, as part of a longer-term outlook, we anticipate mix to continue to improve based on the investments we're making in R&D and innovation. And over time, the margins will increase.

Pooran Sharma - *Stephens Inc. - Analyst*

Great. Great. Appreciate that color there. And maybe for my follow-up, just wanted to hone in and get an understanding on maybe the industrial starch side of the business, obviously, being impacted by tariffs, is the mechanics that your customers are kind of uncertain and they're moving to spot, which has lower margins. How are your conversations with your customers going?

And obviously, I think you'd see a resolution when there's some sort of conclusion to this tariff dynamic, but would love to hear your thoughts on what others are saying about a potential resolution here for industrial.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Yeah. So I think it's important, first of all, to put maybe the segment, and I'm going to talk about the segment of Food and Industrial Ingredients US/Canada because that's the segment that has the largest aspect of industrial starch that goes into box manufacturing, corrugating box manufacturing as well as paper making.

Just to put the segment's performance in quarter two into perspective, first of all, and I'll answer specifically your question regarding industrial. It's worth remembering that quarter two 2024 for that segment, was a very strong quarter. And this past quarter, of the \$19 million decline, approximately \$10 million, again, can be considered a one-off related to the challenges at our Argo facility. The remaining shortfall was due to weaker beverage volumes and softer industrial starch sales for the corrugated box market.

And again, if it's worth noting that if you exclude the \$10 million one-off impact of Argo, the business is still operating at greater than an 18% operating income margin. Now for the second half, we're anticipating stronger industrial starch sales based on what we've heard from our packaging customers. Some of them, which have seen some reduced demand outlook for box shipments, rebalanced some inventories for industrial starch in quarter two. From what they are telling us and what they have said publicly, we anticipate box shipments to increase.

Now that all being said, that's against the backdrop of uncertainty regarding the impacts of tariffs, not all of which are still settled and clear. And so that's kind of how we're looking at the industrial starch market. We have a great market position.

And long term, we feel very optimistic about our position as a leading supplier of highly functional strength additives and coding additives for packaging and paper making, and that's been reinforced by the investment we're making in Cedar Rapids right now that will actually give us growth opportunities as that market recovers, which, again, listening to our customers, what they're saying is the second half, they're anticipating volumes to pick up.

Pooran Sharma - *Stephens Inc. - Analyst*

Appreciate the color. Thank you.

Operator

James Cannon, UBS.

James Cannon - *UBS AG - Analyst*

Hey guys, thanks to take my question. I just wanted to poke on the Argentina piece. It seems like that's been pretty volatile this year with a lot of FX movements, particularly. Just -- can you help level set what your expectations within the LATAM guidance are for that business?

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

Well, we don't necessarily disclose kind of what we think the -- our share of the net income from the Arcor JV will be going forward because obviously, they're a public company in Argentina.

Maybe I can just highlight what's changed a little bit. Just so at the beginning of 2024, the new government coming in had decided to say, we're going to try and let the official exchange rate for the peso float a little bit more and float more frequently against what's considerable, let's call it, the blue rate.

What happened in the beginning of 2024 was that given the level of inflation, there was still pricing ahead of that inflation, anticipating a weaker peso, and the weaker peso stabilized and we had a particularly strong Q2 2024 for the joint venture, where your pricing was anticipating inflation, yet inflation started coming down and the peso started to stabilize.

So just when you roll that forward into this quarter, you didn't have those kind of currency/pricing tailwinds. You had a bit of a more normal sequential performance from Q1 of '25 going into winter, which is in Q2 of '25 for Argentina. And what you've seen, I think, is just kind of a more stabilization of a lower overall inflation rate, a little bit less change in terms of what's required either in terms of corn prices or sugar, and it's led to kind of probably what I would consider a more normal expected result from the JV for a winter quarter in Q2 of '25.

James Cannon - *UBS AG - Analyst*

Got it. Thank you very much.

Operator

(Operator Instructions)

Heather Jones, Heather Jones Research.

