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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the First Quarter 2024 Ingredion Incorporated Earnings Call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to Noah Weiss, Vice President of Investor Relations.

Noah Weiss - *Ingredion Incorporated - VP of IR*

Good morning, and welcome to Ingredion's First Quarter 2024 Earnings Call. I'm Noah Weiss, Vice President of Investor Relations. Joining me on today's call are Jim Zallie, our President and CEO; and Jim Gray, our Executive Vice President and CFO. The press release we issued today as well as the presentation we will reference where our first quarter results can be found on our website, ingredion.com, in the Investors section.

As a reminder, our comments within this presentation may contain forward-looking statements. These statements are subject to various risks and uncertainties and include expectations and assumptions regarding the company's future operations and financial performance. Actual results could differ materially from those estimated in the forward-looking statements, and Ingredion assumes no obligation to update them as -- 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 on the company's most recently filed annual report on Form 10-K and subsequent reports on Forms 10-Q and 8-K.

During this call, we also refer to certain non-GAAP financial measures, including adjusted earnings per share, adjusted operating income and adjusted effective tax rate, which are reconciled to U.S. GAAP measures in Note 2 non-GAAP information included in our press release and in today's presentation appendix.

With that, I will turn the call over to Jim Zallie.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Thank you, Noah, and good morning, everyone. Ingredion's first quarter results exceeded our expectations against a strong comparison with last year's record first quarter performance. As anticipated, our net sales volumes in the quarter improved sequentially despite the impacts of extreme cold weather on shipments in the U.S. and taking into account the sale of our South Korea business.

As you can see on Slide 5, while the consolidated net sales and operating income were lower year-over-year, the operating income for quarter 1, 2024, was still the second highest in the company's history and continue the upward trend from prior years. Inclusive of the current period, we have delivered 5% net sales growth over the last 5 years, compounded annual growth rate at an adjusted operating income compounded annual growth rate of 7% over the same period. Furthermore, while we delivered adjusted operating profit for the first quarter of 2024 at the top end of our guided range, the current market environment would have been conducive to delivering even better profitability had it not been for the impact of extreme cold weather on our U.S. shipments, which we estimate was at least $10 million.

Now let me update you on progress against our 3 strategic pillars. Starting with our business growth pillar. During the quarter, we completed the reorganization of our business which resulted in new reportable segments, which we are sharing for the first time today. For Texture and Healthful Solutions, we feel increasingly confident regarding volume momentum as we saw strong demand from distributors in the quarter and volumes overall in April were up nicely year-over-year.

Also noteworthy, project-related customer engagements in the U.S. are up 60% in quarter 1, which we view as a positive leading indicator of future growth for our Texture and Healthful Solutions segment. We have completed the commissioning of the capacity expansion for our higher-value stevia product lines at our PureCircle facility in Kuala Lumpur to support our sugar reduction franchise growth. Lastly, in terms of a positive indicator of overall economic growth, we have seen a strong demand recovery for industrial starch from paper making and packaging customers in North America.

Turning to our second pillar, cost competitiveness through operational excellence. In February, we closed on the sale of our South Korea business. The proceeds from this divestiture will be used to support our capital allocation priorities. During the quarter, we also launched a multiyear cost savings program, which we are calling Cost2Compete. We are already advancing toward our target to deliver $50 million of savings by the end of 2025, and I'll highlight this program more in a few minutes.

Some of the notable Cost2Compete initiatives include a project we have undertaken to unlock capacity across our manufacturing footprint by applying machine learning and AI. In addition, we are continuing to optimize our supply chain, distribution and warehouse network in pursuit of service excellence, efficiencies and savings. Lastly, we continue to be encouraged by the results achieved by our centralized procurement team, which has recorded some big wins on freight cost savings through globally-led procurement strategies, combined with strong local execution.

Regarding our purpose-driven and people-centric growth culture, I'm proud to report that we were recognized for the 10th time by Ethisphere as one of its 2024 World's Most Ethical Companies. This award reflects the deep commitment of our teams around the world who lead with integrity and prioritize ethics across our organization.

