THOMSON REUTERS STREETEVENTS

# EDITED TRANSCRIPT

## INGR - Q1 2013 Ingredion Incorporated Earnings Conference Call

EVENT DATE/TIME: MAY 02, 2013 / 1:00PM GMT

**OVERVIEW:**

INGR reported 1Q13 net sales of $1.584b, gross profit of $306m and reported EPS of $1.41. Expects 2013 diluted EPS to be $5.60-6.00 and 2Q13 EPS to be relatively in line with last-year's adjusted EPS.

## CORPORATE PARTICIPANTS

**Aaron Hoffman** *Ingredion Incorporated - VP, IR, Corporate Communications*

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

**Cheryl Beebe** *Ingredion Incorporated - EVP, CFO*

## CONFERENCE CALL PARTICIPANTS

**Ken Zaslow** *BMO Capital Markets - Analyst*

**Tim Ramey** *D.A. Davidson & Co. - Analyst*

**Farha Aslam** *Stephens Inc. - Analyst*

**Heather Jones** *BB&T Capital Markets - Analyst*

**David Driscoll** *Citigroup - Analyst*

**Akshay Jagdale** *KeyBanc Capital Markets - Analyst*

**Ann Gurkin** *Davenport & Company - Analyst*

## PRESENTATION

**Operator**

Welcome to Ingredion Incorporated first-quarter 2013 earnings conference call. Your lines have been placed on a listen-only mode until the question-and-answer segment. This conference is being recorded. If you have any objections you may disconnect at this time. I would now like to turn the call over to Mr. Aaron Hoffman, Vice President of Investor Relations and Corporate Communications for Ingredion Incorporated. Sir, you may begin.

---

**Aaron Hoffman** - *Ingredion Incorporated - VP, IR, Corporate Communications*

Thank you very much. Good morning and welcome to Ingredion's first quarter 2013 earnings call. Joining me on the call this morning are Ilene Gordon, our Chairman and CEO, and Cheryl Beebe, our Chief Financial Officer.

Our results were issued this morning in a press release that can be found on our website, Ingredion.com. Slides accompanying this presentation can also be found on the website and were posted about an hour ago for your convenience.

As a reminder, our comments within this presentation may contain forward-looking statements. These statements are subject to various risks and uncertainties. Actual results could differ materially from those predicted in the forward-looking statement. And Ingredion is under no obligation to update them in the future as or if circumstances change. Additional information concerning factors that could cause actual results to differ materially from those discussed during today's conference call or in this morning's press release can be found in the Company's most recently filed annual report on Form 10-K and subsequent reports on Form 10-Q and 8-K. Now, I am very pleased to turn the call over to Ilene.

---

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

Thanks, Aaron, and let me add my welcome to everyone joining us today. We appreciate your time and interest. We are quite pleased with our performance in the first quarter. As we cautioned on our year end earnings call when giving guidance for 2013 we thought this would be a year with some real challenges.

There's no doubt that throughout our business we are facing headwinds ranging from commodity inflation to currency devaluation, from slowing economic growth to accelerating input costs. These challenges aren't new and they're not a surprise. You have heard about these factors from us for some time now. And as you are aware, we've weathered these storms, managing through them on the strength of our business model and the discipline that defines a good management team.

The first quarter of 2013 is no different. Our business model remains resilient. Our management team has acted with discipline to maintain our dollar margins. And at the same time we continue to invest in both geographic and portfolio opportunities to help ensure our long-term growth.

From a consolidated view, earnings per share grew nicely. Cheryl will provide you with more detail in a moment. From a regional perspective, we saw operating income increase in three of our four regions, North America, Asia-Pacific and EMEA, which combined represent nearly 80% of our sales.

In South America, where the challenges are the most diverse and severe at the moment, our in-country management team continues to make the right decisions to maintain the overall health of the business even when those are hard choices in the short term. As our shareholders understand, this management team makes decisions that are designed to drive value. You see that in our results.

You also see that in our cash allocation. During the quarter, we increased our quarterly dividend by 46% providing investors with a solid yield to go along with the strong historic and long-term anticipated earnings growth of the Company.

Let's now take a look at each of the regions and their performance in the quarter. Starting with North America we continue to achieve good results.

Our manufacturing efficiency program is delivering meaningful cost savings. If you recall our long-term EPS guidance, a portion of the growth is expected to come from cost savings. And this is a good example. We have a long history of successfully managing costs and expect that trend to continue.

As in previous quarters we continue to demonstrate the ability to appropriately pass through higher input costs in pricing. This has been critical to our success in an escalating commodity environment, and reflects favorable industry dynamics and the importance of our ingredients to our customers.

