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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 2024 Ingredion Incorporated earnings conference call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your first speaker today, Noah Weiss, Vice President, Investor Relations. Please go ahead.

Noah Weiss - *Ingredion Inc - Vice President, Investor Relations*

Good morning, and welcome to Ingredion's second quarter 2024 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 a 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 this 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 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 rate, which are reconciled to US GAAP measures. In note two 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. Ingredion's results for the second quarter exceeded our expectations with a strong recovery in volumes across the portfolio and strong growth in profitability, with adjusted operating income up 8% and gross margins up 240 basis points.

Profit growth was supported by improving volume, lower input costs and greater fixed cost absorption. Sales were down 9% due to the pass through of lower raw material costs as well as the lap of South Korea's 2023 net sales.

This record second quarter for operating income is noteworthy as it is against the backdrop of value-seeking consumers facing historically high prices in many markets. We believe our success is due to the breadth and affordability of our ingredient portfolio and the diversity of our customer and geographic mix.

Our strong results were also supported by our cost control measures and productivity initiatives. Going forward, we will continue to derive strength from our newly segmented business model by optimizing pricing strategies and leveraging our scale in raw material procurement to deliver customer value and improve our financial performance.

Turning to a summary of our volume growth across segments this quarter. I would like to take a few moments to walk you through the segment-specific volume drivers behind the Q2 results. We delivered strong across-the-board volume growth for the first time since destocking began early last year.

Volumes were up 1% in the quarter, however, if we adjust for the volumes that went with the sale of the South Korea business, volumes were actually up 5%. Our most significant year-over-year increase came from Texture and Healthful solutions segments with net sales volumes increasing 8%.

As packaged food shipments gradually improved our distributors have begun replenishing inventories in anticipation of continued demand, particularly in the US and Canada, where grocery retailers are witnessing growth in center store sales.

From a food category perspective, we have seen positive trends in some of our savory categories like dressings and sauces where volumes have started to turn positive year over year. Although quick-service restaurants and food away from home has slowed in the second quarter, we are seeing stronger demand for batters and breading for frozen chicken and french fries prepared at home.

Additionally, for Texture and Healthful solutions, demand in the Middle East and Africa has been particularly strong, recovering to pre-pandemic levels, driven by distributor restocking and sales of our innovative solutions for dairy and dairy alternatives.

We have also seen nice growth in new customer acquisition throughout Asia, supported by our investment two years ago in China, coupled with continued strong performance from our Tapioca franchise.

Turning to Food & Industrial Ingredients, LATAM dry weather and corresponding high prices for sugar in Mexico led to increased demand for sweeteners from beverage customers. In Brazil, brewery continued to recover, and I'm pleased to report that in line with full year volume commitments. Our sales into nutritional supplements in Colombia commenced representing a solid in-year restart for this business.

Lastly, for Food & Industrial Ingredients, US, Canada, we have seen seasonal summer demand pickup. Additionally, our industrial business and volumes to paper and packaging customers continue to recover. Let me now update you on progress against our three strategic pillars.

Starting with our business growth pillar, we set a record for second quarter profitability, thanks to strong volume in all segments. Texture and Healthful solutions saw 8% volume growth. Additionally, project related customer engagements continued to see strong momentum with a 26% increase in the first half versus the same period last year, which we view as a positive leading indicator of future growth for this segment.

Furthermore, customer feedback regarding our service and solutions has reflected the highest levels of trust and collaboration since we began tracking these metrics.

Our sugar reduction business had a strong quarter with net sales up 10%, reflecting strong volume growth. During the quarter, aligned with our strategy, we increased our investment and ownership of PureCircle by $40 million, taking our equity stake to 98%.

In 2024, we renewed several multi-year agreements with a few significant customers, which allowed us to recoup inflation on our input costs over the last two years. These adjustments have contributed to higher profits. Lastly, we have seen continued strong demand for industrial starches in papermaking and packaging in North America.

Turning to our second pillar, cost competitiveness through operational excellence. Last quarter, we launched a multiyear cost savings program called cost to compete with a target to deliver $50 million of run rate savings by the end of 2025.

During the first half, as part of our global reorganization, we have identified and initiated $18 million in annual run rate savings, mostly in SG&A. As we are seeing lower corn costs, not just in the United States in the first half of 2024, our global ag procurement teams have responded to lower market prices, which has resulted in a greater than expected reduction in raw material costs. This benefit was evident primarily in our Food and Industrial Ingredients segments.

