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INGR - Q1 2017 Ingredion Inc Earnings Call

EVENT DATE/TIME: MAY 03, 2017 / 1:00PM GMT

OVERVIEW:

Co. reported 1Q17 sales of approx. $1.5b, reported operating income of $195m and reported EPS of $1.68. Expects 2017 adjusted EPS to be $7.50-7.80.

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CORPORATE PARTICIPANTS

Heather Kos

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Robert Moskow *Credit Suisse AG, Research Division - Research Analyst*

PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Ingredion First Quarter 2017 Earnings Conference Call. (Operator Instructions) As a reminder, today's call is being recorded.

I'll now turn the conference over to Ms. Heather Kos. Please go ahead.

Heather Kos

Good morning, and welcome to Ingredion's First Quarter 2017 Earnings Call. Joining me on the call this morning are Ilene Gordon, our Chairman, President and CEO; and Jim Gray, our Executive Vice President and Chief Financial Officer.

Our results were issued 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 also refer to certain non-GAAP financial measures, including adjusted earnings per share, adjusted operating income and adjusted effective tax rates, which are reconciled to U.S. GAAP measures in Note II Non-GAAP Information included in our press release and today's presentation appendix.

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

Ilene Gordon - *Ingredion Incorporated - Chairman, CEO and President*

Thanks, Heather, and let me add my welcome to everyone joining us today. We appreciate your time and interest.

I am pleased to announce Ingredion ended the quarter with solid adjusted operating income and adjusted earnings per share. Volumes grew by 5%, driven by core, specialty and acquisition-related volumes. The TIC Gums and Shandong Huanong integrations are underway, and we completed the Sun Flour rice acquisition in March, strengthening our capability to produce higher value specialty starches. Rice is an on-trend ingredient that's being used more and more in high-margin foods and clean label applications.

Additionally, we purchased over 1 million shares during the quarter, consistent with our desire to offset dilution over time. Overall, I'm pleased that our business model and strategic plan continue to deliver shareholder value.

Now, let's spend a moment on each region's performance in the quarter. Operating income in North America was $160 million for the quarter, up $11 million from last year. Overall volumes were up 5%, driven by our TIC Gums acquisition and organic growth in our core and specialty ingredients.

Continuous improvement initiatives and lower input costs continue to drive good operational efficiencies throughout the region. The TIC Gum's integration is underway, further enhancing our texture capabilities and enabling us to deliver custom solutions faster.

In South America, operating income was $14 million, down $4 million from last year. The macroeconomic conditions continue to be challenging in the Southern Cone, especially in Argentina. Pricing actions, good cost discipline and continuous improvement projects partially offset higher corn operating and other input costs.

We implemented organizational restructuring actions in Argentina to continue to rightsize the business. The Southern Cone economy remains challenging as economic measures lowered consumer disposable income and continue to affect our margins.

We continue our focus on all executable activities of the business, including cost containment in a high wage inflationary environment.

In Brazil, our local leadership teams continued their ongoing focus on specialty ingredient growth, price/mix management and network optimization. The Andean countries continue to perform well.

In 2017, we expect South America to maintain a tight focus on cost and network optimization. In the longer term, we believe the underlying demographics are positive for the future, and we believe we are well positioned to take advantage of an economic recovery when it materializes.

Moving along to Asia Pacific. The region delivered $30 million of operating income, up $2 million from last year. Overall volume was up 11% versus last year, and specialty sales were particularly strong in Korea, Japan and Southeast Asia. Our Shandong Huanong integration is going well and our Sun Flour rice business acquisition was completed in March.

Finally, the EMEA region reported operating income of $28 million, up $2 million from last year. Volumes were up 4%, and our broad specialty portfolio continues to perform well.

In Europe, volumes were offset by currency headwinds and higher input costs, and the Pakistan economy continues to expand, benefiting both our core and specialty volumes.

I'm pleased to now turn the call over to Jim, who will spend time on our financials. Jim?

James Gray - *Ingredion Incorporated - CFO and EVP*

Thank you, Ilene. Good morning, everyone. Let me start by covering the highlights of the income statement. Net sales were up $93 million for the quarter. Higher volumes in all 4 regions and favorable foreign exchange in 3 of our 4 regions accounted for the increase.

Gross profit was higher by $13 million as a result of higher volumes in core and specialty ingredients as well as the inclusion of TIC Gums' volume. Reported and adjusted operating incomes were $195 million and $212 million, respectively.

Reported operating income was lower than adjusted operating income by $17 million, and our reported and adjusted earnings per share were $1.68 and $1.88, respectively. These differences are largely related to pretax restructuring charges of $11 million in Argentina for employee severances as we take action to improve efficiency and lower our operating costs. And we had a pretax expense of $7 million for integration and acquisition costs, including the fair value markup of acquired TIC Gums inventory.