Finally, our risk management discipline has also allowed us to manage through a highly volatile commodity environment. While we can never fully eliminate input cost fluctuations, through our contracts and hedging of firm price business we expect to be able to significantly mitigate the volatility.

Speaking of a volatile environment South America certainly is that right now. Inflationary pressures continue in Brazil and Argentina. Economic growth has slowed and currency devaluations pose a challenge. But in spite of the challenges we are holding our own as our managers navigate a difficult environment while staying true to our business model.

Cheryl will take you through all the numbers. But it's worth pointing out that South American operating income was down only $2 million as we traded price for volume. This is exactly how we want the business to respond in this situation. Importantly, we remain confident that the Brazilian economy will pick up in the second half of the year as Brazil gets closer to the World Cup in mid 2014. While we have seen softness in the Brazilian brewing market, our food business there is experiencing positive volume trends.

Turning to Asia-Pacific, the positive trends remain largely intact for this region. While our volumes were essentially stable in the quarter, keep in mind that we exited our Chinese industrial starch joint venture last year. From a broader economic view at the moment, Chinese growth rates are coming down a bit but it's worth reminding you that our business there is relatively small.

The one headwind worth calling out is lower sugar prices in South Korea, where we have limited pricing options and which have caused a slight decline in volumes. We view this as a short-term situation that will return to recent positive trends sooner rather than later.

Finally, our Europe Middle East Africa region is doing well in spite of the European recession. One of the key factors is that our European business is largely specialty food starches, which have proven to be pretty resistant to the overall market declines in the food space.

One of the key ingredients we manufacture is our Novation brand of specialty food starches that are modified using heat. This allows the ingredients to satisfy the European standard for clean ingredient labeling, a trend that continues to grow. To meet that growth long-term, we are in the process of adding capacity to our Hamburg facility, where several additions will come online in the third quarter and early 2014. This capacity allows us to continue to supply our customers with on-trend ingredients.

The other large market in EMEA is Pakistan, where we continue to work through issues with the energy infrastructure that result in frequent, widespread outages. To combat this problem in the short term, we installed liquid propane gas capability and are investing in co-generation.

As I turn the call over for Cheryl for a review of the results, I will reiterate that we remain confident in our business model over the long-term and are pleased that we've delivered good results this quarter and are positioned for further earnings growth in 2013. Cheryl?

---

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

Thank you, Ilene. Good morning again. There are a few items that I would like to point out this quarter before we go to the first-quarter results. The 2012 financial numbers include the now exited industrial starch joint venture in China and the closure of our Kenyan plant and a change in the go-to-market model there.

The net sales impact on a total company basis is $9.8 million, $4.9 million for each entity. At the operating income level the impact on Asia was minor and about a $500,000 impact on the EMEA results.

We continue to see foreign exchange pressures with the most significant impact in South America. The Argentine peso devalued 16%, year-over-year, moving roughly from ARS4.3 to ARS5. The Brazilian real devalued 13%, moving roughly from BRL1.77 to roughly BRL2. Our guidance incorporates $0.15 to $0.20 of FX headwinds. The Brazilian real comparison eases as we move into the remainder of the year versus the Argentine peso, which we believe will continue to devalue at this pace.

On the pricing front this is the 10th consecutive quarter of positive pricing actions. The business model of adjusting prices is holding, but we are beginning to see a greater impact on volume. We are looking for a good corn crop this year to ease the pricing pressures and stimulate volume growth for our customers in 2014.

Moving to the income statement highlights, net sales were $1.584 billion, up $10 million or 1% from a year ago. As you will see on the net sales variance chart, North America net sales were up 2%, South America down 5%, Asia-Pacific up 3% and EMEA up 3% as well.

Gross profit dollars were $306 million, up $10 million or 3.3% while gross profit margins increased 50 basis points to 19.3%. The increase was driven largely by a strong price/mix, focus on manufacturing efficiencies, the shed program in North America, the exit of our Chinese joint venture and the changes in Kenya.

Reporting operating income of $175 million was up $14 million or 9%. Last year's operating income number included $6 million of restructuring and integration charges. Adjusting last year's number up by the $6 million, the operating income growth would be $8 million or 5%.

Reported earnings per share rose $0.20 to $1.41 from $1.21 last year and on an adjusted basis rose $0.15 from $1.26 last year. As Ilene said, given the background of slow economic growth, currency devaluations, high raw material costs due to last year's drought in the US, we are pleased with the first-quarter performance.