From an operational excellence standpoint, our global supply chain team has been building new forecast accuracy tools, these capabilities, which are combination of machine learning and people expertise are improving our production scheduling effectiveness, which will result in lower production costs and inventory levels over time.

Regarding our purpose-driven and people-centric growth culture pillar, despite a period of significant change our employee engagement remained in the top quartile of Glenn's global benchmarks. As recognition of our progress, I'm proud to say that our global technical headquarters in Bridgewater, New Jersey won a regional Top Workplaces awards.

Our commitment to sustaining high employee engagement further was advanced throughout the -- through the refreshment of our employee value proposition with the aspiration for everyone to have the opportunity to create the future with people who care.

Turning now to gross profit margins. On a year-over-year basis, we improved gross margin by 240 basis points to 23.7%, driven by strong volume recovery, better absorption of fixed costs, the adjustment of multiyear contracts and supply chain optimization and resiliency in managing volatility.

We recently published our 2023 sustainability report, and I would like to call out some highlights. Most notably, we've achieved a 22% absolute reduction in global scope one and two emissions, marking a substantial milestone toward our 2030 environmental goals.

We've also increased our global purchase of renewable electricity to 25%, reinforcing our commitment to increasing sources of green energy. We reached another significant milestone, achieving 67% sustainable sourcing for our Tier 1 priority crops.

I'm proud to say that we now sustainably source 100% of our global waxy corn and stevia supply. Furthermore, we reached 74,000 acres grown under regenerative agricultural practices.

Lastly, Ingredion has expanded its relationship with HowGood a leading sustainability research platform for food ingredients. This partnership enables our customers to access the carbon footprint data for our entire ingredient portfolio as they innovate with sustainability considerations in mind.

Now I will hand over to Jim Gray for the financial review.

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 approximately $1.9 billion, down 9% versus prior year. Gross profit dollars increased 1% with corresponding margins up 240 basis points to 23.7%, up sequentially and year over year.

Reported and adjusted operating income were $240 million and $270 million, respectively. With adjusted operating income up 8% versus the prior year, driven by lower raw material and input costs and higher volume, partially offset by price mix.

Turning to our Q2 net sales bridge, the 9% decrease in net sales was driven by $204 million in lower price mix and $11 million of foreign exchange impact, partially offset by positive volume of $104 million. Additionally, the exit from our South Korea business had an $80 million impact on sales volume. For modeling purposes, last year's Korea net sales for Q3 and Q4 were similar to Q2's run rate.

Turning to the next slide, we show net sales drivers for the second quarter. As Jim has already highlighted sales volume growth. I'll stick to color comments regarding overall net sales and price mix. For the total company, net sales were down 9% and when excluding the net impact of South Korea's sales from the results down 6%.

Texture and Healthful solutions, net sales were down 5%. Price mix was down 11% for the quarter, partly reflecting the pass-through of lower corn costs as well as higher pricing from last year when these businesses price through double digit inflation for both specialty corn and natural gas, primarily in Europe and in the US.

Food & Industrial Ingredients, LATAM net sales were down 5% and Food & Industrial Ingredients, US/Canada net sales were down 8%. Both of these segments net sales results are impacted by declining year-over-year price mix, driven by the pass-through of lower corn costs.

Let me turn to a recap of our Q2 segment performance. Texture and Healthful Solutions, net sales were down 5% compared to the prior year and down 3% on a constant currency basis. Texture and Healthful Solutions operating income was $86 million with a corresponding OI margin of 14.6%, driven by unfavorable price mix, partially offset by higher volume demand, greater fixed cost absorption and lower input costs.

On a sequential basis, T&H solutions increased operating income margins by over 200 basis points and we anticipate op income margins to be between 13% and 15% for the full year.

In Food & Industrial Ingredients, LATAM net sales were down 5% versus last year and down 6% on a constant currency basis. F&I LATAM operating income was $130 million with an OI margin of 20.6%, driven primarily by lower input costs as we were lapping the prior year's energy transition to biomass and Brazil.

Further contributing to OP income growth volumes were improved year over year and the Argentina JV had surprisingly strong results as we are seeing better than expected economic conditions. We expect OI margins for the full year to be between 17% and 19%.

Moving to Food & Industrial Ingredients US/CAN, net sales were down 8% for the quarter. F&I US/CAN operating income was $105 million with an OI margin of approximately 19%. The significant improvement was driven by tight management of lower raw material costs and the renewals, multiyear customer contracts that have caught up with input inflation endured in prior years.