Moving on to the net sales bridge. Our sales of approximately $1.5 billion were up 7% versus last year. Volume and foreign exchange contributed $71 million and $29 million, respectively. This was slightly offset by $7 million of price/mix.

As we look more closely by region, you can see unfavorable foreign exchange only affected us in EMEA, predominantly driven by the British pound valuation. Volumes were up in all 4 regions.

In North America, volume was up driven by organic growth and our TIC Gums acquisition. In Asia Pacific, volume was up given our specialty capacity expansion. Price/mix was relatively flat overall. In North America and Asia Pacific, price/mix was down due to the passthrough of lower raw material costs.

For the quarter, reported operating income decreased $5 million while adjusted operating income increased $11 million. North America posted strong results due to growth in specialty, core and acquisition-related ingredients.

South America operating income decreased by $4 million. The decrease was largely a result of Argentina's difficult macroeconomic conditions and higher operating costs. Asia Pacific and EMEA were each up $2 million with good volume growth in both regions, and corporate costs were flat 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 an improvement of $0.11 per share, primarily as a result of volume of $0.18 with a lesser benefit from foreign exchange and other income. This offset -- this was offset by a margin impact of $0.12. The lower margins were largely caused by South America, with Argentina's difficult macroeconomic conditions and higher operating costs affecting the region.

Moving to our nonoperational items. We recognized a negative $0.01 per share for the quarter. Our adjusted tax rate was lower, contributing a $0.07 per share benefit. The lower tax rate was largely driven by the effect of the appreciation in the Mexican peso and the resultant valuation of U.S. dollar-denominated balances for tax purposes in Mexico. This benefit was offset by higher financing cost of $0.07 and a negative $0.01 in noncontrolling interest.

Turning to our guidance. We anticipate 2017 adjusted earnings per share of $7.50 to $7.80. This guidance excludes acquisition-related, integration and restructuring costs as well as any potential impairment costs. We expect net sales and volumes to be up from 2016, and we expect continued growth in specialty sales. We anticipate that unfavorable foreign exchange will have a modest impact of minus $0.05 to minus $0.15 per share, and we expect to manage this impact with incremental pricing.

We expect corporate expenses to be up year-over-year due to continued investments in our administrative processes to strengthen our capabilities and drive future efficiencies in our business.

For the year, we expect financing costs for the future quarters to be in line with our financing costs for this quarter due to the higher interest rates on our floating rate debt and our refinanced maturities.

Our adjusted effective annual tax rate is expected to be approximately 29% to 31% versus an adjusted effective tax rate of 29.4% in 2016. Although we experienced a low rate in the first quarter, it's important to note that the Mexico peso appreciation was the predominant driver of that lower rate.

We expect total diluted weighted average shares outstanding to be in the range of $73.4 million to $73.8 million for the year.

In North America, we expect net sales to be up. It is important to keep in mind that a large portion of our sales and costs are based in U.S. dollars, which helps mitigate some of the foreign exchange volatility.

For the full year, we expect operating income to be above the 2016 level with improved product mix and margins. South American net sales are expected to be down versus the prior year, given the passthrough of anticipated lower raw material costs for the balance of the year.

We anticipate continued slow economic activity in Brazil and Southern Cone. In Argentina, we have several initiatives underway, including a significant workforce reduction to become more cost competitive. We are in the middle of negotiations with the union and the Ministry of Labor.

Throughout the region, we continue to actively manage our cost to drive efficiencies and offset inflationary pressures and we continue to look at optimization opportunities.

Overall, we expect operating income in South America to be flat to down relative to 2016. Asia Pacific and EMEA should continue to deliver operating income growth. We expect the Asia Pacific business to be negatively impacted by currency headwinds associated with a stronger U.S. dollar relative to last year, but we expect to overcome these headwinds with continued growth in specialty ingredients and good cost management.

We expect our EMEA region to have flat net sales compared to the prior year with specialty volume growth to offset anticipated foreign exchange headwinds. We anticipate modest growth in our European business, fueled by our specialty ingredients portfolio. However, we expect currency headwinds to partially offset the anticipated improvement. Pakistan is expected to continue its volume growth and drive for continued efficiency gains.

Moving on to cash flow. Our cash provided by operations for Q1 was $131 million. During the quarter, we deployed cash in the form of capital expenditures, dividends, share repurchases and acquisitions. Our first quarter capital expenditures of $72 million were up $13 million from last year.

We expect cash from operations in 2017 to be in the range of $800 million to $850 million, and we expect to invest between $300 million and $325 million in capital around the world to support growth as well as cost and process improvements.

