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INGR.N - Ingredion Inc at BMO Global Farm to Market Conference

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OVERVIEW:

Company Summary

CORPORATE PARTICIPANTS

James Derek Gray *Ingredion Incorporated - Executive VP & CFO*

CONFERENCE CALL PARTICIPANTS

Andrew Strelzik *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

PRESENTATION

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

All right. Good morning, everyone. I'm Andrew Strelzik. I'm BMO's agribusiness, beverages and restaurant's analyst, and I'm delighted to welcome everyone to Day 2 of the 19th Annual Farm to Market Conference.

It's truly amazing to see the growth of the conference over time, as we expect around 400 investors and 1,000 total attendees at the conference between yesterday and today. Throughout the day, the conference will feature panels, presentations and fireside chats from senior executives across a range of public and private companies, spanning the agricultural and food value chain, including the crop protection, fertilizer, chemicals, agribusiness, protein, food and beverage sectors. And we're excited to explore in our keynote lunch panel how private equity firms are managing existing portfolio companies and deploying new capital amidst current market uncertainties with representatives from Apollo, Ospraie Ag Science and BMO Sponsor Finance Group.

Before I go any further, I want to take a moment to thank the many people who truly make the conference a success you see today. The management teams have been unbelievably gracious with their time and insights upon which the conference has been built, our tremendous sales force, devoted editorial staff and tireless conference coordinators are remarkable in their commitment to making the event a success for investors and companies in attendance.

And finally, thank you to the investors that have joined us from all parts of the world to really make this event special.

As is the case each year, our goal is to provide a venue to explore key issues and investment opportunities across the food value chain. We hope you come away from the conference with incremental insights and a better understanding of company strategies and outlooks, opportunities and challenges and new ideas.

If you have any questions, please don't hesitate to ask. And thank you. Enjoy the conference.

We're excited to have Ingredion with us to kick off the second day of the conference. Ingredion continues to execute on its evolution to a more value-added specialty ingredient company, leveraging strategic investments and operational improvements to drive strong and more consistent performance. The strategy has enabled Ingredion to navigate a range of operating environments in recent years, and contributed to a 50% appreciation in shares over the last 15 months, amongst the strongest performances within our agribusiness coverage over that time frame.

We're joined today by Ingredion CFO, Jim Gray. Thanks so much for spending some time with us.

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Glad to be here.

QUESTIONS AND ANSWERS

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

I guess where I wanted to start is on some of the investments that the company has made over the last several years. It's been about $1 billion in terms of acquisitions and growth projects over that last maybe 6 years or so? I know we're going back a little bit. Can you talk about the strategy behind those investments and how you're seeking to shape the portfolio?

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Sure. I think when Jim Zallie ascended to CEO in 2018, we really had a business that was one, pretty country-based. It generally followed where corn or tapioca grew around the world. We had amazing teams that could execute locally. But then when you looked at the overall portfolio, everybody -- each team kind of prioritized around their own business and what were the opportunities within that country across different industry sectors. And so it didn't have any ability to kind of gain momentum.

And so when we came in and we started looking at where we could put portfolio investments into particular segments, product segments, serving different customers, we did so with a lens of growth. We did so with a lens of risk. And eventually, I think what we're doing is we're building in more consistency and profit flow to the portfolio. We're also kind of upgrading in terms of margins. We're upgrading in terms of the products and their value to customers. And so that's really -- that's probably a good way to see it.

Obviously, we've had some specific investments. We've gone into sugar reduction. We've ventured into plant-based protein. But what we've really done is really driven texture, and really elevated, I think, our overall texture portfolio, and texture for us is a very broad definition. So much like you might own a flavor or a fragrance company, where they're focused on making the scent or the essential oils that kind of provide that flavor. Texture is a larger ingredient component in food and beverage, and it has a different supply chain to it. And it plays a different role in the foods and the beverages that we eat. And so we think it's a bit of an untapped and a little -- there's lots of different organized opportunities within that market globally. But underlying it, there's a lot of competencies to actually deliver texture effectively and efficiently for customers. And so that's been our theme for the last 5 or 6 years.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

When you think about allocating capital towards these types of projects, what type of returns do you get on those investments? And are there areas where you've allocated capital that are either ahead or behind, maybe have some additional catch-up or growth opportunities to contribute to the profit growth expectations this year or next?