We expect for the full year OI margins for this segment to be between 16% and 18%. For all other net sales decreased 42% for the quarter. Driven by the overlap of South Korea's net sales in the prior year's quarter. When adjusting for the exit from South Korea and foreign currency impacts, net sales were up 6%.

All other operating loss was $10 million, primarily driven by our protein fortification business and some one-time costs incurred in the quarter. For the full year, we expect all other operating losses in the range of $20 million to $30 million, a significant reduction from 2023.

Turning to our earnings bridge, on the left side, you can see the reconciliation from reported to adjusted earnings per share. On the right side, operationally, we saw an increase of $0.20 per share for the quarter. The increase was driven primarily by an operating margin increase of $0.06 and other income of $0.11 per share, which reflects the positive results primarily from our Argentina joint venture.

Moving to our non-operational items, we had an increase of $0.35 per share, primarily driven by lower financing costs and favorable foreign currency gains of $0.22 per share and a favorable tax rate contribution of $0.10 per share.

Shifting to our year-to-date income statement highlights, net sales for the first six months were approximately $3.8 billion, down 11% versus the prior year. While gross profit dollars decreased 7%, gross margin was up to 23%. Reported and adjusted operating income were $453 million and $486 million, a decrease of 16% and 11% respectively, both reflecting the lap of a strong first quarter in 2023.

Turning to our year-to-date earnings bridge. Operationally, the result is a decrease of $0.60 per share, which reflects Q1's large decrease with a positive contribution from Q2. For our non-operational items, we had an increase of $0.50 per share primarily driven by lower financing costs of $0.37 per share and a favorable tax rate contribution of $0.07.

Moving to cash flow, first half cash from operations was $521 million. Cash from operations benefited from consistent net income and lower than expected investments in working capital. Lower inventory value benefited working capital investment as demand was strong and we experienced production downtime in the US as well as lower raw material costs passing through working capital balances.

Net capital expenditures were $120 million, slightly below our expected pace of investments for the first half. We have repurchased $66 million of outstanding common shares during the first half of the year. We remain committed to repurchasing at least $100 million of common shares outstanding this year.

Our capital allocation priorities continue to be first organic investments. Second, the return to shareholders through our dividend and third, strategic deployment of cash into M&A and or share repurchase.

Let me turn to our outlook for 2024. For the balance of 2024, we expect sales volume growth, further reductions in cost of goods sold per ton and continuing improvement in gross margins. Excluding the impact of the divestiture of South Korea from our outlook, we now expect net sales to be down low single digits, reflecting a decline in price mix as we pass through lower raw material prices where applicable, partially offset by improved volume demand.

We anticipate that adjusted operating income will be up mid-single digits with year-over-year strong growth in the back half. We are decreasing our financing cost estimate to align with the reduction of overall debt levels and now see it in the range of $65 million to $85 million.

For the full year 2024, we now expect reported effective tax rate of 27% to 28% and an adjusted effective tax rate of 26.5% to 27.5%. The company now expects its full year reported EPS to be in the range of $10.20 to $10.70, which includes the gain from the sale of our South Korea business, as well as our restructuring impairment charges.

For the full year, we are increasing our estimate for adjusted EPS to be in the range of $9.70 to $10.20. We expect diluted weighted average shares outstanding to be between 66 million shares and 67 million shares. We are increasing our 2024 cash from operations expectation, which is now anticipated to be in the range of $800 million to $950 million.

We are still planning to invest $340 million into capital expenditures. Corporate costs are now expected to be up low single digits, a slight decrease from our previous guidance. For the third quarter of 2024, we anticipate net sales to be flat and operating income to be up high double digits versus prior years Q3. In the appendix, we have included a 2024 full year segment outlook and our estimated 2023 comparable range.

That concludes my comments and I'll turn it back to Jim.

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

Thank you, Jim. After experiencing a record second quarter, with strong volume growth and lower input costs, we expect those trends to continue in the second half, providing the impetus for strong profit growth. Cost to compete is off to a solid start with both the identification and initiation of SG&A and COGS savings.

We are confident that we are on track to meet our $50 million target of run-rate savings by the end of next year. Our strong cash flow generation and balance sheet provide strategic optionality for M&A, investment in organic growth and future returns to shareholders.

Before we go to the Q&A, I would like to turn your attention to an exciting event that we are planning for November 14, which will highlight our texture innovation leadership capabilities. With the formation of our global Texture and Healthful solutions segment, we want to showcase how texture solutions can make healthy taste better, more information will be forthcoming over the next month.

Now let's open the call for questions queue.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions)

Kristen Owen, Oppenheimer.

