Ingredion, Inc.

2023 CAGNY Conference

Jonathan: We're honored once again, to welcome Ingredion back to CAGNY. Ingredion just completed a year of outstanding sales and profit growth, finishing the year strong with truly amazing 49% recovery, and adjusted operating income. Through the past few years, they've faced down exogenous challenges all across their global supply network, and emerged today with a position of strength, through their strategic pillars as they strive to be what's next. Here to tell us what's next, is President and CEO, Jim Zallie. Jim, take it away.

James Zallie: Thank you, Jonathan, for that introduction. And I have to say it's a real pleasure to be back at CAGNY in person. Today we're pleased to share with you the progress that Ingredion continues to make to strengthen its business model in a challenging economic environment. And we continue to position ourselves for growth through our investments, and being able to operate with agility, as we anticipate and respond to changes in market conditions, consumer buying behavior, as well as customer landscape changes as well.

So today's comments may contain forward-looking statements that will be protected by safe harbor provisions. And I will be joined by our Executive Vice President and Chief Financial Officer, Jim Gray. So a little bit about Ingredion.

So Ingredion is a global leader in the food ingredient space. We're committed to sustainable sourcing that takes plant-based raw materials and turns them into highly functional, increasingly specialized, and customized solutions for food manufacturers around the world. We have a diversified customer base of more than 18,000 customers in 120 countries around the world.

And the multifunctional nature of our ingredients enables them to be sold in approximately 60 different market segments. We co-create with our customers, both in person in our 32 idea labs around the world, or on their premises. And increasingly, coming out of the pandemic, virtually, in our creative culinary studios, leveraging the talents of more than 500 food scientists and application specialists that are actively formulating and developing ingredients every day. Approximately 70% of all the new product launches that were launched in the global food industry in 2022, contained the kind of ingredients that Ingredion produces and supplies.

Also, something you may not be familiar with is that Ingredion is one of the longest serving companies listed on the New York Stock Exchange. This April will celebrate 121 years on the New York Stock Exchange. And also, commencing in 2012, we entered the Fortune 500 list and finished last year at 476. We also do invest a lot in intellectual property, and have over 18,000 patents around the world. Okay.*

Every day Ingredion strives to live our purpose, which is to bring together the potential of people, nature and technology, to make life better. We work closely with customers to formulate and innovate our highly functional and increasingly better for you, plant-based offerings.

So I would ask you to think of Ingredion as a leader in texturizing. Where we have the broadest and deepest portfolio of specialty starches, based on five different varieties of corn, tapioca, potato, rice, and access to a portfolio of hydrocolloids that are also used for texturizing.

**Editors correction: 18,000 should be noted correctly as 1,800.*

And we have really an increasingly unmatched understanding of how taste and texture combine for the overall eating experience in a food product. And we work with customers increasingly, as well as co-suppliers in the flavor industry, to partner from an open innovation standpoint on behalf of our customers in that endeavor.

Also, we are an increasingly important player in plant-based proteins, having invested in a formulation approach with a portfolio of protein-based flowers, concentrates, and isolates, to formulate great tasting, great textured plant-based offerings for protein-fortified products for front of pack claims.

We also are a leader in high intensity natural sweeteners, with a very significant portfolio of Stevia-based ingredients. But it doesn't stop there, because we also have the ability to build back texture and formulate more complete reduced-sugar systems, to replace sugar in a range of food and beverages.

So one of the elements that I really wanted to reinforce is, since the pandemic, since the onset of the pandemic, Ingredion has demonstrated that it has developed a resilient business model and is delivering sustainable growth.

This is the result of a number of things. One is that we have a very experienced and agile management team, which combined, my direct reports have over 200 years of experience in the food, food ingredient, and agricultural industry. Some of the other elements that have driven our success of late, is that we had stood up and resourced pricing centers of excellence actually before the pandemic. And this served us extremely well through the pandemic when inflation took off.