Importantly, we have a proven track record of both reinvesting and returning capital to shareholders, and we expect to continue this in the future as we concurrently explore M&A opportunities.

That brings my comments to a close. I'll turn it back to Ilene.

Ilene Gordon - *Ingredion Incorporated - Chairman, CEO and President*

I'm pleased with our results this quarter. From a strategic perspective, our business model and blueprint for growth are working. Our momentum continues on a positive trajectory and we continue to transform the business. This quarter included the business results of TIC Gums and Shandong Huanong acquisitions, and we closed on the purchase of the Sun Flour rice business.

Our global footprint and customer diversity balance regional and sector risks. Our innovation capabilities and portfolio of on-trend ingredients gives us a competitive advantage. We continue to grow our on-trend specialty ingredients, expanding our texture wholesome, sweetness and nutritional offerings.

And our network of Ingredion Idea Labs enables us to collaborate side-by-side with customers, adapting innovations from country-to-country, while customizing solutions to local preferences and tastes.

From our foundation of operational excellence, we continue to optimize our cost structure for the future while investing for growth in our specialty business.

With our strong balance sheet, we expect to continue deploying our capital for growth, acquisitions, share repurchases and other actions to deliver excellent shareholder value.

And now we're glad to take your questions.

QUESTIONS AND ANSWERS

Operator

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(Operator Instructions) First, we'll go to Rob Moskow with Credit Suisse.

Robert Moskow - *Credit Suisse AG, Research Division - Research Analyst*

The dialogue on your stock really that I've had with investors always seems to focus around the risk to the NAFTA agreement and what might happen between the U.S. and Mexico. Can you give us an update on what has -- what have you heard so far about Mexico's intentions regarding more action against HFCS, specifically related to this tuna issue with WTO, maybe nothing's happened yet. And then I have a couple of questions about the guidance, itself, I'll follow-up with.

Ilene Gordon - *Ingredion Incorporated - Chairman, CEO and President*

Okay. Thanks, Robert. I'm always happy to start off, and then I'll turn it to Jim. And you know that we always talk about how high fructose for beverage is less than 10% of our business. But nonetheless, I know that question is still there.

And there are a number of issues as it relates to NAFTA. And certainly, right now, there's uncertainty as you've said about how NAFTA, or U.S.-Mexico relations might evolve. We've said before we support free and open trade.

It's also important to remember, food is a local business and we manufacture ingredients around the world and we have a presence in 40 countries, sell to customers in more than 100 countries, and the vast majority of our ingredients are made and used locally. And we think that our geographic diversity balances country-specific headwinds.

Nonetheless, there is a lot of discussion going on. So why don't I turn it to Jim, and he'll give you some of the data that we have.

James Gray - *Ingredion Incorporated - CFO and EVP*

Sure, thank you. Hey, Rob, I think that the talk around this has varied a little bit. Let me just put it in our perspective which is, in Mexico, HF corn syrup competes with domestic cane sugar. The tariff would increase the HFCS price to Mexican companies. There could be some price elasticity which could kind of lessen some demand. However, we believe a tariff of 18% imposed by Mexico on imported U.S. HFCS could back up some demand into the U.S.

You'd have to believe that this tariff last the entire year, and if you do that and you work through some of the math, we believe it's less than 3% of the industry's corn wet milling capacity. Because really I think that's the challenge that we face is how you look at corn wet milling capacity.

As a reminder, our HFCS as sold into beverage is less than 10% of our net sales. And we are really the only local HFCS 55 provider in Mexico.

Robert Moskow - *Credit Suisse AG, Research Division - Research Analyst*

I noticed a couple of tweaks to your regional guidance in Asia Pac and Europe, these are small things, but I think Asia Pac before you were saying that you thought that your profit would be up because you could fully passthrough or I guess you could fully cover your FX headwind, but now you're saying partially offsetting FX. Then in Europe it seems to go the other way, where you're saying now you're up instead of slightly up. Did I catch that correctly that the one is a little better, one is a little worse?

James Gray - *Ingredion Incorporated - CFO and EVP*

I think that we're still positive on Asia Pac. Maybe that was kind of a reference to the net sales than what's happening with net sales. But we really think that for Asia Pac, it's still a fairly healthy business. We have specialty investment that's ramping up and we really like kind of our position in ASEANI as well as in China. For EMEA, I think the income is kind of, it was modest before and now it's up.

Robert Moskow - *Credit Suisse AG, Research Division - Research Analyst*

Modest, yes. Okay, so you're more positive on EMEA than before.

James Gray - *Ingredion Incorporated - CFO and EVP*

That's correct. And then some of that's where we're seeing some of maybe the FX pressures are a little bit less.