Looking at the drivers behind the net sales growth price/mix was a key contributor at $87 million and basically was sufficient to offset the negatives of volume being down 2%, or $39 million, and FX being negative $38 million. Approximately $36 million of the $38 million decline in FX is from the weaker peso and real in South America. Asian-Pacific currencies were favorable by 2% on a slightly stronger Korean won and Thai baht. EMEA reflects the weaker Pakistan rupee, which accounts for the majority of the FX weakness in EMEA.

On the volume front, North America was down 3% against a very strong volume comparison last year and competition from sugar in Mexico. Volume in South America was down 3% reflecting slower market growth and excess capacity in the brewing segment, which impacted high maltose sales in Brazil.

Asia-Pacific was down 2%, reflecting the China JV exit. Excluding this action, volume would have been up 1%. EMEA volume grew 2% with both Europe and Pakistan growing. Excluding the impact of the Kenyan plant closure and change in the business model, volume would have been up 7%.

Price/mix was positive across all four regions as pricing actions were taken to offset rising raw material costs.

On the operating income front North America was up $8 million from $100 million to $108 million or 8%. South America declined $2 million or 5%. Asia-Pacific grew 13%, increasing by $3 million to $23 million. And EMEA was basically flat with an improvement of $400,000. Given the challenging economic environment in Europe we are quite pleased with these results.

Corporate expenses were roughly up $1 million or 4% at $18.3 million versus $17.6 million last year.

Moving on to the earnings per share bridge, we estimate $0.07 of the $0.15 increase is from operations and $0.08 are from non-operational items. The $0.07 is comprised of a positive $0.15 from margin, offsetting the negative $0.03 from volume and $0.05 from weaker currencies.

A lower tax rate of 29.2% this year, compared to 32.4% last year, contributed $0.07. We worked hard to optimize our tax rate, and we believe this quarter's rate, which is in line with our full year guidance, is directionally sustainable given what we know today about our business and the various tax laws in the jurisdictions in which we operate.

We picked up $0.02 or about $2.7 million on lower financing costs and gave back $0.01 on a higher share account of 78.8 million shares versus 78 million last year.

For the quarter cash used for operating activities was $30 million versus $29 million provided by operating activities last year. This quarter reflects the increase in receivables and inventories. I expect the working capital increase to decline as we move through the year. We invested $66 million in capital expenditures versus $59 million last year.

Dividends paid amounted to $22 million. This quarterly amount is expected to rise reflecting the 46% dividend rate increase from $0.26 per share to $0.38 per share.

Switching gears, 2013 guidance remains unchanged. We expect to perform in the range of $5.60 to $6.00.

With the first quarter at $1.41, we anticipate the second quarter to be relatively in line with last year's adjusted EPS. We also expect the second half to show volume growth, continued price/mix improvement as well as further FX headwinds. We expect lower raw material costs as we move through the second half. Net-net we expect the year to be somewhat back-end loaded.

The net sales trend is expected to continue with price/mix improvements, stable volumes and additional FX headwinds. Operating income is expected to be up slightly in all regions except South America. The estimated effective tax rate is between 28% and 30%. Financing costs for the full year should be in line with last year consistent with our previous disclosure.

We expect another solid year of cash flow from operations of approximately $700 million. This reflects the anticipated reversal of the inventory and receivables billed in the first quarter. Capital expenditure plans remain unchanged from the previous forecast of $350 million to $400 million. The capital is a combination of growth oriented projects and cost saving projects.

For example, we will fund the capacity expansion of our clean label Novation brand specialty food starches in Europe and co-generation projects in Columbia and Pakistan, to name a few. From a regional perspective, North America's outlook incorporates the pricing actions taken to cover the higher raw material costs, lower volume primarily from the North American network optimization program where we shed some lower value business and relatively stable HFCS volumes.

South America's outlook incorporates the ability to price for higher raw material input costs and weaker currencies. We do not expect the same for Argentina where the challenge is continuing high inflation rates of 25% or more and the rapidly devaluing currency. It also incorporates an improvement in the economic activity in Brazil in the second half.

Asia-Pacific's growth continues from volume expansion and lower costs. South Korea will continue facing headwinds against lower sugar prices until corn prices drop. With respect to EMEA, the same holds with higher prices to cover higher input costs and modest volume growth. Operating income is expected to be up year-over-year.

In closing, 2013 will be a challenge but one that we believe we can manage. The combination of lower economic activity, high raw material cost, currency headwinds and inflationary pressures in Argentina is a handful. But with the experienced local and global managers and a resilient business model we continue to remain cautiously optimistic. Ilene?