In addition, we have operated a global supply chain, which has been increasingly important to be resourceful and to be agile and nimble, to be able to move product around the world when conditions warrant, whether there be a drought in Europe, for example. And so that resiliency of our supply chain and the global procurement, has proven to be a key success factor for us, especially this past year. We also have expanded our hedging and risk management practices specifically in the United States, to focus on reducing our earnings volatility or improving earnings consistency for that business, by expanding our risk management practices.

And also the other aspect of our resiliency comes inherently in our geographic diversity. Sixty-three percent of Ingredion's revenue comes from outside of the United States and an even larger percentage of our profits come from outside of the United States. And we have sizable businesses approaching $1 billion in both Asia-Pacific and EMEA, greater than $1 billion business in South America, and North America of course, being the largest region.

And last year we have successfully navigated a number of macroeconomic headwinds. And they impacted us and they impacted a number of companies. Tomorrow will mark the one-year anniversary of Russia's invasion in the Ukraine, and that royaled obviously, agricultural markets, energy markets, and it catalyzed inflation. And in addition, combined with the remnants of the pandemic, supply chains remain constrained and rail disruptions played a part last year, labor shortages, labor availability, and the drought that hit Europe, COVID lockdowns in China, and a strong US dollar, for a company that's so geographically diversified.

And despite all of that, Ingredion delivered strong revenue and profit growth across both its specialties and core ingredients portfolio. With overall company net sales up 15%, specialty ingredients up 18%, core ingredients up

14%, and gross profit dollars up 12%. And also in line with one of our strategic pillars for growth, which is to grow our specialties portfolio, specialties now comprise 34% of Ingredion's overall net sales.

So the diversity that I referenced earlier, when it comes to say geographic diversity, also the product diversity, the customer diversity that we have, it enables Ingredion to perform typically well during periods of recession, as well as periods of economic growth. Both our core and specialty ingredients are of course, sold to the customers that have presented to you here and we'll present to you over the next couple days, that being the consumer product group manufacturers. But also, we sell to private label manufacturers.

We also sell to the recipe developers for food service and quick service restaurants. So we sell into freshly prepared foods. We sell into shelf-stable foods, refrigerated foods, frozen foods. And we sell for more traditional food staples, as well as for higher end products that go into premiumization that products for consumers with higher purchasing power. We are also formulated into higher price point nutritional foods, such as plant-based dairy products, or no and low sugar, or no and low calorie products as well.

Some of our core ingredients are also used for industrial applications, such as sustainable food packaging, which is projected to grow greater than 9% over the next five years. Also, some of our highly specialized ingredients are used in pharma and beauty care applications that are growing, and typically don't go through a lot of reformulation once they're spec'd into a product.

Now, this slide helps put in perspective our greater than 5 billion core ingredients portfolio. And the message that I want to communicate to you is these ingredients generate solid cash flow with approximately 65% of the sales being outside of the United States, where demand is growing with population growth, and increasing urbanization. And our market position in each of these markets, as we sell core ingredients is solid. It's either leading, number one, or very competitive. Last year, the market positions we hold along with the strong demand drove mid to high double-digit increase growth as you can see across those geographies.

And core ingredients in this case, would consist of native or lightly modified starches, glucose syrups, dry dextrose, or polyols. The other noteworthy thing to point out as it relates to both our two largest geographies for core ingredients, those being North America and South America which combined account for 84% of all of our core ingredients. There's high capacity utilization right now in US/Canada. This is supported by growth across the industry for the use of liquid dextrose for more renewable feed stocks for fermentation applications, as well as the demand.

For example, copy paper is increasing right now because more people are going back to the office. And as the economy recovers again for sustainable packaging, for food packaging and dextrose for just a range of dry mix applications. In countries like Mexico, Brazil, and Colombia, there's a growing domestic market as well as export markets for brewing and confectionery. And we're also seeing increasing opportunities to valorize our co-products for animal nutrition, as well as pet food applications.

And so when you look at our two largest markets for core ingredients, North America and South America, in the case of North America, 72% core, 28% specialty; South America, 76% core, 24% specialty, you can see solid return on assets validating the strong cash flow that comes from these businesses. And that cash flow we use to continue to invest in specialty products, that is part of our strategy. So now let's move to specialties.