Robert Moskow - *Credit Suisse AG, Research Division - Research Analyst*

Okay. So more positive on EMEA and no change to Asia Pac?

James Gray - *Ingredion Incorporated - CFO and EVP*

Correct.

Ilene Gordon - *Ingredion Incorporated - Chairman, CEO and President*

Yes, because -- and I would say on Asia Pac, the customers are very open and encouraging as it relates to healthy solutions and recipes. And so we see those trends very positive, and we're able to work very closely with customers on healthy ingredient in Asia Pac, in addition to EMEA, but we continue to feel that way about Asia Pac.

Operator

Our next question is from David Driscoll with Citi.

David Driscoll - *Citigroup Inc, Research Division - MD and Senior Research Analyst*

I wanted to start off with the operating margins. The business was so strong on margins last year, and we're seeing a little bit of softness on gross and op, and I think you said in your prepared remark that the problems here were mainly South America. But can you talk bigger picture about what you expect from margins both gross and operating margins as the year progresses? In South America, do you expect it to be a continued headwind for the entire year? A little color there would be helpful.

James Gray - *Ingredion Incorporated - CFO and EVP*

Sure. I think if you look at the press release and what we disclosed, the operating income by regions, we are up on our operating margins in all 3 regions but South America, right? If you do the math on that. So really, the Q1 headwind was kind of South America's gross and operating income margin decline. Some of that exacerbated in Q1 as well as in Q2 as we were looking at cost that we incur in Argentina as we're dealing with the labor issue that we have at our 2 facilities.

I think as we get through winter in South America and we get more into kind of spring, summer, we should see some volumes naturally due to the seasonality kind of pick back up. In that time, we'll see, hopefully, the margins, what we would expect would be kind of improving more. But it's going to be a rough time in Southern Cone throughout the year as we're addressing the current labor.

I think in the other regions, though, I would expect kind of modest margin improvement. Just to remind you that it kind of depends on -- we really look at constant dollar margin as what we're managing the business to, David. So if I'm going to have some movements in corn, I'm passing through some prices, my net sales is going to change, my price/mix is going to change, but I'm really focused on my constant dollar margins.

But generally, we're looking at improving the cost and dollar profitability of the business in the 3 regions. And that's impacted, obviously, as we grow the specialty business, we're going to get favorable dollar margin improvement.

Ilene Gordon - *Ingredion Incorporated - Chairman, CEO and President*

But I would also add, in South America, the demand from GDP growth and growth of specialty in Brazil and Colombia continue to be positive. So we do see dynamics down there where people do want healthy solutions. Colombia has a GDP forecast of over 2% and Brazil certainly positive, not negative, but not that robust. But still the demand for those specialty products and healthy eating are there.

David Driscoll - *Citigroup Inc, Research Division - MD and Senior Research Analyst*

If I could just follow-up on the specialty side. First off, just I'd make a comment that so many investors ask about specialties. I think it would be terrific if you guys would add to your disclosures an every quarter comment on the growth of specialties numerically as a separate callout from your geographic disclosures. That would just be my suggestion, but it comes from a lot of investors.

Then I was hoping that you might actually just discuss in a little bit more detail what areas your specialty portfolio business was doing very well in, so emulsifiers, hydrocolloids, starches, I mean, it's a rather substantial portfolio of different ingredients. Is there any callouts that you can say that are particularly strong right now?

Ilene Gordon - *Ingredion Incorporated - Chairman, CEO and President*

Well I would say as a leader in textures, we continue to be able to deliver a lot of recipes with texture. And this can be in anything from dairy to baked goods. And using our different raw materials, because we now have the capability that where we manufacture having just completed the rice acquisition to have both rice, a very clean taste, we have the potato starch, gluten-free non-GMO, the cassava and the corn, so we give customers choices in that. And so the texture area, I think, continues to do very well.

Now we also look for these emulsifiers as you mentioned as a growing area. And so as beverages are diversifying with whether it's flavored water or other types of juices, our emulsifiers are a key ingredient in many of those applications. So I think again it's all about the consumer trends of healthy eating that continue to go. I don't know, if, Jim, you want to add anything.

James Gray - *Ingredion Incorporated - CFO and EVP*

I would just add also that we've been working on non-GMO. Obviously, we have a lot of experience in non-GMO starches. We've been working on non-GMO syrups and we've made some really nice progress there over the last 1.5 years, and that's kind of a very exciting and interesting area for us as well.

Operator

Next, we'll go to Ken Zaslow with Bank of Montreal.