Kristen Owen - *Oppenheimer & Co. Inc. - Analyst*

Hi, good morning. Thank you for taking the question and congratulations on a nice quarter.

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

Thanks.

Kristen Owen - *Oppenheimer & Co. Inc. - Analyst*

Good morning. Thank you.

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

Good morning.

Kristen Owen - *Oppenheimer & Co. Inc. - Analyst*

-- To unpack your end user demand versus restock that you called out in the prepared remarks. I'm just wondering if you can help us with any insight that you have on maybe your distributor inventory levels and as it's related, just what's assumed in the high and low end of the guide for the full year from a volume perspective? Thank you.

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

Yeah, Kristen, this is Jim Zallie. So our second half is lapping prior year customer destocking that we believe is no longer evident in the supply chain. Our second quarter's strong volume growth builds off of the prior three quarters' trend line that we've been reporting on.

Our belief is that consumers have not just started this past quarter to economize, but have been economizing over the past year. And plus despite this, we're seeing an upward trend in volume growth. It's noteworthy that we believe that given the breadth of our ingredient portfolio and the diversity of our customer base across branded CPG, private label, foodservice, along with the affordability of our ingredients and our geographic diversification, we believe our growth assumptions are reasonable.

We're seeing companies offer more promotions to move volume. And we have also which we've highlighted active innovation programs to also drive volume growth, of which we are part of many co-creation briefs right now.

And we do track data from a standpoint of food and beverage categories at retail and latest 13-week data shows volume growth in multiple categories in which our ingredients are sold into such as frozen prepared meals, frozen batter, protein substrates, soups, dressings and condiments, all have done well.

The magnitude of distributor destocking going back to say, starting in late 2022, but certainly for the first three quarters of 2023 was pretty stark and we have seen distributors replenishing inventories now. And so -- and typically, they're very good at managing their cash flow and also have an early indication of what they need to supply for seasonal production for holiday periods as well.

So we take that volume restocking that we're seeing and order pattern for distributors as a good sign going forward. So that's a little bit as far as part of our calculus. Jim, you may want to make some additional complementary comments.

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

Just to remind Kristin and as well as those folks on the call, right. Probably we've said in the past, our US business in terms of its exposure to modified starch markets and categories, probably about 80% goes into at-home meals and so to the extent that you see the consumer grocery basket economizing, maybe a little bit more meal occasions at home, those consumers still seeking convenience, they want taste.

And so they lean towards more kind of ready to prepare entrees , et cetera, that really bodes well for our volume pull. I would say about 20% of our business in the US, as an example, is really exposed to foodservice.

And there we are seeing more mixed results, right? Because of traffic in some of your QSRs or fast cash has shown kind of month-over-month decline, low single digits. So we raise an eyebrow to that, but also see that, as Jim has mentioned more value meals have come back within QSRs to stimulate demand. So it's bit of a mixed, but I would say that we lean a little bit more towards those in-home eating occasions, and that's usually really good for our volume.

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

And we do supply the co-packers that go into private label as well.

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

Yeah.

Kristen Owen - *Oppenheimer & Co. Inc. - Analyst*

That's very helpful color. Thank you for that. I wanted to follow up then on the gross margin expansion. Three big levers that I see there and I'm hoping you can maybe help me quantify or contextualize those levers.

And you've got the improving demand backdrop. You've got the declining commodities backdrop. And then you've got these efforts that you're making internally to improve your operations. So maybe parse out those levers for us and help us understand as we see the commodities environment continued to trend lower, excuse me, how much you can hold on to that as we think about the 2025 bridge? Thank you.

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

Yeah, I think maybe I'll lead on this. You're always going to benefit a little bit from an expectation of your raw material cost and if your raw material costs come in lower, remember we hedge about 80% to 85% of our raw material costs so to the extent that there's just a little bit of lower spot prices in the marketplace, that's going to benefit.

But really it's the volume that we're your second driver that you highlighted, the volume growth is really providing some fixed cost absorption. We highlighted that last year as it was a tremendous headwind and so as that comes back, particularly in our Texture and Healthful businesses, where you have more assets in the downstream production, you just get some tremendous fixed cost absorption as we see that volume coming through.

And then I'd say on top of that, we're in, I would say, maybe our third year as a global operations team under our new model, really running at harmonizing things like our internal savings metrics or procurement team. So there are some internal initiatives that we're taking just on a day-to-day basis to drive operating excellence. I would say that's a bit of a wind in our sails as well that will continue as we go into '25 and '26.