Specialties typically have two to three times the gross profit margins of the core ingredients. And they're growing at a higher rate than the core ingredients as you saw. And they have performed exceptionally well, exhibiting strong growth, going back even to the onset of the pandemic. Growth was in the high double-digits last year. It was in the mid double-digits the year prior. And over the three years since the pandemic, they have grown in the low double-digits. And that's a testament to the value-added benefits these ingredients bring to a range of food and beverage applications.

And that's supported by these sustainable and enduring consumer trends. So when it comes to starch based texturizers, which you'll hear me talk about the investments that we're making to really double down and continue to grow and support that franchise, these ingredients are very multifunctional, and cost-effective, especially when other ingredients are increasing in price, because they can be used to replace egg powder. They can be used to replace dairy proteins from a functionality or an emulsification standpoint.

So when it comes to affordability or convenience, in the case of instant applications, food on the go that you've heard about in the last day or two, starch-based texturizers are in demand -- clean and simple ingredients, where consumers will pay more for a product that's natural or labeled clean label in some cases 20% to 30% more. But they want to know that the ingredient is truly organic or truly certified as non-GM. That's one of the things that we do by investing in our supply chain. And plant-based proteins, we believe it is a long-term sustainable trend driven by mindful consumption, sustainability, health, and wellness.

And so that, we believe, is an enduring trend. And then of course, nutrition, health, and wellness, and our sugar reduction when it comes to people's concern for obesity and diabetes and overall general health and wellness, we see as a strong trend going forward. And so we're playing to win in large and growing markets.

When it comes to starches and hydrocolloids, that's an $18 billion market global, and it's growing at 3% to 5%. And one of the things that we genuinely believe that's an untapped potential, is how texture impacts taste.

And if you think about all of the work that flavor companies have done to drive new product introduction and new concept development, we believe there's an opportunity for a company like ourselves, that has a very broad and deep portfolio of texturizers to work in tandem with flavor companies, and with food companies, to really drive innovation on new eating experiences around how texture impacts taste. We think it's a white space for innovation. We intend to invest and play to win.

When it comes to the alternative protein market, it's a $10 billion market growing 6% to 8% for the kind of ingredients that we supply and we think we have a right to win there. And when it comes to certainly the sugar reduction market, which is $5 billion today, growing 6%, being propelled by the trends of health and wellness, but not just that, by legislation by in some cases, tariffs on heavily sugar-laden products. We see our market leading position in high intensity, natural sweeteners along with the ability to build back texture to replace the functionality of sugar as a winning proposition as well.

So I want to talk a little bit about what we are in the middle of doing right now. We're about a third of the way through completing $160 million of investment of growth capital from 2022 to 2024, to expand our market leadership position around the world, really in starch-based texturizer, because of them being in demand from an affordability and functionality standpoint, driven by convenience in a number of applications. And what we're doing is localizing our supply chain, whether it be completing a large investment which I'll talk to you about momentarily in China, or investing in Mexico or investing in clean label texturizers in Thailand.

And it's all to simplify the supply chain, reduce delivered cost to customer, improve our ability to service and supply on time, as well as reduce the environmental footprint. That's going to become increasingly important and an important determinant and decision who customers source from. And so we're working to actually certify the greenhouse gas that goes into the production of our products. And thus, that's the reason to simplify and localize our supply chain.

So we recently commissioned, and we're really proud of this, through the pandemic, despite lockdowns, our team in China commissioned on time on budget, a $100 million investment in Shandong. China makes Ingredion the largest supplier in the largest market in the world for modified food starch. This is commissioning now, as China opens up, and we believe offers great opportunity for growth.

The other thing that not many people know about, is that on a per capita consumption based on Western diets and the amount of starch that's used in products on a GDP per capita basis, there's tremendous headroom for growth. This in addition to the 1.4 billion people that are in China from a standpoint of what that market represents for us. I did want to talk to you about our complimentary portfolio of protein flowers, concentrates, and isolates. And some of you may say well, why did you make that investment and branch out in a sense almost greenfield or brownfield in an entirely new space like that? Well it was actually not such a difficult decision.