Regarding sustainability-related achievements, I would like to commend our team for lowering greenhouse gas emissions by 22% compared to 2019 levels and for increasing the share of purchased electricity from renewable sources to 25%, which is a big jump from only 5%, 2 years ago. This has been done through a combination of investments in solar and biomass energy. In fact, for Brazil, specifically, following the completion of our recent conversion to biomass boilers at our two largest facilities, 96% of all of our energy needs in Brazil now come from renewable sources.

I would now like to comment a bit more on volume trends in the quarter. As we have shown in previous quarters, this is a volume index based upon our 2019 quarterly shipment averages, excluding high fructose corn syrup and adjusting for material changes in our portfolio. This graph illustrates the heightened volume demand during 2021 and 2022 in reaction to globally constrained supply chains. In the middle of 2023, we experienced a notable drop in orders as customers destocked inventories primarily impacting our texture product line. This year, we anticipate a gradual improvement in volumes and have already seen a significant pickup in distributor demand and solid volume growth in April. It is worth noting that for the quarter, on the slide being shown, we are also projecting where volume was expected to land, if not for the impact of extreme cold weather on our U.S. shipments.

Ingredion has a legacy of transforming and evolving its business in response to changing market dynamics. Our ability to strategically adapt has ensured long-term prosperity for the company and is one of the many reasons, we are approaching a rare milestone to be listed now for 122 years on the New York Stock Exchange. Ingredion's previous region structure was instrumental in maintaining local accountability to deliver results. That culture of accountability will continue as we shift to a more customer and market-focused segments in pursuit of growth, which will be further enabled by our maturing global operating model. Our reorganization and financial resegmentation would not have been possible 5 years ago without the global operating model currently in place.

As we look forward, we believe the more compelling natural geographic alignment of the new segments will create operational and market synergies. As we execute our strategy to drive growth and deliver on our winning aspiration, to be recognized as the go-to provider for Texture and Healthful Solutions that make healthy taste better, I'm pleased to announce that Dr. Michael Leonard will join Ingredion as Senior Vice President, Chief Innovation Officer and Head of Protein Fortification effective May 13, 2024.

Mike brings broad industry leadership experience in both developed and emerging markets with both CPG and ingredient multinationals as well as high-growth start-up companies, which will be a tremendous asset to Ingredion and our customers.

As we mentioned recently at CAGNY, we are committed to driving continuous cost efficiencies as a means to maintain consistent, profitable growth. Cost2Compete will deliver $50 million of run rate savings by 2025. We are pursuing savings in two areas. $25 million will come from SG&A, which will show up in our reported operating expenses. And another $25 million will come from cost of goods sold savings, which will positively impact our gross margin.

We see a significant opportunity to continue to leverage our shared services infrastructure that we have built over the past 5 years. To lead that effort, we are also pleased to announce that Vanessa Bordeaux joined Ingredion as Vice President, Global Shared Services. In her role, she will continue to drive continuous improvement and change with a strong focus on global process standardization, risk reduction and internal controls management.

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

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

Thank you, Jim, and good morning, everyone. Moving to our income statement. Net sales for the first quarter were approximately $1.9 billion, down 12% versus the prior year. Gross profit dollars decreased 14%, but gross margins were resilient, remaining greater than 22% again this quarter and down slightly when compared to the strong lap of Q1 of last year. Reported and adjusted operating income were $213 million and $216 million, respectively. The decrease in operating income was driven by the impacts of extreme cold weather in the U.S., hyperinflation in Argentina and the carryforward of higher cost inventory into the quarter.

Turning to our Q1 net sales bridge. The 12% decrease in net sales was driven by $176 million in lower price/mix and $40 million in lower volume, partially offset by a positive foreign exchange impact of $12 million. Additionally, the exit from South Korea had a $51 million impact on sales volume.