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Well, so in our business, when we're putting organic capital to work, it might take us 1 to 2 years to put equipment into dirt. And then it might take us anywhere to 1 to 3 years, 1 to 5 years to ramp the capacity on that plant. It's a pretty long investment cycle.

So right now, I would say that out of all the -- if I look at it at your $1 billion, I'd probably say like maybe half of that is fully productive. And so I would probably say that out of another half of it still has a lot of room to run in terms of profit growth.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

When you think about now on a go-forward basis, continuing to layer on growth opportunities, what are the focus areas, I guess, is maybe the best way to say it? And as you think about continuing to shape the portfolio and the right level of spend for us to think about and returns.

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. So right now, when we -- if I can take it, we have a winning aspiration, right, to be a leader in texture and healthful solutions. And so we're investing in further texture and our healthful solutions business would be our stevia or sugar reduction solutions as well as our plant-based protein. So we still think that those are driven by some megatrends, very, very large markets. We'll continue to invest against those.

Right now, we take capital and we're about $80 million to $100 million of growth capital a year. But we also look at tuck-in M&A and where there's M&A opportunities that we think can accelerate that. The tuck-in M&A is not part of our 4-year outlook. Our 4-year outlook is driven by organic growth, and then is also stimulated by that growth capital.

As the company gets bigger, you really have 3 big levers to think about what's going to drive the shape of the revenue and the shape of the profit as well as your competitive moat. So one, you just have your overall portfolio, right? So where some businesses in markets that are really doing well and growing and where some businesses more mature. And so you always have to think of portfolio lens. You have a cost lens, which is, for us, I think, still pretty exciting because as I began, when you start your business and you're growing by country-by-country team, we've been at building an operations team that's global. We're now in our call it, my fourth year. We have global shared service support, and that really allows us to be -- you get to upgrade the whole thinking of your team in terms of opportunities that go against an $8 billion revenue company.

So I think the cost productivity for us, we have a -- we have a cost program now, but I think the long-term cost levers that we can pull are still pretty exciting.

And then straight up the middle, what we talk about all the time. So what are the growth opportunities around texture and healthful solutions. We'll still invest there. It's a very, very broad category, and we're going to be investing in the R&D and the competencies to continue to, I think, bring solutions to customers that are higher value add, right? So really 3 -- I look at it as 3 big levers that are going to shape the next 3 to 5 years.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

And so the company recently started reporting under new segments.

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

How does...

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

It's very exciting.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

Very exciting. Absolutely. It was exciting, you told me...

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

I have to say that else my finance team won't support me.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

How does that, I guess, restructuring or realignment change the way that maybe internally you guys approach the business and support your ability to achieve kind of the growth objectives you have over the next several years?

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. I mean, I think for those of you not familiar, so we took what we used to call our specialty ingredients business or mostly our food starches or starches that are modified in some ways to create value for customers. And we had really strong footholds.

In Europe, we had a great business. In the U.S. We had kind of a leading business in Asia Pacific. And we're selling similar types of solutions.

Now we were really successful with some regional customers. But when we looked at the large multinationals, they would come to us with a customer brief, and it would be like, "Hey, I want this -- I want the starch solution that you developed for me or this texture solution, but I want it in 19 countries". And you're like -- so you go through the internal machinations to get that done. And now what you have is you have a team that can just make all the trade-offs across the customer portfolio. It's all within their power, it's all within their consolidated P&L results. And so it's pretty exciting to see that team really collaborating across borders.

And so that I think that's been quite enabling. And I think it will be an accelerant on how we think about texture and healthful solutions.

The other piece then is that with our business in the U.S. and Canada as well as really kind of a natural fit between our Mexico team and our South America team, that even though we had organized by segments, you always have organizational silos, and it's funny how they don't talk to each other, sometimes because why would I help you out, doesn't help my P&L. They've come together, and it's amazing to see some of the opportunities that spring up.

And particularly remind yourselves that we run at really high utilizations for our U.S. can business and for our LatAm business. And so being able to figure out where you can get that extra 1% or 2% as you're balancing through the years, I mean that's real money. And so I do think that's been kind of a cool focus, near end focus that I've seen already evident. Yes.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

The specialty mix was 34% of sales in '23. Can you remind us how you think about the margin delta between specialty and nonspecialty? And how you think about where that mix will go over time and the driver of that improvement? I know you break it out kind of by verticals. So how do you think about the biggest drivers of that mix shift?