---

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

Thanks, Cheryl. As I've done on previous call, I will conclude with our strategic blueprint which continues to guide our decision making and strategic choices with an emphasis on value added ingredients for our customers. There is no doubt that we are operating in a challenging world today.

We all hear that from public companies and from other third parties on a daily basis. The blueprint is a good reflection of our successful business model which enables the delivery of good results in this volatile world as you saw in our first quarter and in our full year outlook. We have geographic and portfolio balance combined with disciplined management teams and effective risk management.

Taken together they offer both a defensive position in a turbulent environment and a growth vehicle for participating in emerging market opportunities as well as the growth of on-trend ingredients. In sum, I believe that we are well positioned to deliver another good year while always keeping an eye on our future growth opportunities. And now we are glad to take your questions.

---

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions) Our first question is from Ken Zaslow. Your line is open. State your company.

---

**Ken Zaslow** - *BMO Capital Markets - Analyst*

Bank of Montreal. Good morning everyone. Just big picture, Ingredion's payout ratio is above your target of 20% to 25%. So my question is are you looking to raise guidance later on in the year or are you looking to increase the payout ratio target?

---

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

Well, Ken, this is Ilene. We've said that the payout is 20% to 25%. And, obviously, it is trending a little bit higher. But we're pretty comfortable with that 25% payout ratio. So we are sticking with our guidance and that number might be a little bit high. But, I think, in terms of long-term the 25% is a good number.

**Ken Zaslow** - *BMO Capital Markets - Analyst*

Okay. In terms of foreign currency, I know it's a headwind in the near term. Can you talk about your track record to actually recover it?

And is it actually a timing issue or do you forego the earnings forever? Can you just put us in a little bit of a picture on that?

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

Sure. Ken, this is Cheryl. In the normal, ordinary course the business model reprices for the currency. So when I look at, we have $0.05 in the first quarter as the headwind, which is better than the actual results, I would expect us to be somewhere between $0.15 to $0.20 on the full year.

Normally we price it, and you see that in the margin. What's, I think, a little bit different this year is, and I am going to specifically point out Argentina, is that the combination of the rapid devaluation, and so if you think about 16% this quarter versus last year, and if that continues for the remaining three quarters at that rate, plus the higher prices for raw material and energy and inflationary pressures on labor costs in excess of 25%, I think it is more of a one-time issue where our ability to continue to price becomes a little bit more of a challenge.

So to wrap it I would say, I look at it more as a one-time issue that will continue probably for three quarters, maybe four. Then I think the business model continues to go back to where we would expect to capture changes in the FX in the pricing.

**Ken Zaslow** - *BMO Capital Markets - Analyst*

Okay. My last question is, you said in the prepared comments that you are confident that Brazilian demand will come back in the back half of the year. What gives you confidence in that? That is a pretty bold statement.

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

Okay. Yes, this is Ilene. I said that. I look at -- first of all, I look at the GDP forecast. And it's true it has come down a little bit from 4% to 3%, but everything that I see in the country really does say that they are getting ready for the World Cup and the Olympics with infrastructure and programs to promote employment.

I was down there in February. There is a lot of excitement down there in the country.

So, I think -- and then when I look at those food numbers, remember I mentioned also that while beer was down a little bit the consumption of our ingredients in food products was up. Beer is a totally different issue in terms of the supply/demand of that particular part of the market. But the food side is looking good. So, I am, obviously, reading the same things you are and continue to believe in Brazil certainly long term and medium term and hopefully short term.

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

Let me also point out a little bit more color on the quarter. Brazil was actually up year-over-year at the operating income line. The decline in South America is driven by Argentina.

This is now the second quarter where we have seen improvement in Brazil's number on a year-over-year basis. So combined with what Ilene said the numbers are giving us that cautiously optimistic view that things improve as we go into the second half. And remember that the fourth quarter should be warmer and that is their high season.

**Ken Zaslow** - *BMO Capital Markets - Analyst*

Great. Thank you very much.

---

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

You're welcome.

---

**Operator**

Thank you. Our next question is from Tim Ramey. Please state your company name.

---

**Tim Ramey** - *D.A. Davidson & Co. - Analyst*

Hi. It's D.A. Davidson. My question is somewhat of a follow-up on Ken's. Just thinking back to kind of the old days of Konrad Schlatter telling us about Brazil, it seemed like the more chaos that occurred down there back in the old days, the better the results. The more the moving parts got out of whack by devaluations or inflation, the better the pricing was or the better the operating margins were.

I know that is a hard question to ask in that things are different, it's 15 years later. But as you think about that period versus this period, is there a chance that this presages a period of improving operating margin performance?