Turning to the next slide. We highlight net sales drivers for the first quarter. For the total company, net sales were down 12%, and 10% when excluding the net impact of South Korea's sales from the results. Texture and Healthful Solutions net sales were down 10%. Sales volume was flat to prior year, which is indicative of returning volume demand for texture ingredients. Price/mix was down 9% for the quarter, partly reflecting the higher pricing from last year as these businesses price through double-digit inflation for specialty corn and natural gas primarily in Europe and the U.S.

Food and Industrial Ingredion's LATAM net sales were down 8% which was primarily driven by lower corn costs year-over-year being reflected in price/mix. Of note, sales volume was impacted primarily by the timing of customer demand pull in Colombia, which we anticipate to come back during the balance of the year. Lastly, Food and Industrial Ingredients U.S./CAN net sales were down 11%. The Price/mix was down 7%, reflecting pass-through of lower corn costs on variable rate customer contracts. Sales volume was impacted by slowed production and reduced U.S. shipments due to cold weather.

Let me turn to a recap of our Q1 segment performance. Texture and Healthful Solutions net sales were down 10% compared to the prior year and down 9% on a constant currency basis. Texture and Healthful operating income was $74 million, demonstrating an OI margin of 12.4%, driven by less favorable price/mix, as I mentioned previously and the carryforward of higher cost inventory. We expect OI margins to improve for the full year to be between 13% and 16%.

In Food and Industrial Ingredients LATAM, net sales were down 8% versus last year and down 12% on a constant currency basis. Food and Industrial LATAM operating income was $101 million with an OI margin of 16%, down slightly from last year, primarily driven by the impact of the devaluation of the Argentine peso on our joint venture as well as higher utility costs. We expect OI margins for the full year to be between 16% and 19%.

Moving to Food and Industrial ingredients U.S./CAN, net sales were down 11% for the quarter. Food and Industrial U.S./CAN operating income was $87 million, with an OI margin of 16%, up slightly versus last year's quarter. The improvement was driven by renewal of multiyear customer contracts and tight management of raw material costs, largely offset by higher fixed costs associated with downtime due to extreme cold weather in the U.S. We expect full year OI margins for this segment to be between 15% and 18%.

For all other, net sales decreased 35% for the quarter, largely driven by the overlap of the exit of our South Korea business. All other operating loss was minus $4 million, better by $4 million from the year ago period. The improvement was driven by a lower operating loss for protein fortification and other factors. Our full year outlook for all other is to reduce the operating loss by 1/3.

Turning to our earnings bridge. On the left side, you can see the reconciliation from reported to adjusted earnings per share. On the right side, operationally, we saw a decrease of minus $0.86 per share for the quarter. The decrease was driven primarily by an operating margin decrease of minus $0.47 and unfavorable volume of minus $0.34 per share.

Moving to our nonoperational items. We had an increase of $0.14 per share, primarily driven by lower financing costs of $0.13 per share.

Moving to cash flow. First quarter cash from operations was $209 million. Cash from operations benefited from consistent net income and lower-than-expected investment in working capital as we pulled from inventories in the U.S. greater than expected. Net capital expenditures were $65 million, slightly below our expected pace of investment for the year.

During the first quarter, we paid out $51 million in dividends and began to repurchase outstanding common shares. As we look forward, our capital allocation priorities continue to be: first, organic investment. Second, a return to shareholders through our dividend; and third, strategic deployment of cash into M&A and share repurchases.

Let me turn to our outlook for 2024. Before we go through the updates to the full year 2024 guidance, it is worth noting a few items that will impact the quarterly cadence for our businesses. Last year, we witnessed a shift in the corn cost layout, which means that we will see lower price/mix through 2024 as we pass along lower raw material costs to fee-based customers. This is a normal expectation for our business model and should be a supporting factor to gross margins as we go through the remainder of the year. For the balance of 2024, we anticipate sales volume growth, a reduction in COGS per ton and continuous improvement in gross margins.