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. I mean, so right now, I mean, we don't really provide enough information to be able to look at gross margins by the different segments as we get through 2023's kind of restatement of the new segments, and we shared that in Q2, we shared that in Q3. You'll see more of that reveal. And just for everybody, under GAAP requirements by 2025, we will have to report growth segments -- gross margins for segments.

And -- but to characterize what we've said, so our modified starch, a specialty ingredient, is typically going to be anywhere between a high 20% to low 40% gross margin business. It's also going to sell at a higher value per ton, okay?

And so now why is that? Well, you have people resources that you have R&D, you have innovation, you have technical salespeople that are actually working with the customer and the customer's make process, right? So this is important, right, in that customers may be baking something. They're looking at the sheer and the mix. They're thinking about, hey, are they pouring this into a mold, is it going on a conveyor belt? Is it being baked?

And to the extent that you can actually have something that comes off the conveyor belt cleanly, right? It doesn't provide any stick, so you don't get any yield loss in the final product for the customer. It goes through the oven faster or goes through the oven and it needs less heat. You're saving dollars for your customer. You are saving a lot of dollars that relative to the cost of the ingredient is pretty small.

So to the extent that we can design ingredients that help our customers actually produce at a lower cost or with greater capacity, we're impacting their total cost of ownership, right? And so our theme has always been like let's look at where those functional ingredients can truly, truly be functional and game changing, not just in taste, not just in terms of the label of the ingredient on the back of the pack, but also just in the total use for the customer.

So our specialty focus is really around that. And so I do think that, that's a much, much higher margin potential business as we go forward, and that's where we're making investments.

The other verticals, right, where you're producing just a whole bunch of liquid and the cost of the raw material, the corn might be a higher portion of the COGS, pretty high variable COGS.

What you've then doing is as you're working with customers really on the variability and the change of the commodity. So if corn futures are going up or down, tapioca is moving, sugar is moving. Generally, all of us in the industry work with our customers, our procurement folks to be able to say, well, how are we thinking about managing that price change and that risk. So that becomes a lot of the discussion around pricing.

But at the end of the day, I get paid for my value-add on making the ton of glucose, the ton of high fructose. And so what we've really tried to do is move more towards, well, pay us for the value add and then let's have a conversation on how that raw material -- underlying raw material is moving. And let's try and make sure that we're sharing at least in that risk.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

That makes sense. And I guess, as we think about growth levers, you mentioned that M&A is not included in the way you think about the outlook.

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

In our organic, yes.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

And so at the same time, you sold the South Korea business, You have plenty of cash on the balance sheet. You've been open about wanting to or that you are pursuing M&A. I guess, where are the areas of focus? And what is the environment like now for M&A? I mean, probably have multiples come in? Is it an attractive environment? How close or not close are we to maybe executing on something there?

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. Well, so one, I think within our business, if you -- some of our materials would say if you looked at texture as an overall market, we think that, that market is close to $20 billion, somewhat related to the role that starches play in texture. You have hydrocolloids. You have natural fibers. You even have some emulsifiers. And I think all of these are somewhat key in delivering the texture and the taste that each of us experience, whether or not you're dipping into an ice cream, you're having a salad or you're biting into a breaded chicken sandwich.

And so that's a pretty big market, and it's not terribly organized. That sounds kind of single dominant player out there that says, wow, look at them. They're an amazing leader in texture. And it's because the underlying make process and the technology is a little different as you go through each one of those. But I think that's a pretty fruitful area for us to be looking at. And our lens has been there for quite a while.

So that's probably -- the environment -- look, when risk-free rates went up, multiples came in, which is -- you know that, right? And so I do think the environment has been a bit probably more to the favor of a strategic. I hope there's no private equity guys in the room. Cheering for you, good luck. Maybe the Fed will help you. Yes.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

Okay. I guess kind of tagging on to that, though, is there a point at which you say, look, we've got all this cash. It doesn't make sense to have it sit on our balance sheet. Where does share repurchase and the pace of share repurchase, how does that kind of net against kind of your M&A aspirations, I guess.