---

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

Tim, it's Cheryl. Thanks for pointing out that I am 15 years older. Let me tell you what I see is slightly different in this period versus to the period that you're referring to under Konrad. We have never seen the consecutive increases in commodity costs like we have over the last three years.

And the volatility in the raw material, so we are talking corn, is pretty significant. The volatility on currency devaluations, we have lived and breathed that multiple times. When it finally settles down, our history has been that we actually do improve. And Argentina is the perfect example. We made more money after the devaluation because we had the pricing power back up and also volume increased.

So we are not expecting the fundamentals to change. I think, really, it is this period where we have seen phenomenal volatility in the raw material prices on top of the currency devaluations on the inflation.

---

**Tim Ramey** - *D.A. Davidson & Co. - Analyst*

So there is a lot riding on these corn prices coming down at the end of the year?

---

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

Absolutely. I think -- again, we are not giving 2014 guidance, but when I look at the expectations for the US corn crop, both in terms of more acreage planted, higher yields, the USDA has revised the forecast on the carry outs. We could -- there are estimates out there that, obviously below $5 on the corn prices.

Our view is that will ease the pressures on our customers. Because we are going to price up or down with the corn. That is the business model. So we would expect our revenues to decline but our margins would hold, and we would expect better margins in absolute dollars as a result of the improved volume.

So when you say it is riding on the fourth quarter, ultimately lower corn prices helps this business model. We should see lower corn costs based upon where the futures market is, assuming there is no problem with the 2013 crop.

---

**Tim Ramey** - *D.A. Davidson & Co. - Analyst*

Yes. Okay. Thank you.

---

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

You're welcome.

---

**Operator**

Thank you. Next question is Farha Aslam. State your company, please.

---

**Farha Aslam** - *Stephens Inc. - Analyst*

Hi. Good morning. Stevens Inc. First two questions.

First, just continuing on the South American discussion and then just moving to North America. In terms of South America, the Brazilian government has recently cut taxes on consumers on food just to mitigate some of the inflation that consumer is feeling. How quickly do you think your business can benefit from that tax cut?

---

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

Well -- this is Ilene. Certainly it has to end up in the paycheck. And that's a positive, of course. There's been some increase in beverage taxes that do affect, certainly, the beverage part of the business.

But I think that if you take the consumer and his take home pay, those checks in the next month or two should be higher. So, of course, there is more disposable income to spend on beer and food products. It is something that when the government does that the expectation is it's a shorter-term rather than a longer-term effect.

---

**Farha Aslam** - *Stephens Inc. - Analyst*

And then, just -- in South America you have had that awesome corn harvest and the safrinha crop is looking very good. When does that benefit start flowing into your P&L for South America?

---

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

It should start in the third and fourth quarter. Prices will come down which should ease volume, taking into the account that it is the disposable income increases that bodes well for the second half of the year.

---

**Farha Aslam** - *Stephens Inc. - Analyst*

It is really some of the tax cuts and actions from governments as well as the World Cup and a good South American harvest that's really supporting your back-half confidence in South America?

---

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

Correct.

---

**Farha Aslam** - *Stephens Inc. - Analyst*

Okay. And then switching to North --

---

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

And the fact is that we -- Farha, it's Cheryl. We've also have now seen two quarters where we have seen improvement in Brazil. The decline in South America in the first quarter is all of Argentina.

---

**Farha Aslam** - *Stephens Inc. - Analyst*

Okay. That's --

---

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

And it's really the FX where pricing on -- one could say is it FX or is it inflationary pressures and so your costs are going up? It is a combination. But clearly Brazil is actually improving from what we saw a year ago.

---

**Farha Aslam** - *Stephens Inc. - Analyst*

That's helpful.

---

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

That is despite the decline in the high maltose sales to the brewing industry, which with the brewers having excess capacity they are not as inclined to use the high maltose corn syrup; they go to grits. So if prices come down in the third and fourth quarter, that should bode well for us regaining some of that share back to high maltose syrups.

---

**Farha Aslam** - *Stephens Inc. - Analyst*

Right. Then when we switch to North America and you look at Mexico there's been just a lot of question about the strength of Mexico. You have seen Mexican numbers come out being fairly cautious regarding high fructose corn syrup use, yet, North -- US shipments to Mexico are up 10% in the first two months. Could you just share your thoughts on Mexico and demand?

---

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

Well -- It's Ilene. When you look at overall demand, it's been okay in terms of food products. Obviously, there's been some moderation as sugar came down, which we've acknowledged. But, overall, our North American model is really working well in that we've been able to optimize and that's why our profit was up.