When you think about pulse-based products like corn, like other grains, they actually have starch in them. So in the case of Yellow P, Yellow P contains 40% to 45% starch. So that in this case, is a byproduct. When we produce corn, the protein is the byproduct. In this case, the starch is the byproduct. But that's our business. So we know how to valorize, and we are, the P starch for its unique functionality, while we valorize from a premiumization standpoint, the plant-based protein.

But our approach here is to not have one magic bullet of P protein isolate; it's to have a formulation approach around flowers, concentrates, and isolates. And you could see the different protein scale of each of those ingredients there on the right. But it's across not just Yellow P, it's about lentil, chickpea, fava beans, because we believe ultimately, to sell the best products, you're going to need to have a formulation approach to deliver on texture, taste, as well as nutritional density, and the protein quality.

And as a global leader in the high-intensity sweetener space, we have what we call the perfectly sweet trifecta of Stevia leaf extract bio-converted, which is enzyme converted and treated, to get a better tasting Stevia, as well as product through a joint venture with a company called Amyris, a leader in synthetic biology, to produce fermented RebM, very clean-tasting, sustainable, using sugar as a raw material feed stock. And we combine that high-intensity sweetener, which is 300 times sweeter than sucrose, with allulose, which we've invested in, which is a rare sugar, to round out and develop systems to replace sugar.

Because sugar is a - sugar replacement is a highly customized approach. You have to work with customers intimately, and develop customized systems. And that's what we're doing and we believe our portfolio lends itself really well to that. The other thing I'd like you to take away from today's presentation, is the fact that we're really only just in the early innings of getting the returns on investment over the last say five years or so of $850 million of organic growth capital investments in the areas you see here.

And only about 60% of that amount is actually just beginning to get returns in the specialties area. But we believe this positions us well for substantial growth over the next two, three years. And it won't just come from organic investment; it's also going to come from M&A, which we will continue to use to build our specialties offering.

So if you look at the history of Ingredion, Corn Products and National Starch coming together in 2010, investments in clean and simple ingredients back in 2015, expanding into potato starch, expanding into hydrocolloids, expanding into rice starch, expanding into P protein, allulose in 2019, Pure Circle in 2020. And most recently, some targeted investments in high end pharma in India.

So you can expect M&A will continue to play an important role as we continue to expand into specialties. So with that, I'm going to turn it over to Jim Gray. Jim?

James Gray: Thank you, Jim. Let me begin with our four year outlook and provide some context for where we're at. So last June we hosted an investor day, and we put forward a four year growth outlook, at that time. When we developed our outlook we estimated revenue and profit growth, really driven by the markets in which we compete, which Jim highlighted, as well as the capital investments, you know, that we are making toward growth opportunities.

So in the second column here, you can see our four - over a four year period we expect 2% to 4% revenue growth and 7% to 9% adjusted operating income growth. And the higher operating income growth is driven by an increasing mix of our specialty ingredient sales, which sell for higher average price points and higher gross profit dollars per ton than our core ingredients.

The other thing I'd like to note is that when we put forth our four year outlook, we actually hold price and corn cost constant, because it would actually be very difficult to speculate on what corn costs might be in 2024 or 2025 or tapioca, or some of our other raw materials.

So what you're really looking at here in our outlook, is a real price increase. So what we think of in terms of volume driven sales, as well as an improvement in the specialty ingredients mix that drives our revenue growth. And since there are more gross profit dollars per ton, that adds to and builds really momentum behind the adjusted operating income.

Well, for 2022, we significantly beat the first year of our outlook. And with the Ukraine/Russia war impacting corn values globally, we experienced significantly higher cost inflation, and we had to work with customers to really force through the pricing to offset that inflation.

So both revenue and growth exceeded our expectations. You know, as we show here, our business absorbed high double-digit corn cost increases, which is really reflected in that top row, as we benchmark the sea bought for corn cost changes. And you can see really in the first half, 25%, 19% year over year inflation. It's also may be helpful to know that a proportion of our COGS, about 40% to 60% of our COGS, is from corn or raw material.