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. Well, so I think where I've been sort of public is both. It's not -- I'm not going to look at it as the tyranny of the or. We have been very prudent, I think, in managing our balance sheet. We have a higher target for debt to EBITDA than what we're currently at. I think optimally, we -- 2.2 or so debt-to-EBITDA is a nice place for us. I think if you optimize the WACC, it would be a little bit higher than that.

In our business, as much as we experienced like in 2021, if corn runs up and you have to invest in accounts receivable, you have to invest in the value of inventory, then you're going to put cash into the business. And in our cycle, that putting that cash in that business could be $600 million, $700 million, $800 million, and then we get it all back, right, when corn comes down to the levels we're sort of seeing today.

So we think about long term the balance sheet and where that should be. And then we look at -- so all of the -- everything that's in the M&A pipeline and the timing of that, you can never really predict because each deal sort of has its own agreement in its own life. But beyond that, then we look at share repurchase. And right now, we're out there with -- we're going to try and get share repurchase done this year that's going to exceed what we did last year. So equal or exceed last year, which is about $100 million. So I think we're along the way. Yes.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

Shifting gears a little bit, you laid out several years ago kind of your growth algorithm through 2025. You have been, over the course of that period pacing ahead. This year, the guidance, especially after a number of very good years that started maybe a little bit lower than that. But as we get closer to 2025, as we get closer to that finish line, is that still the right way to think about the growth potential of the business? Is there anything that has changed in your thinking the way whether it's restructuring cost savings, et cetera, that make you think differently about the growth potential beyond '25?

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Well, I'll go back to the point is that if you ask about the 4-year outlook, it has a revenue and an operating profit component, and it has an EPS and a fiscal policy and a TSR component, right? So we're very clear on our TSR that we really aim to be 12% to 14% on our TSR. And I know that some of you all don't manage that, but for the folks who actually own shares like me, TSR is pretty good. So we like TSR.

So that's a combination then of driving the growth opportunities in texture and healthful solutions, being very focused on our food and industrial ingredients. You'll see us investing capital. You'll see us investing in cost savings there. It's taking our ops team and our global supply chain team and as well as all of our support services and making sure we're getting every ounce of efficiency and effectiveness that a global company can, which is honestly, I think we're early stages in that journey.

So that's going to drive revenue and operating profit as part of our outlook, but then also being supportive of how we look at the portfolio, I think, and being very mindful of fiscal policy will help drive the adjusted EPS growth and in overall the TSR. So I'm -- because you can't -- we're very mindful of our dividend, right? So we're going to adjust, we're going to drive that op growth. We're going to pay that dividend, grow that dividend and then we'll use share repurchase as well.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

And there's nothing, I guess, when you look at your -- the categories in which you play, the end markets, nothing from a structural perspective or your competitive physician perspective that makes you think or the cash generation perspective, I guess, with the growth of the business, that growth would be necessarily one way or the other relative to kind of how you thought about it the last several years.

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. Well, we know a lot more, and we're in some new markets. And so you get introduced to opportunities to that extent. And so to some extent, I'm pretty optimistic about what we've overcome. I mean, we've built a lot of foundation capabilities into the company over the last 5 years. And so obviously, look, we've talked about pricing centers of excellence. We've done a lot in terms of hedging. Global procurement has been a real benefit for us. And just even thinking about how we're organized around our marketing and our customer teams in terms of our focus. So I think there's a lot yet to come.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

The texture and healthful solutions segment that you already talked about, a fair amount here was 30% of sales in '23 and has a number of growth levers. Can you kind of help disaggregate that a little bit across the different verticals in terms of -- I don't know if you want to think about mix or profit contributions within that segment. Just to give a little bit more kind of clarity, I guess, or granularity on how to think about it. And I guess, how do you expect that the composition of that segment to change over the next kind of 3 to 5 years?

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. So I mean, largely within texture and healthful solutions is our texture elevation product lines. And so these are going to be our clean label starches and our modified starches. But we also have some native starches and this can be corn, tapioca, potato, rice. So just a whole suite of different product lines that all work in different categories to different effectiveness.

So the type of starch that you're using to create shine and polish and smoothness in a yogurt is different than the type of starch that you're using to coat a french fry, right, and provide a crispy, crunchy outside to a french fry.