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

Yeah, I think what Jim's highlighting is that it's noteworthy to point out that beyond the cost to compete program, Ingredion's strategic pillar focused on cost competitiveness through operational excellence is driving a comprehensive set of productivity initiatives to reduce costs, expand capacity and avoid or delay capital investment.

And that program, which has been underway for multiple years now as part of a global operations, operating model is paying dividends on top of that, we've initiated the cost to compete program with its $50 million run rate savings target by end of '25. And again, we've reported an update on our progress there.

So that's another lever that's helping, we believe and will help with the margins the volume growth I think Jim hit it right on the head as a number one issue from a leverage standpoint and certainly not just in the United States, we're seeing raw material costs, corn costs come down and we're benefiting as that happens related to our pricing and some of the sticky down that we tend to have to benefit.

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

Kristen, I would add that the third lever that maybe there's a fourth lever, right, but there is a difference in our product mix and to some extent that we have some products that sell for a higher average prices per ton and they offer a much more unique value to the customer in the recipe and in the consumer labeling and those sell higher gross margins.

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

And those Jim are in the Texture and Healthful solutions segment, which experienced the highest volume growth this past quarter.

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

So that's also that plays underneath a lot of gross margin expansion over time.

Kristen Owen - *Oppenheimer & Co. Inc. - Analyst*

Great. Thank you so much. I'll leave it there.

Operator

Josh Spector, UBS.

Josh Spector - *UBS Securities LLC - Analyst*

Hi, good morning. So I just wanted to ask at a high level with your guidance at the EBIT level, you didn't change that for the year, the second quarter came in better understanding of some moving parts on price costs.

And otherwise that seems like margin expectations moved up. So I guess was there more of a pull-forward or was something temporary from a price cost perspective in 2Q that you don't expect to recur or has anything changed on your view in the second half? Thanks.

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

Well, Josh, this was a maybe a source of internal debate. I just say that mid-single digit OP income growth implies a range. And as Noah's advised me, we're probably more towards the upper end of that range. So we're just feeling that Q2 really confirmed some of the dynamics in the business that we wanted to see impacting gross margin, and we have good momentum behind cost to compete. So I think that gives us confidence when you look at Q3 and Q4 for this year, some pretty high OP income growth expected.

Josh Spector - *UBS Securities LLC - Analyst*

Okay, thanks. That's helpful. And just kind of a follow-up to the prior question around volumes. It kind of seems like if we look at the two year stack of things, you're expecting things to improve in the second half. I mean, you talked about a number of reasons about why our math would be that your volumes need to be up about high single digits to kind of get into the range that you're guiding to. I guess first, is that right, then two, are you seeing the signs now that there's some acceleration in your multi-year stack on volumes into the second half.

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

I don't know if there's acceleration, but I would you definitely in terms of the second half volumes we're solidly seeing mid-single digits to high single digits on [3p] volume growth.

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

Yeah. And the new segment of Texture and Healthful solutions in 2024 lapped a very strong first half in the first half. And that segment experienced more of the destocking phenomenon, primarily because those ingredients transport in dry state in comparison to the Food & Industrial Ingredients, which are sold for the majority in bulk liquid, for example.

And so they experienced more of the destocking phenomenon in comparison to Food & Industrial Ingredients. And so from a standpoint of the second half comparator, yes, we do feel that there will be strong volume growth in the second half.

Josh Spector - *UBS Securities LLC - Analyst*

Okay. Thank you.

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

Thank you.

Operator

Adam Samuelson, Goldman Sachs.

Adam Samuelson - *Goldman Sachs & Company, Inc. - Analyst*

Yeah, thank you and good morning, everyone.

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

Morning, Adam.

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

Morning, Adam.

Adam Samuelson - *Goldman Sachs & Company, Inc. - Analyst*

So maybe just the first question on capital allocation and deployment is going to see a restart of repurchase activity in the second quarter, and you alluded to more to come in the second half. Can you help us think about the continuation of that versus the M&A pipeline maybe as it sits today and are you seeing more interesting things, and if you are kind of any framing on sizing of those and just remind us how you'd approach the return and accretion targets for any M&A.

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

Yeah. Maybe I'll take the first part on share repurchase. Jim, maybe you should comment on M&A. But just real briefly so with $66 million worth of shares repurchased in the first half and we definitely striving towards $100 million for the full year, could be more.

What we're really always consider is, this where's the Ingredion stock price trading and where is it trading relative to the market for the last couple of days is even more interesting is the overall markets have experienced some pressure.