But Mexico GDP, it actually is a little bit higher than Brazil. So while it was 3.9% in 2012, the forecast is 3.4%, which is unchanged from -- it's down a little bit, but it's basically the same as what it's been forecasted at for 2013.

So 3.4% is less than 3.9%, but it is still a pretty good growth rate when you look at some of the other countries. So I think that if you look at the rest of the year for Mexico in terms of overall demand it looks pretty good.

---

**Farha Aslam** - *Stephens Inc. - Analyst*

Okay. Great. Thank you.

---

**Operator**

Thank you. Next question is Heather Jones. State your company name, please.

---

**Heather Jones** - *BB&T Capital Markets - Analyst*

BB&T Capital Markets. Good morning. I guess my first question is on guidance.

If I look at what you did for Q1 and then your color for Q2 and then you talk about accelerating growth into the back half, it would seem that that pretty much takes out the bottom half of your guidance if we're going to have growth acceleration in the back half. Am I thinking about that correctly?

---

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

Well, if you think about the guidance it's $5.60 to $6.00 so you've got to figure out whether you want to be towards the high side of the low side. Actually nothing is changed relative to the layup. In the fourth quarter call we talked about corn costs being higher in the first half, lower in the second half. So we are still comfortable that we will do the $5.60 to the $6.00.

---

**Heather Jones** - *BB&T Capital Markets - Analyst*

But if we see flat in Q2 like you're expecting and then accelerating growth in the back half, that would imply full year results in the top half of your guidance. Am I doing my math incorrectly?

---

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

The math I get, is it's still -- it shows H2 at $2.86] to $3.26, which would be higher than, you're right, H1.

---

**Heather Jones** - *BB&T Capital Markets - Analyst*

Yes. Okay.

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

So you are right. It does take out the very bottom part of the range.

**Heather Jones** - *BB&T Capital Markets - Analyst*

Okay. Then on Mexico, I was wondering if you could help us with this. If you look at USDA data it is showing still growth in the first part of Q1 for exports to Mexico, but Mexican data is showing pretty significant declines in February and March for imports, which seems to jive more with what you all are saying.

But I was wondering, given that the domestic production of HFCS is reportedly up in Mexico and given that you all are such a large producer there and you have this large brewing presence, is that helping insulate your Mexican volumes?

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

I think it certainly helps to be a local producer there and we are able to serve our customers with our facilities there and certainly we have many different ingredients there that we serve the customers. And, as you know, in Mexico there is growth in the middle class and a desire for ingredients for prepared foods and baked goods.

So, certainly, we participate in that. But, obviously, we manage on a North America basis and try to optimize. But we do enjoy being one of the top local producers.

**Heather Jones** - *BB&T Capital Markets - Analyst*

Okay. And then you talk about your North American -- well, you talk about in your regional outlook HFCS volumes being stable but yet you talked about them being down in Q1. What is driving the improved outlook for the rest of the year?

You talk about lower net corn costs. Are you planning to pass through some of those lower net corn costs to Mexican customers? Or just what's driving that outlook for improved HFCS demand later in the year?

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

Let's talk about the pricing. Pricing in the North American marketplace is a combination of grain related which, then, if corn prices are up, the selling prices go up. If the corn crops are down, then, obviously, the selling price is; so it is totally correlated with the price of corn. So if you look at the forecast for the second half of the year, with corn costs coming down on a grain related basis that would bode well for volume.

There is also what I call the timing between the quarters and when our customers pull. Did they fulfill more of their obligations in the first half or will they fulfill more of their obligations in the second half? And that's based upon their decisions versus necessarily ours.

**Heather Jones** - *BB&T Capital Markets - Analyst*

Okay. All right. Thank you very much.

**Operator**

Thank you. Next question is David Driscoll. State your company name, please.

**David Driscoll** - *Citigroup - Analyst*

Hi. Good morning. Citigroup. I wanted to just come back a little bit to the guidance and make sure I understand it as well. Because I think that when you don't change the guidance range, and it's pretty wide, so from $5.60 to $6.00, essentially says no growth to 8% growth.

Ilene, I think you, in your comments, said you expect this to be a pretty good year. So I think the takeaway, and this is a statement but it's really a question, the takeaway is simply that this bottom end of the range is not likely given what you produced in the first quarter and the expectations that you guys have laid out. Is it that effectively what you are trying to communicate this morning?

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

Well -- this is Ilene and then I'll pass it to Cheryl. Look, we feel good about how we dealt with a lot of the different headwinds this year and we do see good dynamics in the second half. And when we say we expect it to be a good year we still are committed to our long-term EPS goals of low double digit improvement over a five year period.