Kenneth Zaslow - *BMO Capital Markets Equity Research - MD of Food and Agribusiness Research and Food and Beverage Analyst*

So my first question is, just talk about the pricing dynamic in North America. Just something -- is it -- was it just a mix or your price/mix was down a little less than 1%? But not a big number, but just trying to figure out if there was anything to do more on mix side or price side that we should be just aware of on that. And then my second question is, can you talk a little bit more in detail what you're doing to restructure the Argentine business?

James Gray - *Ingredion Incorporated - CFO and EVP*

There's the 2 questions. Maybe I'll take the first one, and then we can both talk to Argentina. Hey, so in Q1, for really for North America, it's really just the layout of the corn. We're seeing corn a little bit less in this Q1 versus the prior year 2016. And in some of our grain-related contracts, we just passed that through. So we're really not concerned about that change in our net sales around price/mix. As we stated in the last call, we were pleased with 2017 contracting. Maybe moving on to...

Ilene Gordon - *Ingredion Incorporated - Chairman, CEO and President*

Yes, I'll start off on Southern Cone and talk about Argentina and then turn it back to Jim, who's spent some time there recently. And the reality is, Ken, that our business in Argentina, our labor costs are higher than we think is right to compete in that market. And so we've made a concerted action-oriented plan to work closely with local management and the unions and even the government to really rightsize that because we think the demand for products long-term will be very positive as the Macri government works through some of the dynamics in the industry.

But in the meantime, we need to rightsize our cost position. So as you can see this quarter, we went to the point of notifying where we had excess labor and to work through an orderly change in that. And so that's what we're in the middle of right now. But to be a long-term effective competitor, we need to rightsize that labor force and so that's some of the dynamics. It's a good time to do it, take the action but long-term, we think the demand will be there.

James Gray - *Ingredion Incorporated - CFO and EVP*

And maybe just to add, that long-term, I think, we've previously laid out that in Argentina, where we look at corn, corn is very attractively priced in Argentina from a cost perspective relative to kind of rest of the world. Argentina itself tends to be a sugar market for kind of sweetener demand, and we look at our fructose pricing relative to sugar and sugar, it has recovered a bit. It's moved up given the changes that the government put in place with regard to export back 1.5 years ago.

So long-term, strategically, we think the fundamentals of demand are still healthy in the marketplace. We just need to focus on our cost management so that when the demand and the utilization come back, that we are prepared to be a very competitive cost provider.

Kenneth Zaslow - *BMO Capital Markets Equity Research - MD of Food and Agribusiness Research and Food and Beverage Analyst*

Did you provide parameter to the amount of investment and savings that we get to see over the next year or 2 years? How does the progression work?

James Gray - *Ingredion Incorporated - CFO and EVP*

We have not provided that parameter. I would say that one of the things that we're looking at is as we took an $11 million employee-related severance restructuring. I would say that as you think about the Argentine precedence, you're usually at 100% of kind of a statutory severance for that employee. So we're looking at a substantial amount of improvement if we can get through this agreement with the union.

Operator

Our next question is from Brett Hundley with The Vertical Group.

Brett Hundley - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

I just want to stay on that topic for 1 second, and talk about maybe the challenges that have been in place and developed in South America. And Ilene, whether or not that's changed your strategic view at all, maybe as it relates to a pivot towards more of a divestiture mindset. And maybe not -- maybe divestitures are too strong of a word, but seemingly, you might have an opportunity to alter your mix in South America or apply capital in different ways. Have you thought at all about changing your manufacturing footprint down there using this as an opportunity to alter your mix? I understand the long-term potential of that operating area. But more, I wanted to look inside of that and talk about how you might look to change mix and update your footprint.

Ilene Gordon - *Ingredion Incorporated - Chairman, CEO and President*

Yes, I know. Good question. And over the last couple of years, we've certainly been focused on the right actions to deliver value to the customers and then shareholders, obviously, in South America. And of course, altering our footprint in Brazil was a key step when we shut down 2 smaller facilities last year, and so we're better positioned today to serve the markets. But certainly, this focus on specialty, I think, and I talked about this before, will have a bigger opportunity down the road in South America. And so we are positioning ourselves with our Idea Labs, with people, with recipes and moving recipes from one area of the world to the other, to serve customers in South America.

So while it's early stages and it's actually growing nicely from a small base, we see the growth of specialty, let's say, in dairy is an example and other types of sweeteners so that we think that in South America, that will be important. And therefore, that was part of rightsizing, let's say, our modified starch capabilities in Brazil when we moved -- when we shut down 1 facility and moved some assets, it took some time to position ourselves there. So that will be important ongoing.

And of course, Colombia is one of those areas with a very nice demand and set of specialty opportunities. And as an example, we served the cassava market there with gluten-free non-GMO type products and have a wonderful team there, very focused on delivering value to those customers.