Excluding the impact of the divestiture of South Korea from our outlook, we expect full year net sales to be flat to up low single digits, reflecting improved volume demand, offset by a decline in price/mix as we pass through lower raw material costs where applicable. We anticipate that adjusted operating income will be up mid-single digits with year-over-year growth in Q2 through Q4.

We are decreasing our financing cost outlook to align with the reduction of overall debt levels and now see it in the range of $85 million to $105 million. For the full year 2024, we now expect reported effective tax rate of 24.5% to 25.5%. And an adjusted effective tax rate of 26.5% to 27.5%. The company now expects its full year reported EPS and to be in the range of $10.35 to $11, which includes an $82 million gain from the sale of our South Korea business.

For the full year, we now anticipate adjusted EPS to be in the range of $9.20 to $9.85. We expect diluted weighted average shares outstanding to be between 66 million and 67 million shares, which does not reflect balance of year share repurchases. We have been able to buy shares in the second quarter and are seeking to buy back shares comparable to 2023's repurchases for the balance of the year. 2024 cash from operations is anticipated to be in the range of $750 million to $900 million, and capital expenditures are expected to be approximately $340 million.

Corporate costs are expected to be up mid-single digits, in line with previous guidance. For the second quarter of 2024, we anticipate net sales to be flat, to down low single digits and operating income to be up low to mid-single digits on a year-over-year basis. In the appendix, we have included a 2024 full year segment outlook and our estimated comparable to 2023.

That concludes my comments, and I'll hand back to Jim.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Thank you, Jim. Based on our first quarter performance, along with our revised outlook, we believe we remain well positioned for another year of growth with momentum continuing throughout 2024. Volumes continue to show improvement with distributors replenishing their inventories and the headwind of destocking now fully behind us. These trends, along with increased customer engagements to drive innovation are evidence of more favorable market conditions than we have seen in the last 12 months.

During the quarter, improvements in working capital led to another strong quarter of cash flow from operations. We see this continuing as demand gradually improves and we start to see the benefit of lower corn costs starting in quarter 2. Also, Cost2Compete provides us with another meaningful lever to meet our long-term financial commitments with the delivery of at least $50 million in cost savings over the next 2 years. This will positively impact margins and overall profitability.

Looking ahead, we will use our strong cash position to continue to invest in areas of growth that offer the highest returns as well as return capital to shareholders. Our strategic initiatives are aligned with our winning aspiration, and we are excited about the opportunities that lie ahead.

Now let's open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Adam Samuelson with Goldman Sachs.

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

So I guess the first question maybe on the capital allocation point. Jim Gray, I think I heard in your prepared remarks, share repurchases for this year consistent with last year, which were $100 million or so. I'm just trying to get a better clarity on kind of why not higher given the strength of the company's free cash flow, the divestiture proceeds from Korea, which are in the door, net leverage, which looks like it'd be tracking closer to the 1x level by the end of the year. Just help us frame kind of where -- why the kind of step down in leverage implied by that outlook? Or help us phrase that.

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

Yes, sure. I think it's always a balance, right? And now, when we look at the end of Q1, obviously, with some of the proceeds from Korea and the cash position of the company looks strong. So therefore, being confident to say that we're going to seek up to $100 million of share repurchases through the year. It does make sense. But as we've always stated that organic capital investment and at least some M&A that accelerates either our Texture solutions or Healthful solutions or solidifies our competitive position in the markets where we play has always been a priority.

And if those returns look attractive for the medium- to long term for shareholders and they're returning rates that are going to be higher than necessarily just buying back shares today, then I think we're going to prioritize those. So it's a balance, I think, Adam, but right now, we're pretty confident to come back and say, we really like to pick up close to $100 million of share repurchases as we finish 2024.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Yes. I think, Adam, that it is -- the view at this current point in time, based on what we see across the balance between organic capital growth investment opportunities, M&A and the opportunity for share repurchase with obviously our dividend being solidified. So I think it's how we're viewing it at this moment in time. And if there are any changes, we will certainly be updating those as we go forward throughout the year. But currently, that's the view that we have. And it's not an insignificant amount of evidence that we believe in the intrinsic value of the company to be opportunistic with share repurchases in the same amount as last year.