And so we span that whole competency. So what we call high moisture content solutions, low moisture content solutions baked, crispiness batters, crunch, [shripe], extrusion. And so that whole business, that is predominantly that. And what I see within that business is still just a tremendous amount of growth in Asia Pacific. So we have an investment in China. We're, I think, a leader in ASEANI in terms of tapioca starches. Those are being pulled, and there's demand in the U.S. There's demand in Europe.

So I really think that just population wise and the -- how those economies are evolving, with middle classes being really developed and growing a need for convenience in the day, drives demand for packaged foods, right?

Now so that's that. I mean we have a nice Europe business. We have a wonderful U.S. can business. I think we have very nice share positions in those businesses.

I think the overlay on all top of this, which is kind of exciting and kind of fun, you could say it's a challenge in front of the business, maybe, but it's an opportunity as well is wellness. Call it what you want, right? So whether or not people are growing chain swords maybe GLP and its effectiveness, is it retained, et cetera? What impact does it have? There's been lots of discussion there. There's been discussion on how you label the ingredients, right? And we're pretty sensitive to that, right? Does it have a lot of process touch or not.

But understand, we have authenticity from the farmer all the way through our make cycle. That's really hard to do. We've been at that for more than a decade. We can talk about regenerative practices. So when we get a customer let's say, a large Swiss multinational who has a very -- reputation around nutrition and wellness, and they're very concerned. Their marketers, their innovation people are concerned about how their products and how their brands show up on our table every morning, right, that we're an ingredient supplier that we think can make sure that we have a long-term relationship with them on authenticity.

So that's worth something. That will be worth something, Whether you call it sustainability, whether you call it human sustainability, whether you call it wellness, that's the environment that I operate in. And I think that we're really striving as a company to deliver that over time.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

Maybe switching gears within the portfolio, but can you dig in a little on the plant-based side and talk about kind of what you're seeing there from a category perspective? How the -- how your positioning is within that category? Do you need to evolve that at all? Are you confident in the growth outlook just...

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Plant-based proteins.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

Yes, exactly.

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Because everything we do is plant-based.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

Yes, sorry.

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

We weren't clear. Everything we make is plant-based.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

Yes. So on the plant-based protein side, just curious what you're seeing there?

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. So it's interesting. Look, there's a number of titles on headlines, I think, from some of the all-meat brands that are out there in terms of -- when protein prices ran up significantly 3 years ago now, checking -- looking for my -- the substitution effect on, I think, the all-meat was, look pretty interesting trade-off, right?

You've seen then some both demand pull back, much tighter in terms of pricing because of the consumer couldn't bear the inflation of the grocery basket. And so it's been some tough times, I think, in all protein or at least all meat.

What we're still seeing, though -- and I want to make sure that everybody doesn't miss this is that teenagers today and maybe 20-somethings, have fortunately or not, they've been tremendously impacted by all the social media and awareness around sustainability of our planet. Look, I got a 21-year-old and a 17-year-old and they blame me for ruining it for them. Yes, I know we laugh, but it's like sometimes it's like real and there's tears.

And they're making choices about what they want to eat, and they're making choices about their lifestyle. And look, I'm a CFO in ingredient company. I have friends who are marketers in brand companies, and they're really into it, like they are there. They see this as a really, really big trend.

And the reason why and what they won't say to you is that the habits that you form when you eat in your teens and your 20s, you carry through with you your whole life. So you start to define your generation right? There's generations of coffee drinkers, right? There's generations of Mountain Dew drinkers, right? There's generations of energy drinks, right? And if you look, they're kind of like they'll be separated by 8, 10 years.

And so I think that there's a number of big, big brand companies who see that underlying swell, and they're very, very concerned about what -- how do they go and they grab all the various ingredients that they want to convey sustainability, authenticity, transparency. These are themes that you have to be able to show up every day against. And so I think that's going to drive a lot of choices as we go forward.

What we're seeing in plant-based is the vegan pull is still pulling things in dairy, surprising places. We get briefs for like, I want to make a protein cupcake. We're like, what? But they're actually serious. And we're seeing things like -- some of the indulgent pieces where you can actually mix in a plant-based protein and you can change the carb sugar mix within the product. And I think that innovation and that creativity is going to catch on, right?