So strategically, we really believe in South America. It will get to the right point at some point, though we don't know exactly what date in terms of GDP growth. But in the meantime, we want to optimize our footprint, optimize our cost position which is what we're working on now in Argentina. And then have the right assets to grow in the specialty area.

James Gray - *Ingredion Incorporated - CFO and EVP*

And Brett, I'll just add, maybe as a new CFO, we're also -- if we can't look at our near-end and our longer-term plans with regard to cost management as well as our place -- marketplace and the position, we're always going to be disciplined about our return on capital employed. And looking at all of the options around that.

It's nice with some of the trading regions that we can -- that exist in Americas Sur that we can provide specialty products from either within South America to Southern Cone, or we can actually do that from other locations. But we will always be disciplined about looking at ROCE.

Brett Hundley - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

And then my other question for you guys, I wanted to come back to the contracting question in North America that tends to get brought up a lot. And I think some people probably get frustrated by your answer that food is local because the real concern, obviously, is that 1 type of product and in this case, HF. The concern is that, that comes back onto the U.S. market and hurt supply/demand dynamics, potentially to whatever degree for one of your main operating areas.

And I can also understand why you guys would take issue with the discussion of HF specifically because of how you've changed your mix over time. So I think the correct discussion for you guys is really the contracting backdrop for specialty starches and specialty sweeteners.

And so if you agree with me on that, can we maybe talk about what's happening with HF specifically across the border -- across the southern border? And maybe how that ties into contracting for specialty starches and specialty sweeteners? And what I'm really trying to get at here is, are they -- have they been disconnected historically? And are they even more so disconnected now? And can you describe the backdrop that you see for those specialty products as you may be go into contracting for those into 2018. Because I think that's the real topic that people need to be talking about as it relates to your company.

James Gray - *Ingredion Incorporated - CFO and EVP*

Maybe I'll take the lead on this one. I think that's a very insightful question. When you do think about HF, and in particular HF 55, which is really a great solution for beverages, there are a few customers and suppliers and that one tends to go back and forth across the border because it's big, it seems to get the kind of a benchmark in terms of maybe where the market's at for kind of overall price levels. I do think that there is some separation. In particular, when we look at the current suspension agreements and/or if there's any type of restriction of cane sugar into the U.S. or sugar prices go higher. When we look at our customers, its different sweeteners that are corn-derived that could be potential substitutes.

So we're not having an HF discussion. We're talking about glucose and other types of products that may be in higher demand in the U.S. if there is any type of sugar volume that's held up in Mexico. And when we flip it and then look at HF, we're very happy with our local business in Mexico, and how we're looking at both our specialty starch in terms of being able to offer solutions to our customers that may actually take some calories out. And we've talked to you a little bit about how we've looked at the obesity tax in Mexico and some of the novel solutions that we've come up with there. But we're also very much focused on our overall need of starch and our -- and a bit of our kind of more customized or specialty sweetener business in Mexico.[

Ilene Gordon - *Ingredion Incorporated - Chairman, CEO and President*

I guess the other thing I would add and we've said this before is that the way that we're configured with the capital-intensive front and grind, we like that we're able to redirect some of that capacity if needed to balance our system. In some cases, it takes adding finishing capacity which is quick and not expensive, but that we have a lot of choices.

And so you're right. There was a discussion obviously, on the high fructose side, which again is a smaller percent for us. We're growing specialty starches, but we have modified starch capability and capacity for that and can grow that as we deliver value to the market. And so that's where our focus is and developing recipes for that area will continue to be our focus.

Operator

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

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

Maybe staying in North America. In the quarter, volumes organically up about 2%, which would actually be a little bit better than what you would see from most food and beverage companies that have reported and certainly what you've seen the scanner data on an end-sell basis. Maybe talk a little bit about U.S., Mexico, specialty, nonspecialty product lines where you're actually seeing some of that growth on what's been a pretty tough food and beverage backdrop, let's start there.

Ilene Gordon - *Ingredion Incorporated - Chairman, CEO and President*

Yes. I would say that there's 2 areas in particular, some of which we've talked about and some we haven't. And that is certainly the opportunity for non-GMO that Jim talked about a few minutes ago. And what's interesting is, and people ask me, is there a science between GMO and non-GMO? No, there isn't.

But the consumer perceives that non-GMO, the whole recipe will be more healthy, and so that's what's driving the demand and we're one of the few companies that can really deliver that with our manufacturing capabilities, both U.S., Canada and some in Mexico.

I think the other areas, when you focus on the organic, and again, taking out the acquisition, is our focus on medium and small-sized customers. And that was one of the important logic behind the TIC Gums acquisition.