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

And maybe I could just ask a follow-up on the volume trend side. You kind of commented to April trends kind of continuing to return to growth. I just want to be clear, is that kind of across the three now reporting units or any framing on areas of particular customer strength by region or category that you could call out?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

I think we see the modified starch -- food starch category, specialty starch category, the volume is gradually improving throughout 2024. That was certainly solid in April. We commented on industrial starch for papermaking and corrugating. That's been exceptionally strong, which we, again, view as a hopeful sign of increased economic activity. Sweetener volumes were down a bit, but generally in line with the historic trends. And so for ingredient at large, we're anticipating mid-single-digit uptick in sales volumes demand for 2024 pretty much.

And it's also noteworthy to say that we were pleased with double-digit volume growth in China for the quarter, recognizing that it does compare to prior year's quarter in China when China went with herd immunity in December of '22 into January of '23, but also Chinese New Year was early this year. So -- but we were very encouraged to see that. And then also the price of corn has come down significantly in China, which should be supportive of volume growth going forward as well. So that's how we're looking, I guess, at volume across the world right now.

Operator

Our next question comes from the line of Andrew Strelzik with BMO Capital Markets.

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

The first one, I guess, I just wanted to ask about the guidance. And if I put a couple of your comments together, you said the first quarter exceeded your expectations. You're more confident in the texture volumes and then also now you have the cost saves. So I guess I'm curious why you're only taking up the load of the guidance a little bit. Are there any other offsets to think about and recognize it's a bit early in the year. But just curious how you approach the guidance given those dynamics.

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

Yes. Well, I appreciate that you appreciate that it's early in the year. I think what we look at is, as we announced earlier, both at CAGNY and the beginning of the year, we are seeing that the businesses have some pretty easy volume lapse from last year, particularly the depth of that was in Q2. So we're pretty confident around volume coming back, as Jim just mentioned, I think that does help our fixed cost absorption. And so that's really, I think, the key underpinning between the positive side of op income growth, I think the caution that we would have would be just really watching particularly U.S. customers, and maybe less so European customers in terms of how they're managing price, how they're managing through innovation and what that has in terms of an impact on unit volume demand.

And so they're kind of out of the gate, I would say that what I'm seeing in pricing change in the U.S. is probably still in the mid-single digits, maybe the high end of low single digits. And so I'm going to be just a little bit cautious on whether or not that doesn't really just accelerate consumer demand in the grocery basket. So we want to see that come through. I think we are seeing it in some of the pockets, I'll give you an example, like, for example, you wouldn't think that condiments would necessarily be kind of a good fast-moving unit volume. But the improvement in condiments from some of the scan data that we see for the first quarter was really healthy year-over-year.

So I think there are definitely signs of green shoots here. I think the other two cautions that we would always have in our business is, "hey, any political turmoil, warfare" what impact does it have on oil prices? And can you have some energy that changes in terms of availability. Even though we do hedge natural gas, you still have that -- can have an impact there. And then I think third is just global supply chains and any kind of freight, ocean freight disruptions can always cause some disruption in over a 3- to 6-month period. Those are -- Andrew, those are kind of our -- what's on our radar.

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

Okay. That's really helpful color. And then my second question is just digging in a little bit on the cost savings plan. And I guess I'm just curious how to think about the cadence of that coming through over the course of the next 2 years? Maybe a little more color on where exactly that comes from? And does any of it get reinvested? Or should we assume most of that fall into the bottom line?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Let me take a shot at just framing it. And then Jim, you can pick up on the comments. Obviously, when you initiate a program like this. And just a reminder, we have a pretty good track record of delivering on cost takeout. Going back to the inception of what we call Cost Smart in 2019, which was a 3-year program, which sun set it in 2021. We originally set that target at $125 million, raised it to $150 million and ended up delivering a little north of $170 million. So hiatus for a couple of years, and now Cost2Compete at $50 million.