The other piece then we don't think about -- and it's a little bit more obvious just in our day-to-day, but a number of you might do pre-workout shakes, right? You have a lot of problems when you put the powder in, is it soluble? Does it disperse easily like do you like drinking clumps, right? So there's a couple of us that drink clumps. Okay. It's a little frustrating, like no matter what -- so I can't do a blender every morning because then I got to clean the blender. My wife yells at me, you got to clean the blender, right? So I'm just, right, and you get clumps and like so pea protein is awesome because it's actually quite soluble. And it has great dispersibility.

So I see aspects like that where there's -- that's a description of functionality that actually impacts us in terms of how we think is American consumers, right? We love consistency. We want to go to McDonald's, and we want to open that up and has to look the same every single time. And if it's off, we feel like, oh, there's something wrong with it, right?

That's not true in every culture around the world. People like variety, right? No, it's really true. But what we have to strive for, I think, in plant-based proteins is really overcoming some of those particular challenges in the end use for the consumer. So we like ready-to-drink. We like ready-to-mix as an opportunity. I still think that, that's pretty popular despite what your Scantron IRI, Nielsen, Circana, excuse me, Circana data.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

You -- we -- from a -- if we kind of take a step back from a volume perspective across the business, we've been dealing in some of your end markets with destocking over the last 12 months or so. We've been hearing more about trade down. We've been hearing about consumer softness, maybe a little bit more recently. You guys have offered a fairly optimistic volume outlook in terms of recovery.

So can you talk about what you're seeing more recently on the volume recovery? Are you on track there? Are there any of your end markets that are leading or lagging across the portfolio?

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. No, I do think that we've seen some pretty strong volume numbers at least year-over-year. It was in our Q1 results. I think that's going to -- look, we only have easier laps Q2, Q3, Q4. So I think that all of that is still going to be pretty on track.

I will say that one of the comments that I've heard, right, is that whether or not -- and you always have to look at what's the income strata across households, and you always have to think about the number of households, right? So if you have lower or middle to low-income households in the U.S. and they are kind of scrimping to splurge, right? So maybe let's save now, I got my wage increase. Prices of food are going out or still a little bit elevated. So I'm in a scrimp now so I can go on my vacation. So you see some of that, what's called trading down, right?

So all that means is that people are eating in home more. They're preparing more meals from home. That's generally really good for our volume demand, right? That means they're using things out of the refrigerator. That means they're using things off the shelf. And generally, we sell texture into those types of products. So we kind of like in-home prep is really good for us. It's a little harder for us to get out.

And when only about maybe 20% of our U.S. business is exposed to foodservice. So foodservice trends and if they come down, we kind of tend to like QSR demand a little bit more. If there's a really, really robust economy, then we don't always necessarily get a lot of pull for ingredient growth, at least. Yes.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

So I guess, how do you think about them as you're seeing the volume recovery, how do you think about the supply-demand balance, particularly in the U.S. in terms of maybe your capacity utilization rates and how that lays out for, I know we're ways from contracting, there's not much you can say around that, but just kind of...

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Seriously, you're going to ask me about contracting?

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

No, I'm not actually. But how that sets up the industry? I mean, it's been a while since we saw any real capacity come on. You do have a little bit on the dextrose side maybe coming on here in the near term. I don't know if you think that, that kind of frames things.

But is there any -- I would suppose that, that creates a pretty good, what you're describing on the volume side, a pretty good setup in terms of utilization rates and supply demand.

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Well, maybe just to separate, though and provide a little bit of background. So within the U.S., there are wet mills, there are also some dry mills that may be able to make dextrose. Those are really, really large assets. The offtake from those is generally a glucose that's going to be made that can be converted into ethanol straight away or it can be converted into a dextrose that goes into an industrial feedstock. So you can use it for fermentation. You can use it as a brewing adjunct. You can use it in a lot of different industrial uses.

And so most of the wet mills, let's call that upstream asset. We, as an industry, look at that utilization right? Ingredion has generally plants that are midsized to smaller and we look at downstream production where we modify. So we create that modified starch. We dry it, we package it, et cetera. So we're trying to get to a particle or a molecule that has a particular -- a lot more value add.

So the downstream capacity, we really kind of compete a bit with maybe like Tate & Lyle, maybe some Cargill, maybe some ADM. But generally, that's food and beverage focused and we get paid for that. We get paid for that downstream production.

The upstream, the wet mill, is something that everyone in our industry looks a little bit at. I would say the utilization is okay. And maybe it's a little bit towards the historical low end. So as you get GDP coming back, you're going to get a pull for the different types of wet mill offtake products.