Sure, the idea of having hydrocolloids and different texturizers and blending systems is important, but I think even more important is that it brought us the right way to deliver value to those medium and small-sized customers that are growing, that are delivering value in new brands, and so we are working through on how to accelerate that.

And I think that is what's very exciting to us and we've started to do that in the last year. And we'll accelerate even more with the TIC Gums acquisition.

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

That's helpful. And then maybe following, going back to this question about Mexico in a different light. I think in the earlier questions, you alluded to maybe roughly a 300-basis-point-or-so capacity utilization kind of -- that's at risk if HFCS exports to Mexico are backed out. And if you go back, it's a little bit smaller, but not that much smaller than the impact of cargo plant coming off a couple of years ago.

And you also talked about redirecting that front-end grind to other products and how that was fairly easy to do. And I guess the question is, if it's not that complicated to do and the high fructose volumes end up being more important for your competitors than yourselves, just in terms of the overall mix of business, what's going to stop them from redirecting that and providing a more competitive environment across the balance of the portfolio in North America? I'm just trying to make sure I understand that balance.

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James Gray - *Ingredion Incorporated - CFO and EVP*

Yes. So Adam, I can answer half the questions because we have a position in Mexico, and we would look at our demand. But I can't really determine what our competitors would do. I'm comfortable in our U.S. position in terms of our customer relationships both on HF, but also in terms of other sweeteners both large, medium and small customers.

We work very hard on our customer experience. We work very hard on our availability and our service elements to differentiate the fact that we're there, ready for our customers with solutions 24/7, right?

So if there's -- [Adam's stance] that HF demand backs up, I think we're going to just continue to play our game, focus on our customer relationships and we're going to continue to run our business in Mexico and we're going to continue to run our business in Canada too because we have to think about all 3 countries that are within NAFTA.

Operator

And we'll go to Akshay Jagdale with Jefferies.

Akshay Jagdale - *Jefferies LLC, Research Division - Equity Analyst*

First, I just want to make sure I understand the guidance correctly, and then I have a couple of follow-ups. So you took your guidance up, the bottom end up and there's some moving parts, lower share count, higher interest expense, I think which offset each other. But basically, your underlying EBIT guidance is higher despite from our perspective what seemed to be generally in line quarter with a more negative outlook on South America.

So when I put all of that together, it seems like to me that the core U.S. or North American business, you have probably a better view or more confidence in the middle to high end of your view there, but can you just make -- help me with that a little bit? It looks like the North American outlook is better than it was before and that's driving your change in core EBIT guidance. Is that the right way to look at it?

James Gray - *Ingredion Incorporated - CFO and EVP*

I think we have a more positive view on both North America, APAC and EMEA, right? So we look at all 3 of those regions as doing quite well. And obviously, we're cautious about how South America, in particular, Southern Cone, Argentina will turn out. But we've kind of -- we believe that we've taken into some of the downside risks into account in our guidance range.

And then just to emphasize, you are correct that we have fewer shares outstanding, but we really do look at the kind of the increase in our financing costs as almost those are a bit of a wash. I think the -- and we are looking at, we had tax favorability in Q1, our tax rate -- effective tax rate still is kind of the 30-ish percent range, and so we'll see how the Mexican peso plays out during the year, but I really can't predict where the Mexican peso is going to wind up balance of year. But you're right, I think we are very positive on those 3 regions for 2017.

Akshay Jagdale - *Jefferies LLC, Research Division - Equity Analyst*

And then just as a follow-up to that, your guidance also implies an acceleration in EBIT growth at the consolidated levels from sort of mid-single digits to almost 10%, I think it is 10% for the rest of the year. Is that just, and again, we know you commented quite a bit on South America, so I understand the trajectory there is maybe improving in the back half, but it looks like the acceleration again is going to be driven by North America, EMEA and Asia Pac. What's driving the acceleration? Is it just sort of how the comps on gross corn cost, et cetera, and EBIT growth comps play out? Or is there some underlying tick up that we're not -- that you're expecting?

James Gray - *Ingredion Incorporated - CFO and EVP*

I think it may be a little bit about how the corn lays out by quarter. Because I mean, I think, we're really still sticking to kind of $7.50 to $7.80 EPS for our range. And then what we always would see, I think, throughout the year is just kind of continued specialty growth. And as that dollar sales of that business becomes bigger then that may impact our margins favorably. But generally, I would say we kind of stick to our full year guidance range.

Ilene Gordon - *Ingredion Incorporated - Chairman, CEO and President*

And I would say as we've talked about last year, we brought on some new specialty capacity in Asia Pacific and in Indianapolis. And so as those assets have come online and we're qualifying the different recipes as we start to sell products towards that capacity, that's part of the equation of how the year ought to unfold and so that's included in all of that guidance.