So, certainly, this is an unusual year. I just finished my fourth year. This is, I think, certainly challenging with some of the drought and some of the economic challenges. So certainly in the middle of the range in terms of guidance we feel pretty good about those numbers.

One always wants to be higher rather than lower, but the year is not over. So as everybody points out we are kind of a conservative bunch here and want to make sure that we anticipate different headwinds that might happen.

But I think when you look at our numbers we feel good about the range. If you look at the arithmetic it would point to more of a middle of the range number than the lower end of the range. And, Cheryl, I don't know if you want to add to that?

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

I would agree with that. Dave, if I look at it, all the wheels came off, volume didn't improve in the second half, costs didn't come down the way that we expect them, economic growth around the world continues to deteriorate and we got to the bottom end of the range at $5.60 that is still up from the $5.57 last year.

Granted, it's more like 1% or slightly below 1%. And if the volume --Nothing really has changed in the model or the way that we look at it. If we are too cautiously optimistic, or otherwise saying a little bit pessimistic on volume, if we are wrong and the volume picks up more aggressively, then that is how we get to the high end of the range. The high end of the range is $6.00 relative to the $5.57 last year.

Again, given the challenges posed by the third year of significant changes in corn costs, I think it's pretty good performance. Combined with the cash flow generation of roughly $700 million for the full year is why we look at it and say that we are pleased with the performance.

**David Driscoll** - *Citigroup - Analyst*

In a normal type year, which I know never exists, but in a normal type year, what type of seasonality would you typically expect the quarterly pattern to lay out at? Noting last year you start off at $1.26 and you end up at the back half EPS wise was much stronger than the front half.

But I don't think last year was normal. But I would like you to talk about seasonality of the quarters normally.

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

I don't think we have seen normal in three years. But from a historical perspective, we always saw the strongest quarters as the second and third. And second would have been the North American business as we hit summer and it would have been the flip for South America. And then it really went between which was the weaker, the first quarter or the fourth quarter. And with the volatility that we have seen in the marketplace from corn, it has skewed the quarters.

And as I have said on a number of occasions on these calls is that it's very difficult for anybody to get the quarters right. It is the year-over-year guidance. If I look back to last year, where was the surprise in our numbers that put us at the high end and the performance that we had?

It came from the North American volume. Typically, we expect the plus or minus 1% for North America. We really saw very strong volumes hold throughout the year in North America which, obviously, will make the comps this year a little bit more of a challenge. But with that said we do expect North America to still be up slightly from last year's numbers and that is a good thing.

---

**David Driscoll** - *Citigroup - Analyst*

Final question. Corn co-products. So last year, as we go through the drought, that drives co-product pricing up dramatically relative to your hedge position on corn and should have been a good thing. Currently, we've seen, since March 28, in the stocks report fairly significant declines in corn prices.

This would, seemingly, reverse those types of positives. Meaning that the variance between your co-product expectations and the reality of it perhaps is going the opposite direction. Can you comment on that and your level of concern with the co-product values for the remainder of the year?

---

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

We actually, in our 2013 guidance, have incorporated a declining, sequentially quarter by quarter, for the co-product values, Dave. So the fourth quarter will be lower than what we experienced. That's our estimate in the first quarter on a total Company basis versus last year where, to your point, the first quarter and second quarter co-product values were substantially lower than what they were in the third and fourth quarter.

But it is part of our risk management of managing the growth to net ratio, especially in the North American market where the co-products is the component that has more volatility. But we're -- as we normally are a conservative bunch, so I use my phrase cautiously optimistic or cautiously positive that we will be able to manage that net corn cost.

---

**David Driscoll** - *Citigroup - Analyst*

Really appreciate the comments. Thank you.

---

**Operator**

Thank you. Next question is Akshay Jagdale. Please state your company name.

---

**Akshay Jagdale** - *KeyBanc Capital Markets - Analyst*

KeyBanc. Good morning. I wanted to ask about North America and volume. You mentioned that last year volumes came in better. As a reminder, what were the one or two main drivers of that, in your opinion, and what makes you somewhat cautious, if I may, on volume going forward?

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

Well -- this is Ilene. We continue to grow our business, with certainly being positively experienced from our ingredient strategy of selling on-trend products for healthy, good-for-you foods, other confectionary type products and that, as well as high fructose corn syrup last year, were part of the growth.

We continue to focus on those industries. But, as Cheryl said earlier, I think the biggest challenge has been with two and a half, three years of price increases from raw materials. We have been putting pressure on customers to accept that.