And usually when we have significant raw material inflation our pricing - our margins are going to be compressed and our pricing's going to lag by three to six months. And you can see that in the first half of the year here. So gross margins were down about 170 BPS.

But in the second half of the year, our team really focused on customer demand and contract terms management, in order to create a really nice balance between meeting those rising inflation costs, as well as increasing revenues through price mix. So gross profit margins expanded in the second half, and we were able to increase gross profit dollars by 12% for the full year.

So how have we been working on shortening the timing of the revenue coverage vs the cost inflation? There are really two operating excellence initiatives. Jim highlighted both of them. One is pricing excellence and the other is expanded raw materials hedging. Let me touch on both of those.

So our go to market team has done an excellent job optimizing customer demand, pricing, and product mix in the face of inflation. And we've set up in each region, pricing centers of excellence. And these teams focus on estimating the changes in costs, setting margin requirements, and establishing price guidelines. And to highlight really in the last two years we've faced rising corn costs two years in a row, and significantly.

And so therefore then our teams had to look at both demand recovering in 2021 and 2022, as well as supply chain disruptions, which then kind of created urgency with some customers. And so we had to pull back and be able to look at the entire customer portfolio and our entire product availability, and be able to balance that. And that's a really challenging task to do in real-time whether you're providing spot pricing or you're supporting contracting, which is live really day to day, week to week when you have 3000 customers. Right?

So in the example here, I show the US over 3000 customers, and you're getting inputs back from those customers almost on a day to day, week to week basis, as you go through what we consider our kind of offer and acceptance in our contracting. So, to be able to use technology; to be able to use process; to be able to have delegated decision making, really allows us to have much more effective price mix, which was reflected in our 2022 net sales.

You know, the second operating excellence initiative that I'd highlight, is how we balance the volatility of the raw material inputs with how we contract with customers. And so for context, in the wet milling industry we buy corn and we extract the starch slurry to make syrups, or we modify that slurry to make food ingredients; starches. As part of that process we sell about 1/3 of the corn weight. It ends up in co-products. And so traditionally, we hedged about 2/3 of our corn and we'd sell off the co-products and that would be a natural hedge. But that really varies country by country.

And the co-product values can really vary. So in 2018 and 2019, we saw some separation of the co-product values relative to the corn, as we were engaged in more of a global trade war with China, and some of the ag flows between countries really shifted. And we learned from that, that we really needed to widen the spectrum of how we think about risk management. And we - so we studied that in '20. In '21 we had a real strong notion of well, we need to expand coverage. And so on the right side of the chart, our goal is to be able to expand more than 80% of our gross corn purchases for the US and Canada.

And then we sell futures for about 50% of our co-product value. And so we implemented this in the fall of 2021. And you generally don't really think that there's going to be much movement in the market. And so, you know, hopefully the hedges, you know, realized or unrealized, won't have a big impact. And yet what happened on February 23rd with, you know, Russia and Ukraine impacting global corn markets, corn rose $1.00 to $1.20 a bushel. And we had this practice in place and believe that it really, really protected margins within our US/Can business, which led to some terrific results for our North America business.

So with 2022's performance, I thought I'd come back and update at least one aspect of our four year growth outlook. And that is on the left side of the page you can see in June of last year, we were ending 2021 with about $6.9 billion of revenue. And if I look at that 2% to 4% revenue growth per year, and I take that out four years to 2025, that would land me somewhere around $8 billion in revenue. Well, with the top line gains in 2022, our starting point at the end of year one is $7.9 billion, which is reflected on the graph on the right. We anticipate mid double-digit revenue growth for 2023.

And then have assumed a more normalized historic rate of revenue growth for '24 and '25, which leads us to an estimate of revenue greater than $9 billion by 2025. We continue to believe that our outlook is relevant and applicable in less inflationary business environments.

And, you know, as we continue to target specialty ingredients and invest in organic growth opportunities that Jim highlighted in his remarks. So with that said, we wanted to re-share our 2023 outlook that we provided several weeks ago during our yearend earnings call and highlight again, that we anticipate mid double-digit revenue growth which is kind of well ahead of our long term outlook.