And then we look at that relative to our intrinsic value we calculate a return for remaining shareholders, and we're always looking at that versus the returns that we're getting on organic investment and potential M&A.

And so I think that we look at that and it may come across as infrequent, but we're very purposeful and deploying cash to the extent that we have actually an anticipation of more strategic cash available as we end 2024. That will be part of our consideration as we are looking at share repurchase. So right now committed to getting to the $100 million, but open beyond that. Yeah, we keep dry powder on our balance sheet as well when we look at M&A and Jim, you want to talk a little bit about what you --

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

Well, actually first just to put an underscoring point on the share repurchase. I would say that further share repurchases in the second half beyond $100 million is clearly an option. That being said, we're always weighing in the balance what we have in an active M&A pipeline that we're always nurturing and we have prospects that we're advancing through that pipeline.

And those will be anything that can enhance the value propositions to support primarily the Texture and Healthful solutions. However, we also want to use some of that capital wisely for reliability, investments for these very strong cash generative businesses that you're seeing perform and seeing, I think, hopefully some pleasantly surprising financials for the new segments of Food and Industrial Ingredients, LATAM as well as the solid positions we have in US, Canada, which have returns associated with them as well.

So we have a number of projects for organic growth investment as well as some cost savings. But also we are -- we have an eye towards the pipeline, the M&A pipeline that we're nurturing. And all that being said, we have a good challenge on our hands, which is how do we deploy the cash that we have. And certainly we're going to be looking at share repurchases as well.

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

And Adam, let me just ask your last question or answer your last question, which was with regard to M&A. We do very much think about ROIC once the synergies have been achieved. So we're generally looking into years three ROIC that's greater than 10%. We keep that kind of firmly in our sights.

And then in terms of accretion we generally prefer deals that are cash accretive and then hopefully earnings accretive by maybe year two or year three.

Adam Samuelson - *Goldman Sachs & Company, Inc. - Analyst*

And that's so helpful. I guess a follow-up on the business and the outlook in the quarter itself, the LATAM business has had very strong results. And maybe looking for a little bit more color on pulling that apart a little bit between Mexico, which seems like it's had some tailwinds because of sugar prices versus the traditional South American business and how we should think about those two parts of the geography, just kind of moving forward through the second half. Thanks.

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

So I'll take that and then, Jim, you can add any additional comments. But you're spot on Adam, that our Mexico business continued to generate record results in quarter two, driven by increased sweetener demand and higher sugar prices.

In Argentina, the peso did not devalue at the level that we had expected, which drove strong results from our Argentina JV in the period. In addition, our Brazil results improved on volume growth and against the lap in higher energy costs due to the biomass boiler startup in Q2 of 2023.

And lastly, because this was a topic in quarter one's earnings call, I'm pleased to report that a large customer, which is served by our Colombia business that did not pull any volume in quarter one has commenced their full year purchase obligations in quarter two, and we expect them to meet their full year purchase commitments by the end of the year. So those were some of the factors that drove some of the very strong performance in Food & Industrial Ingredients LATAM.

Adam Samuelson - *Goldman Sachs & Company, Inc. - Analyst*

That's all very helpful. I will pass it on. Thank you.

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

Thank you.

Operator

Andrew Strelzik, BMO Capital Markets.

Andrew Strelzik - *BMO Capital Markets - Analyst*

Hey, good morning. Thanks for taking the questions. Maybe dovetailing off the last question, both your Food and Industrial segment margins are tracking towards the higher end of the guidance range. And you talked about a lot of positive factors that should impact your margins over the balance of the year.

I guess I'm just curious, you did pick up the low end, but you're giving yourself some cushion, I guess, for the rest of the year on those margins to revert a little. So I guess I'm just curious what are the factors that would cause that to moderate and it includes the industrial segments.

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

Yeah. Hi, Andrew. Thanks for dialing in. I would probably just say that when you take the first half for both Food Industrial Ingredients US/CAN as well as Food Industrial Ingredients LATAM, you got to put Q1 into the math for the first half. And so therefore, then when you look at the second half in terms of the OI margin range, it's really one factor because several things.

One, so we sort of have an angle on where the price levels are because we've generally concluded contracting and we know what that flow rate is. We know where the raw material cost is going to be, and we've largely hedged those positions.

In generally, I think that we're seeing co-product value relative to corn, it's moving a little bit, but wasn't moving nearly as much as necessarily last year. And so I think that's going to basically support gross margins for these two businesses.

Other than that, I think that we probably do see some volume, but not a tremendous amount of volume growth, but some volume growth and upside in both of these businesses. Clearly, there's some room in LATAM in the second half of the year.