We have done that well. But, certainly, the consumer is a little bit cautious in terms of what he is bringing home to the cupboard. So I think that is what you have seen more recently where you didn't see it as much last year because it was only two of the three years of the price increases.

But we expect that to ease with the corn crop coming and we have managed well through a challenging environment and have been able to pass through our prices and maintain, if not improve, our margins.

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

This is Cheryl. I would add a little more color to Ilene's comment with regards to 2012. We saw very good demand in the brewing industry in Mexico along with the beverage. And on top of that was, as Ilene said, the on-trend starches and glucose.

**Akshay Jagdale** - *KeyBanc Capital Markets - Analyst*

That's helpful. Similarly on the same topic, if you look at margins in your North American business, really outstanding for the last couple of years. And that's, in my opinion, a function of the high utilization rates. Help me understand; what are the risks to that margin structure coming down?

Because it is almost at peak levels, it's been there for a while, it's sustained itself for various reasons that you mentioned. Why should we expect those margins to be sustainable where they are today?

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

I'd say two things. First of all, the utilization rates in the industry now are mid 80%s. So I think that as demand grows with prices coming down from corn, presuming that we have a big crop, that will even tighten it up even further.

But I think the other part of our success has been in optimizing our utilization and our cost structure and that we have made some good investments as well as our acquisition of National Starch, which gave us opportunities to optimize all the different facilities in the network and, as I said before, to move specs around. So we have actually enjoyed that optimization process and now we are reaping some of that results, which is manifesting itself in the better margins. We are just very good operators and take the right decisions at the right time.

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

This is Cheryl. I'd add one other color commentary. It is that you have to look at dollar numbers not percentages, again, because of the correlation with corn prices up or down. So if we expect corn prices to come down the revenue line will come down.

But we don't expect the absolute dollars to decline. So all of a sudden the OI to net sales ratio will look like we are geniuses. It is just a function of the movement in the net sales line.

The second component is that the overcapacity that existed in the market, because Mexico was not open from a border standpoint for the free flow of sweeteners and starches to move, is what impacted the dollar margins going back four, five, six years ago. That really finally structurally changed in 2007 and 2008.

So the issue around capacity and capacity utilization, there is no reason for anybody to be expanding in a market that is relatively stable and, therefore, the dynamics around the, quote, unquote, dollar margins somehow implode or nothing's impossible seems to be pretty slim.

---

**Akshay Jagdale** - *KeyBanc Capital Markets - Analyst*

Thank you. Just one last one. On this quarter's North American volume decline.

If you have said it before, because I joined the call a little late, don't repeat yourself. I can go back and read the transcript. But if you haven't can you give us a little bit more color on what actually drove that 3% decline?

---

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

First of all, there is a tough comparable to last year's number. And the second is, as we have talked for probably eight quarters now, in our North American optimization program we are looking to improve mix and we shed some lower volume -- lower value products to move up the mix.

---

**Akshay Jagdale** - *KeyBanc Capital Markets - Analyst*

Perfect; I'll pass it on. Thank you.

---

**Operator**

Thank you. (Operator Instructions). Next we have Ann Gurkin. Please state your company name.

---

**Ann Gurkin** - *Davenport & Company - Analyst*

Davenport & Company. Good morning. I just have one question left. I wanted to get a little more color on pricing. Do you have all the pricing in place for calendar 2013 or should we look for more pricing in the back half? Price/mix was only a benefit this quarter. I was just wondering if you'd address that topic.

---

**Cheryl Beebe** - *Ingredion Incorporated - EVP, CFO*

There are two ways to address it. We expect price/mix across all four regions to be positive throughout the year compared to last year. The exception may be South America as we hit the fourth quarter and their corn prices come down. Our firm price business is negotiated for the full year in North America.

---

**Ann Gurkin** - *Davenport & Company - Analyst*

Right. Okay. That is all I have left. Thank you so much.

---

**Operator**

Thank you. And at this time we're showing no further questions.

---

**Aaron Hoffman** - *Ingredion Incorporated - VP, IR, Corporate Communications*

Thank you all very much. I'm going to turn the call back to Ilene for a couple final comments.

---

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

Okay. I just wanted to make a couple of final comments. As you can see, the Ingredion business model is performing well. We're delivering good results. We believe that our model allows us to consistently deliver shareholder value, which is really our clear focus. So we make those decisions every day.

That brings our first-quarter 2013 earnings call to a close. And, again, thank you for your interest. We look forward to further updating you. Thank you.

---

**Operator**

Thank you for your participation. That does conclude today's conference. You may disconnect at this time.

---