And part of that - so what's that momentum coming into 2023? So as we experienced higher corn and energy costs in 2022, and as many of our hedges have rolled off, we expect more COGS inflation. And we have been communicating to customers and working with them, to balance their demand and our need to price through inflation.

We anticipate adjusted operating income to grow high single-digits to low double-digits with some headwinds due to FX translation. And in 2022 we put more cash into working capital as corn costs and energy costs were increasing, impacting our inventory values and our accounts receivables.

For 2023 we're anticipating a modest investment into working capital as we see flattening of corn values in 2023 vs the prior year. We are expecting a return to generating cash from operations, in the range of $550 million to $650 million for the year.

On the next slide I show our capital allocation priorities. We first target capital investment really to maintain our plant; our existing plant network. And our maintenance capital is around $200 million a year.

Next, we invest to really drive organic growth in our specialty ingredients business, which is supporting the texture, comments that Jim made, sugar reduction, as well as protein fortification. All of these kind of plant-based solutions. For organic investments we are seeking returns well above our (WAC) that are usually accretive within one to three years and generally much lower risk.

Second, in the middle box, we focus on returning capital shareholders through dividends. We target a dividend payout between 38% and 40% of our adjusted EPS.

And then finally, in the box on the right, as we generate excess cash for strategic deployment, we really have two considerations - one, if we have M&A, or we look at share repurchase. So in the far right, if we're not seeing M&A that's imminently on the horizon, we will always be looking at share repurchases, and really kind of buy the stock when we believe it's below the intrinsic value of the company.

For M&A, which we are really focused on adding and accelerating those specialty ingredient beachheads and market positions that Jim highlighted, we're really looking for opportunities, which we believe will return greater than a 10% ROIC by year three, and we'll hold ourselves to that. And here we illustrate, you know, that we've been committed to shareholder value creation.

So on the left side, we've invested over $800 million cumulatively in organic capital investment, and M&A. And we believe that's helping to propel our four year growth outlook in our adjusted operating income.

And we've also repurchased $180 million of common shares outstanding. On the right side we have increased our dividend annually for each of the past seven years, including through COVID. And in 2022 our board approved a 9% increase in our quarterly dividend payout rate.

To wrap up my comments, we were operating the business and investing in the business to generate consistent high single-digit EPS, as well as returning cash to shareholders through the dividend and share repurchases, to drive what we hope to be and expect to be low double-digit total shareholder return. And with that, let me hand it back to Jim for some closing comments.

James Zallie: Okay. So what we'd like you to remember before we go to Q&A, about Ingredion, is that we really do believe that we have a resilient business and business model. And we've displayed proven agility for growth, which we think will serve us well going forward, given the challenging, you know, economic backdrop that we're still in.

The other thing that I hope you took away, is that we have a very strong and healthy cash generative core ingredients business with solid market positions either leading or highly competitive in the markets that we're in.

One of the things I failed to mention on the second core ingredient slide, that some of you who remember the history of the company may still associate with us, that I failed to mention, is that the legacy mature sweetener ingredient, high fructose corn syrup today represents approximately 6% of our global gross profit.

Our specialties growth is driven by, we believe, sustainable and enduring consumer trends. And we've just over the last five years, invested $850 million; 60% of that is only just beginning to start to generate the paybacks.

We have large markets with headroom to grow and we're playing to win in those markets. And most importantly, from a standpoint of living our purpose, we're committed to growing responsibly, guided by a purpose-driven and really a people-centric growth culture.

So with that, I'm going to turn it over to Q&A. I'm going to ask (Noah) to come up. I'm going to ask Jim to come up. And Jim and I will stand here, and (Noah) will field questions. And Jim and I will take questions from the center of the stage.

Noah Weiss: Great. We have a few minutes here for some Q&A. Before we give out the mics, could I just remind you please, to state your name and your company before you ask your question, go right here to Adam.