And with those programs, typically, they ramp up with savings. So there will be more of the $50 million of savings that will accrue in 2025 as opposed to '24. But '24 will have a meaningful amount of savings delivered more so in the SG&A area. And the COGS will come more so into 2025 as we also look at opportunities across our footprint as well. And there'll be more information that we'll be able to share over time related to that, but real substantive cost savings.

Now clearly, what we want to do is fulfill our winning aspiration to be the go-to provider for texture solutions and healthful solutions. And so we are going to be investing strategically in capabilities that are going to enable us to deliver on that promise for customers when it comes to things like texture data measurement science, the sophisticated sensory capabilities that you need and formulation management, for example. So those are some of the things that we will invest in. However, some of that is already factored into some of our budgeting process starting this year as well.

Jim, do you want to add some color on that?

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

Yes, Andrew, I think what we're always trying to do is just dampen the rate of wage inflation increase on the company, right? So that we always -- every company has to pay market rates of year-over-year wage change, right? So what you have to do is look at your organization to be able to say where are some things that we need -- that we can now stop doing because we're now 3 global -- 3 segments versus having kind of 4 regions.

And then also from that, just efficiencies and tightening and greater effectiveness, where do you want to make various select choices to reinvest. But I think the overall that you'll see is this kind of a dampening of our of year-over-year change in SG&A rate. And then obviously, as we get after COGS, which we already have an annual program called net structural savings where we're chasing inflation and trying to dampen the manufacturing expense inflation that we incur every year. But this will be -- and Cost2Compete will allow us to get after some event-driven actions within our manufacturing network. So that's our goal.

Operator

Our next question comes from the line of Ben Bienvenu with Stephens.

Benjamin Shelton Bienvenu - *Stephens Inc., Research Division - MD & Analyst*

Jim Zallie, you made a comment about the $10 million impact from weather in the first quarter on shipment volumes. Is that $10 million or $0.10, $0.11 of EPS. Does that get deferred into the second quarter or later in the year? Or is that just lost sales? And maybe Jim Gray, as you think about that as another put and take, kind of piggybacking on Andrew's question around guidance, with the solid start to the year, some tailwinds. Wondering how that figured into kind of the posture that you took on guidance.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Yes. So let me make a quick comment. Just -- so the -- what we said was greater than $10 million of impact in the quarter. It was predominantly comprised 2/3 of idle fixed cost under absorption and 1/3 due to lost sales. And we felt that impact at our larger plants in U.S./Canada, Food and Industrial Ingredients segment, but also to a degree at our India and Kansas City plants that support the Texture and Healthful segment. And this was due to that extremely cold weather that we had for about 2 weeks in January, which did impact the runability of our production of, again, a few of the Midwestern plants and it also did impact and experienced challenges in rail and truck deliveries as many of those were frozen during that period. But we've quantified that impact and that's how we've kind of estimated its impact.

And obviously, we're running the plants now very well and very hard and trying to catch up. But some of those are onetime lost opportunities because the demand was there. The demand was there, the opportunities were there, and we were impacted -- we were not alone, but we were impacted and that's how we've quantified it, Jim.

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

Yes. So the 1/3 of the impact from lost sales will not be caught up. But as we look at the fixed cost due to some of the under absorption as we continue to run in Q2 and Q3 in order to kind of rebuild some of our inventory levels, then that will help a little bit in terms of some fixed cost absorption in Q2, Q3.