Andrew Strelzik - *BMO Capital Markets - Analyst*

Okay, great. That's helpful. And then, just a little more clarity on the cost process and how you're thinking about that for the balance of the year, off to very good start here especially relative to the $50 million over the course of two years.

So how are you thinking about how much of that $50 million you should capture in '24 now versus maybe what you initially expected and how should we think about the cadence of that through the rest of the year? Thanks.

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

Jim, why don't you take that.

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

Sure. So I think that when we look at the cost to complete program and we put out that target for $50 million of run rate savings at the end of year two, it's really we completed a refresh of our strategy in 2023 and our Board decided to endorse our decision to resegment our business.

And this has afforded the opportunity to redesign and reorganize each of the segments' needs. And most of those, the savings that were identified thus far come from redesigning and streamlining the org structure really to align with each segments must have capabilities.

And so our teams are committed to delivering that $50 million of run rate savings by the end of 2025. We're going to progress those savings initiatives. We'll provide relevant updates as we go. I think right now what we've been a bit bolstered by the start of having the opportunity to have a reorganization really at the end of last year and kitting completed in the first half of this year. And so still feel like that $50 million run rate target is appropriate.

As we've highlighted before as well as cost to compete allows is kind of a restructuring a window for events, but that doesn't stop us from thinking about being cost competitive. And we do that on a day-to-day basis and Jim has highlighted previously some of what the efforts are underway and our operations team as well as our global shared service centers to always think about productivity and efficiency on a day-to-day basis.

Andrew Strelzik - *BMO Capital Markets - Analyst*

Great, thank you very much.

Operator

Ben Theurer, Barclays.

Ben Theurer - *Barclays Capital Inc. - Analyst*

Yeah, good morning, Jim and Jim. Thanks for taking my question. So just one quick one and a follow-up. If we look at Texture and Healthful solutions, obviously with -- you've explained a little bit like the volume dynamics and some of the destocking issues.

But one of the things I was wondering if you could explain a little bit what's the difference between what do you initially guided after the first quarter results on the segment operating income margin, that was more like 13% to 16% and now you took it down to 13% to 15%.

So just wanted to understand a little bit the pricing dynamics here as why you took down that higher piece of that margin outlook by about 100 basis points, if you could shed some color on that. That would be my first question. Thank you.

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

Okay. What I would say is that for this particular segment, as I indicated that this segment did experience more of the destocking phenomenon in comparison to the Food & Industrial Ingredients segments. So going into contracting in 2024, it was necessary to adjust pricing to maintain strategic market shares.

In addition, these pricing actions, along with some inventory downgrades and adjustments specifically in Q2 negatively weighed on profitability. However, the market fundamentals are improving those inventory downgrades are behind us and on the back of the strong volumes we experienced and a strong customer pipeline and better fixed cost absorption.

We obviously see a brighter outlook going forward, but it was really some of those dynamics on the necessary actions to adjust pricing. And then we had some significant inventory downgrades that we decided to take in Q2 in that business and that was one of the reasons that the margins were compressed a bit long term.

We anticipate that mid-teens operating income margins will improve about 30 basis to 50 basis points per year in that business driven by the point that Jim was making earlier about strong gross margins relative to the other businesses, which we expect will be double the levels of the remaining business segments.

It's also noteworthy, Ben, to highlight that the Texture and Healthful solutions segments, are absorbing costs from a lot of the capital investments that we've highlighted in previous earnings calls that we would say are still early-stage capacity expansion investments that we made.

For example, we more than doubled our specialty starch capacity in China and expanded capacity for specialty starches in Thailand, for example. And we've highlighted in previous earnings calls, that not the full percentage of that available capacity or those capital investments are actually generating returns certainly at anywhere close to peak levels.

So that's another factor in relationship to some of the things that mute the margins a bit at this moment in time, very early in the segmentation, but longer term we are very optimistic about the prospects for margin growth in Texture and Healthful solutions.

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

And Texture and Healthful solutions carries more D&A and over time, as we look at that when you adjust for the D&A, you'll see a very I think what we believe is a very healthful EBITDA margin for this segment, which is going to deliver top line growth.

Ben Theurer - *Barclays Capital Inc. - Analyst*

Fantastic. Very clear. Thanks for that. And then just if we look into some of the more recent volatility a little bit more that. Let me get this again. So if we look at the recent volatility, particularly in Latin American markets and it was clearly strong. You've mentioned Colombia highlighted Brazil and Mexico.