And so some in our business have moved a little bit more towards dedicating wet mill and offtake towards industrial uses. And so that part of the business seems to be a little bit more GDP relevant, and it may be a little bit sensitive to oil prices. Because that's what you're trying to do. You're trying to substitute in a bio renewable feedstock into something that had a petroleum base, right?

And so as a specialty chemical manufacturer, you're seeing an opportunity to get paid a premium for that green aspect. And so therefore, I think that creates demand offtake in the business. Yes. We're seeing opportunities like that. It hasn't been our strategic focus. But 2 of our bigger players have a pretty stated strategy around that.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

Shifting gears to the cost saves that you talked about. You just recently, on the earnings call, announced a new cost savings program. You have a pretty good track record on delivering against your cost savings objectives. Where do you see -- can you talk maybe a little bit about the program? How is it similar or different than the one that you did several years ago, which you not only executed on ahead of schedule, but exceeded the expected savings? So maybe how is this similar or different? Do you see similar opportunity to maybe overdeliver there?

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. Maybe I'll answer not necessarily from a tactical question, but from a people perspective, which is we have a really performance-oriented culture. When we set targets, our general managers and our teams really focus on adjusted op income.

And so to the extent that you can run the financials really clean with very limited restructuring for a period of time. I have a number of shareholders who've commented and said thank you very much. We love it. I don't have to spend time when I flip between adjusted and reported, it's pretty clean.

But there are times when you need to become a little bit boundaryless to your leaders and your team. And you need to let them go think about how they're going to redesign the organization to follow the strategy focus, right? And so yes, that may involve changing roles and may involve severance. It may involve rethinking plants in the network. It may involve thinking about your warehouses.

So I look at Cost2Compete as just emblematic of letting our management teams, for the next 2 years, really go out, really trying to focus on where do we want to be really on our cost curve or ahead of our cost curve, right? And so -- well I have a target, it's $50 million, okay? It's $50 million. That's my target. It's $50 million.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

It's a good place to start. Okay. In terms of the guidance for this year, I know we only have a couple more minutes. Can you talk about kind of the swing factors in the -- the EPS guidance range, high and low end? And it is a bit back half weighted. We talked a little bit about the volume side, but can you just talk about the cadence of the year and the driver of that?

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes. So when we, I think, go out with full year guidance, so one, we go out with a pretty big range. That range is also driven by the fact that like we have weather events. We just talked about some weather impact in Q1. You can always have some vagarities in corn, whether or not there's rain and planting is late, it's dry during summer, you get drought, you're going to get movement. We do hedge much more effectively nowadays, but you're still subject to a little bit of movement there. You can have differences in crop, what soy does versus what corn does can have a small impact.

But right now, on the -- I think on the -- whether it's the upside or the downside, I mean, we are counting on volume coming back. So if I do see branded retail companies continuing to kind of really hold pricing, not really go after promotions and you see pricing low single digits, mid-single digits on a per unit basis, what's going to impact volumes? Unit volumes are going to be still down. They won't be down nearly as much as 2023, but they'll be down.

And so that's -- my eye has to be on what their algorithms are, and then how does that guide their pricing to consumers on shelf, right? And so I think that's part of the range, right? So we may see that be pretty competitive. I love kind of some of the moves Walmart is making, it stimulates demand, it stimulates the grocery basket, and that's good for us because we sell volume. So yes.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

And maybe just one last one. We started with kind of the evolution of the portfolio and the different levers that you guys have. You have done a little bit of pruning. We mentioned the sale already. Is there anything else that you see within the portfolio in the coming years that maybe would be a candidate for optimization? Or are you pretty happy now with where things stand as you move forward?

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Yes, I think we have to be pretty happy with our other segments, right? And obviously, in our all other is our sugar reduction and our plant-based proteins. So we look to continue to see a lot of very high revenue growth there. But right now, I think in how we thought about the segments, we're going to run with these segments for a while.

Andrew Strelzik - *BMO Capital Markets Equity Research - Senior Restaurant Analyst*

Great. Well, we're out of time. Thank you very much. I appreciate it.

James Derek Gray - *Ingredion Incorporated - Executive VP & CFO*

Okay. Thank you, everybody. Appreciate it.

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