Akshay Jagdale - *Jefferies LLC, Research Division - Equity Analyst*

Okay. Just one last one on South America, and this is more sort of long-term. Am I -- so I'm interpreting your comments as the pricing dynamics or where your pricing is today, you don't think is structurally challenged. And please correct me if I'm wrong there, because when I look at the numbers over the last 5 years, obviously, FX has been a huge drag and pricing has yet to fully catch up to that. So there was this whole issue with sugar prices that were low, I think that has reversed. But where your pricing is today, you feel that's not a structural impediment, is that a fair comment?

And then to complete that picture, basically, what you're saying is you're addressing the labor cost and the cost that you can control. And over time as demand picks up and utilization picks up, you'll see margin improvement. So is that how we should think about it? Because I believe there was a pricing issue a year ago and has that now changed?

James Gray - *Ingredion Incorporated - CFO and EVP*

Yes. So let me maybe just break it down in terms of -- because you asked the South America question, but I really have kind of a tale of 2 cities. If I look at Brazil, what we've had was some changes in corn and our pricing, sometimes that corn change because it's maybe dollar-denominated and you get a change in reais, you get a lag. I think we're catching up there and I think our pricing, our margins are kind of in line. The dollar margins are in line with what we would hope for in Brazil.

I think Colombia and Indiana are very similar. So that's kind of one city. In Argentina, Southern Cone, in that subregion that we comment on what we really comment there is as we look at what the local price of sugar is relative to world market, and then how high fructose that we sell into that market is priced relative to that sugar. And I do think there we've actually seen an increase in sugar, an increase in high fructose prices and are relatively in line, so I don't think that we have any kind of structural headwinds against us there. So -- and that's why when you maybe stare at the South America disclosure, our net sale is very interesting, both positive foreign exchange, but also positive price/mix, that's unusual, right? So normally, you wouldn't see both. So I just thought I'd break that down for you a bit.

Operator

Our final question will come from Farha Aslam with Stephens.

Farha Aslam - *Stephens Inc., Research Division - MD*

A couple of questions. First one, in the quarter, did you benefit from a competitor's plant being down? Did that help that core volume number at all?

James Gray - *Ingredion Incorporated - CFO and EVP*

We wouldn't see that, Farha. We are contracting with customers. We get kind our kind of our normal volume flow from kind of within our kind of customer expectations. So I don't think that we would normally see that come through.

Farha Aslam - *Stephens Inc., Research Division - MD*

And then the TIC Gums acquisition, this is really the first quarter you've had that you're in. Could you talk about, is it growing that 5% you expected it to in 2017? Is it really going to add about $0.05 to $0.06 to EPS this year? Could you just give us more color on that TIC's acquisition?

Ilene Gordon - *Ingredion Incorporated - Chairman, CEO and President*

I'll start out and then Jim will chime in. But as we've said last year, we just completed the acquisition at the very end of the year, so yes, you're right it was our first quarter. And I believe that we dialed in the $22 million for the year that will be -- and most of the integration, the synergies are more in the sales side, a little bit on the cost side. So again, its early days, we're working on the recipes, the R&D and the different customer mix but it's very much on track to what we expected.

James Gray - *Ingredion Incorporated - CFO and EVP*

And we did -- we guided on that 1 was $0.04 to $0.05 accretive, right? So if you take the OI that we talked about, including the amortization of intangibles, and then we net kind of what our expected financing costs would be, that's how we get to our $0.04 to $0.05 on that.

Farha Aslam - *Stephens Inc., Research Division - MD*

And my final question is on fiber and hydrocolloids. Some folks in the market were talking about fiber and hydrocolloids being pressured. Are you seeing pricing pressure on those 2 product lines, are they significant product lines for you?

Ilene Gordon - *Ingredion Incorporated - Chairman, CEO and President*

We haven't spent a lot of time talking about fiber. It's a very small business for us. And hydrocolloids, also is small for us. So it will be a little bit more important with the TIC Gums because we believe that's the way to deliver a different texture value to us but relatively small in the scope compared to our texture portfolio which has really been a leading portfolio. And so we haven't had any headwinds there.

Operator

I'll now turn it back to Heather Kos. Please go ahead.

Heather Kos

So let me just sign off here. I want to reiterate our confidence in our business model, strategy and long-term outlook. We remain focused on value creation and delivering that value to shareholders. And I'm also excited to announce officially our November 14 as our upcoming Analyst Day in Bridgewater, New Jersey. So we hope you will all put that on your calendar and that we'll see you there. So that brings our first quarter 2017 earnings call to a close. Thanks, again for your time today.

Operator

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