Adam Samuelson: Thanks. Adam Samuelson, Goldman Sachs. So there was some discussion in both Jim's presentation around M&A and kind of adding to the specialty ingredient portfolio. I'd love to get your kind of views on kind of how active that M&A pipeline might be today, especially as they concentrate larger acquisitions to really remix the portfolio. Those - some of those assets are going to transact in a very different multiple range than your own stock. And help us frame kind of how (unintelligible) to go up the value curve into that market.

James Zallie: So I'll make some comments. Jim, you feel free to weigh in. But we always have a very active M&A pipeline that were continuously working, because a lot of those M&A moves that we made, were built on long term relationships that we had developed with in some cases, private companies.

So these are multiyear relationships that we built. So we're not necessarily interested in getting into an auction for, you know, for a business per se. We prefer to associate ourselves with opportunities where there's an opportunity for shared value creation.

TIC Gums was a great example of that, where it was a relationship that we had for many, many years. And when that opportunity presented itself, they felt Ingredion would be a great home for that business. The same for our rice starch acquisition; the same for Western Polymer, et cetera. That all being said, we're looking to continuously look at ways to transform the portfolio.

We want to get specialties to be a heavier weighting in comparison to the core, despite the fact that the core ingredients portfolio we believe right now, is solid given our market positions, and given the market conditions and the industry fundamentals that have really changed more favorably in the last couple of years, and we anticipate will remain favorable for the next couple years.

Despite that, strategically because of the two to three times X gross margin lift compared to core with specialties, we're looking for those specialties opportunities. So we have a very active pipeline.

Now, Jim, you may want to talk about our hurdle rates for what we're looking for EPS accretion, et cetera, related to those. But expect us to continue to look at bolt-on acquisitions, you know, in today's current economic environment. I don't think we're going to do anything that's going to be overly stretching to the portfolio from a standpoint of our balance sheet. But Jim, you may want to make a comment on our hurdle rates.

James Gray: Yes. I think maybe Adam, from your point of view, what we're obviously trying to do is demonstrate both consistent revenue and profit growth. And believe that, you know, by comparison, I do think that will lead to a higher multiple, which does then give, you know, our stock a little bit more currency, in any M&A consideration, if that was needed.

I think on past M&A it's really helpful to understand that we have really over-delivered on almost every single one of our cost synergies or our overall synergy target for M&A and sometimes getting, you know, kind of well above kind of 10%, uh, synergy creation from - vs the purchase price value.

So, you know, we've taken a shot at some things where our go-to-market team and our manufacturing team really found both second and third iterations of value creation that really have benefited us. So I think that we have a strong record for integrating and squeezing out synergies from M&A. And we have good cash generation, and we have, you know, some room on the balance sheet to definitely go after attractive specialty companies that we think would, you know, really compliment the strategy.

James Zallie: Also, we're looking to drive M&A that's going to drive growth. Pure Circle was a great example of that. By the way, that was another one where we had relationships with the principals that put us in a good position. And that's proven to be a great acquisition fully integrated, and is delivering beyond its business case right now. And EPS accretive.

James Gray: EPS accretive. That's right.

James Zallie: EPS accretive this year. Yes. Okay Noah?

Noah Weiss: Okay. Right over here with Rob.

Rob Moskow: Rob Moskow, Credit Suisse. I think the new news today was that you introduced a $9 billion sales target for 2025, higher than the $8 billion previously. And - but there didn't seem to be any kind of EPS or operating profit implications to it. And I was wondering why raise it today? And is it really just because the inflation is so much higher than you thought a year ago?

James Gray: Yes. Generally, because the inflation, as well as, you know, how we continue to chase the inflation with pricing, Rob, I think we're doing a nice job growing the gross profit. Obviously the gross profit growth in 2022 didn't keep pace with the top line of 15%.

I think as we look at 2023, again, we're out there with a fairly aggressive, you know, net sales growth relative to historic, what we've seen I'd very much like to see our gross profit dollar growth, you know, keeping pace with that, and then starting to expand gross margins from where we're at. And then that should relatively be in line with how we're thinking about our four year outlook.