Just help us understand how you think about the consumer down there and what you're seeing from your customers in terms of willingness to maybe keep pricing into next year? Are you seeing some of your customers trying to push given the lower corn cost for more pass through than maybe it was the case for 2024, it's given signs of a little bit of a slowdown on the consumer side in both Mexico and Brazil?

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

I would probably respond just initially in that because we don't contract out as far no and not really for full year really across South America. The contracting is really more maybe 12 weeks out or possibly as much as three months to six months.

The changes in the cost of the raw material are going to be reflected pretty quick through the inventory and then evident in the pricing to our customers. And so to the extent that there's sensitivity to our customers' consumer that would probably be reflecting a relatively contemporaneous value of the products that we're selling.

We do have a little fewer contracts in Mexico that tend to go for full year, but we're really more locked in into US corn cost on that and then apply hedges there.

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

Yeah. And I would just say, I mean, Argentina is the economy in '24 shows some promising results due to the new President's reforms. Inflation is easing and macro-economic indicators are better than expected. And as I highlighted, foreign exchange hasn't devalued to the degree expected. And also in Brazil, brewing brewery had some significant recovery and in fact, some of our customers reported very strong volume growth in Brazil this past quarter.

Ben Theurer - *Barclays Capital Inc. - Analyst*

Perfect. Thank you.

Operator

Heather Jones, Heather Jones Research.

Heather Jones - *Heather Jones Research, LLC - Analyst*

Morning, thanks for the question. And I wasn't the on for the early part, so I hope I'm not going to be repeating anything. -- Okay, thank you. I wanted to ask about the other business sort of looking at the slide deck and you all are projecting, I think, roughly a $10 million year on year decline in the losses there.

But so that business, I think is PureCircle, Pakistan and plant-based. And am I right in understanding that it's the plant the alternative protein piece that's driving the losses because I think you're making decent returns appear circling Pakistan. Is that correct?

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

Yeah. So thank you for the question, Heather. The group of all other segments is in fact, on a positive trajectory year on year if you adjust for the sale of our South Korea business, which was in this portfolio last year.

All other is the grouping of three businesses, protein fortification, sugar reduction and our 71% stake in our Pakistan business. Both Pakistan and sugar reduction businesses are generating positive operating income and they're growing.

So over the near future, they will continue to contribute toward all other profit growth. As stated previously, protein fortification is loss-making and we are actively working a turnaround plan to steadily improve the health of protein fortification operating unit over the next one to three years.

What we're very pleased to report and say is that protein fortification reduced its operating loss in the first half as the sales of pea protein isolates were up significantly in the quarter. And for those of you that haven't been tracking this, it's due in large part to customer wins, new customer wins that we've obtained bolstered by tariffs, very high tariffs on Chinese imports.

So the market fundamentals in that segment, which has been under pressure for the last couple of years, is showing some really nice green shoots and we're benefiting from that, and we're hopeful that will continue.

Heather Jones - *Heather Jones Research, LLC - Analyst*

Okay. Thank you. And then on this is the part that I think I may have missed, but the strong volume growth for the Texture and Healthful segment, the slide deck and I think mission distributors replenishing inventories so it's wondering if you could sort of quantify or give some guidance as to how much of that volume growth was stronger in customer demand versus a restocking from last year's destocking?

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

Maybe I'll just jump in because, yeah, Heather, we have covered this a bit previously. But generally, it's more of an in consumer pull. We've highlighted, particularly in grocery club mass those are categories that we track that unit volume growth in some of those categories. So prepared meals, maybe soups, sauces and dressings, batters, so french fries and chicken.

We've seen unit volume growth and during Q2 when we look at the scan data. And so we're seeing pull there, I would say that the offset is maybe a little bit of some noise around QSRs, but within the US/CAN business foodservices, maybe about 20% of our volume pull.

And so while we see some pretty interesting headlines with regard to some of the bigger fast food service chains and we're watching those definitely I think we're seeing just more in consumer pull inthe grocery basket.

Heather Jones - *Heather Jones Research, LLC - Analyst*

Okay. Thank you so much. I appreciate it.

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

Okay, thanks, Heather.

Operator

Thank you. I'm showing no further questions at this time. I'd now like to turn it back to Jim Zallie for closing remarks.

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

That really concludes today's call, and we want to thank everybody for their interest in Ingredion, and we hope to see many of you on November 14 at the Texture Innovation Day in Bridgewater, New Jersey.

Operator

Thank you for your participation in today's conference. This concludes the program. You may now disconnect.