Heather Jones - *Heather Jones Research - Analyst*

Morning. Thanks for the question. I wanted to ask, at the risk of belabor in this, a question on THS outlook. And so I don't know how much is conservatism, but like your guidance for the year, even if I assume mid-teens, not a low double digit, but mid-teens increase for the year, that implies just, I think, it's like 1% or 2% EBIT growth in the back half.

And then -- and assuming those margins, your year would be close to a 17% margin in your Analyst Day, you all were talking about reaching 16% to 18% by '28. Just wanting to -- is this conservatism? And if it is conservatism, then it sounds like you're potentially below past 17% this year and just wondering how we should think about the '26, '27 and '28 cadence from here. I'm just trying to reconcile all of these pieces.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Yeah. I'll let Jim take a shot at that. But just a reminder, we will be updating, in only a number of weeks here on September 17 at our Investor Day, the long-term outlook for each of the segments. So that will be updated. So Jim, do you want to?

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

Yes. Heather, I think, again, pretty confident that I think that the full year op income margin, as we talk to it in terms of the segment is going to be in that kind of upper teens range.

I would say that for the second half, I'm still -- I want to say I'm overly cautious. I think I'm going to be appropriately looking at what are the changes in some of my transportation costs, what are the changes in my production costs if, in fact, this global product segment needs to adjust to tariffs.

And right now, we got everything kind of declared last night across the world with regard to imports into the US, goes effective August 7. And so right now, we're just -- we've run a lot of math. It's a really big model, but we're just going to be looking at it with a very sober set of eyes. And so -- and I think that's prudent.

So we do anticipate right now some costs against the back half of Texture and Healthful. I think that's appropriate. And I think we're going to adapt to this. I think all businesses need several months to absorb it, get certainty on what is going to be the new ground rules that we're dealing with. And then the teams have a bunch to go chew on and work on to figure out optimize supply chains, lower sources of cost, and all of that comes into effect in '26 and '27.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Yeah. And all I would say is that in relationship to the unknowns around tariffs, that we feel for this calendar year, we have a very good handle that the net impact of tariffs will be minimal to us based on everything that we know right now for this calendar year. What we are having -- we're being cautious about is, of course, the indirect impacts. So we're clear on the direct impacts, but it's the indirect impact, which is the impacts to our customers and thus that's a reason, I think, for us to be appropriately cautious.

Heather Jones - *Heather Jones Research - Analyst*

Okay, thank you for that. And then my follow-on is just wondering, I know you don't typically give these details, but just wondering qualitatively, maybe you could give us a sense of your volume cadence through the quarter, particularly in THS and LATAM, like does that strengthen as the quarter went along? Or just how should we think about that? How you exited the quarter?

James Gray - *Ingredion Inc - Chief Financial Officer, Executive Vice President*

You're right. We don't usually talk about kind of month-to-month within a quarter. I would -- the only maybe the thing I may just comment on is just kind of where the placement of Easter was and how that always affects some of the kind of the spring demand, particularly in the US. But other than that, I think, again, we're still looking at what we consider decent sales volume growth for Texture and Healthful for the second half of the year.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

We're not seeing any concerns of anything abruptly changing as we exit quarter two and enter quarter three, from a negative view standpoint exiting and then entering quarter three.

Heather Jones - *Heather Jones Research - Analyst*

That's very helpful. Thank you so much.

Operator

Okay. Thank you. And with that, this concludes the question-and-answer session. I would like to turn the call back over to Jim Zallie for closing marks.

James Zallie - *Ingredion Inc - President, Chief Executive Officer, Director*

Thank you, and thank you all for joining us this morning. We look forward to seeing many of you at our upcoming Investor Day on September 17 in New York. If you plan to attend in person, we did want to request that you please register for the event.

We're excited to share a multiyear outlook that builds on the progress we've shared with you today, and I look forward to continuing the conversation in New York, and thank you all again for your interest in Ingredion.

Operator

Thank you for your participation in today's conference. This does conclude the program. You may now disconnect. Everyone, have a great day.

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