Rob Moskow: Okay.

James Gray: So it would be a plus-up.

Rob Moskow: Right.

James Gray: Yes.

Rob Moskow: And, you know, I'm sure we can all do the math, but as you've expanded the value-added mix, quantitatively I mean that must be also expanding your gross margin over the last few years, right? Because by definition, your definition of value-add is that it's higher gross margin. Is there any way of like quantifying how much you've accomplished over the last few, and including that in the bridge of - maybe you already have and I just didn't realize, but including in the bridge of your long term outlook. How much of a tailwind does it provide?

James Gray: Yes. Well I think what, if I, you know, bring you back to our investor day when we broke back each region, we really disclosed on a region level op income. And so we looked at op income margin and talked to what we see the op income margin expanding for each of the regions on average, over the next four years. And so that's anywhere between 20 and 50 basis points in that op income margin. So, what we need to do then I think to help you Rob, is to be able to say, well how much input inflation was passed through the revenue top line?

But on, you know, sans that, you know, in a market where we think that, because I can't really call where corn is going to be 12-months from now, the mix, the improving mix in our specialty ingredients, should be impacting both our gross profit margin expansion, as well as our op income margin. And that's about 20 to 40 BPS per year.

Noah Weiss: Want to go right there? Cody?

Cody Ross: Hi. Cody Ross from UBS. Thank you for your presentation today. One of the things we heard or at least, you know, took from the presentation as well as Jim, your comments from the first question, is consistency. Can you just talk about some of the strategic actions you've taken place really over the last four years, to drive more consistency that might be getting drowned out right now, given the operating environment that we've been in with tough inflation, high FX, that we may not be fully appreciating right now?

James Zallie: Yes. Thanks for the question, Cody. So I think some of the things that perhaps are underappreciated about Ingredion is that again, prior to the pandemic we stood up and invested in and resourced pricing centers of excellence. And you might say well, did you anticipate 40-year high inflation? Honestly, no. But why did we do that? Because we were experiencing - because of our globality, and the percentage of sales outside of the United States, the US dollar was very, very strong. So we had to move up pricing to offset significant foreign exchange increases.

In my first two years as CEO, from 2018 to 2019, I had to offset more than - or approximately a billion dollars of foreign exchange devaluation. So that was the catalyst that was the driver shared best practices around the region. That was one thing that we did. The other thing that again, I don't think is fully appreciated, is we went to a global operating model. Even though we report out regionally, and there are regional GMs that have accountability to deliver numbers regionally, we overlaid it with global shared services, which drove significant cost savings.

A reminder - we over-delivered by $50 million against a $120 million 3-year cost takeout target from 2018 to 2021. But at the same time and subsequent to that, we went to a global operating model for operations. So now we're just on the cusp of getting the benefits from best practice sharing, operational leverage, global procurement, et cetera. At the same time, of course, we've been investing heavily in growth for specialties investments. And we believe that is going to further insulate us from a resiliency standpoint.

And lastly, it's what Jim talked about, and that is the focus on earnings consistency related to every business, not just in the US, where we've identified sources of volatility. And Jim has been leading this for two years, relentlessly, with the teams, to put in whether it be better hedging practices, working on freight contracts...

James Gray: Freight contracts.

James Zallie: Freight contracts. The devil is in the details; updating freight tables weekly, in some cases. The amount of resources you have to put in to do that by the way, is very significant. But we were seeing with freight volatility, you had to do that. So we have tightened the screws on all of these elements, not just in the US, which gets all of the questions. But every country everywhere.

And some of our countries just have less inherent volatility, which is great, but everyone's accountable to bring it to the party on how to tighten the earnings consistency, because we recognize that we've beat analyst consensus eight of the last nine quarters, if it wasn't for quarter four last year. And that set us back. And we have to earn the trust. And so that's a big area of focus for us. And that's what we've been doing. But it's been over the last few years. So that's - thanks for the question. It's a great question.

Jonathan: I think that's all the time we have. So please join me in thanking Ingredion for the presentation.

James Zallie: Thanks, Jon.

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