Benjamin Shelton Bienvenu - *Stephens Inc., Research Division - MD & Analyst*

Okay. Very good. My next question is just related to the reclassification of your segments. Recognizing there's some limited kind of historical data. I have kind of two questions. One, what story do you expect these new segments to tell as it relates to your business and kind of the long-term strategy and performance of your various segments? And then two, as you think -- why did you segment them the way you did, I guess? And how should we be thinking about kind of monitoring these new segments versus historically being focused on geographies?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Well, let me take a shot of why and then the overall -- yes, thank you for question, It is very robust. Yes, I know it's a very helpful question of context from a standpoint of where we're headed strategically as an organization. So first of all, something maybe that we haven't talked a lot about is throughout all of 2023, we undertook a company-wide strategy refresh, enterprise-wide, leveraging the play-to-win framework. And it's a very simple framework to understand. It basically starts with what is your winning aspiration, where to play, how to win, what must-have capabilities do you need to have? And what are your enabling management systems to then execute. So our whole organization, obviously, could quickly identify with the simplicity of the framework.

And it became very clear to us that when it comes to texture solutions with specialty starches and our market leadership position and our breadth and depth in that category that -- it afforded us a platform to expand upon to really be a more complete solutions provider for texture solutions.

And then in healthful solutions, given how much of a mega trend health, wellness is and will continue to be that in the areas of sugar reduction in the areas of protein fortification and fiber fortification we felt we can play-to-win. And that comprised that segment. And then when we looked at the customer base, there are many global customers, and these are global trends as well in global relevance. We talk about, for example, there are 400 terms, terminologies for very precise descriptions of texture in Japan, 200 in China et cetera. So that was the wisdom or logic behind that.

And then also, the products that we sell there are typically not sold in bulk or with liquid -- in liquid form, so they transport internationally. And so the network of plants that we supply lend themselves more to a global organizational structure when it comes to making trade-offs on behalf of global key accounts to be most customer friendly. So that made a lot of sense.

When it comes to our LATAM business, we have a tremendously strong position in Mexico, and Mexico continues to grow. And by the way, delivered another record quarter us this past quarter. And then just the natural Hispanic language and cultural similarities between that and our market leadership position in Brazil and our market leadership position in India and with now a very solid joint venture in Argentina, we felt organizationally from those cultural similarities that, that was a change that we made because remember, Mexico was part of North America before. And despite USMCA we felt there are more compelling talent management opportunities across that platform, and that was just a more what we call natural geographic alignment.

Similarly, the U.S., Canada, Food and Industrial Ingredients businesses where you're driving operational excellence, but also having to make some strategic capital decisions for facilities related to reliability to support some of the slower growth -- typically the slower growth categories that we've identified, HFCS, of course, being one of them, which now, again, is about 8% of our sales only and a lower percentage of our gross profits. And the industrial starch businesses that will take different capital decisions that we wanted to frame.

Now what's also interesting to point out, though, and I have to do this is that for the Food and Industrial U.S./Canada business this quarter, operating income was $87 million with an OI margin of 16%, which was up slightly from last year's quarter. The improvement was really driven by -- and we've talked about this before, multiyear customer contracts, tight management of raw material costs, largely offset by higher fixed costs associated, again, with the extreme weather. So it's interesting to point out that sales volumes for that segment, U.S./Canada Food and Industrial Ingredients, would have been close to flat and operating income would have been up for the quarter if it had not been for the extremely cold weather that impacted that business unit.

So there is a unit that, again, running it for operational excellence and really executing has a very attractive margin profile, which we don't know if really investors really fully appreciate it, the stability and the health of that business as a cash generator, which we will obviously be using to fuel the growth in our Texture and Healthful Solutions segment. Sorry, it's a little bit long-winded, but hopefully, that gives you some context on how we thought about things strategically in the genesis of it, which came out of the play-to-win framework.

Operator

Our next question comes from the line of Kristen Owen with Oppenheimer.

Kristen Owen - *Oppenheimer & Co. Inc., Research Division - Executive Director & Senior Analyst*

That one is going to be tough to follow up, but I'll do my best here. The first question I have is actually just a clarification on the 2Q guide, the net sales flat down to low single digits. Just remind us that is excluding the SK business. And can you help us with what that SK business was in 2Q '23? So we've got the right comp there.

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

Yes, it is excluding the South Korea business. I want to say that I think that, that's going to be around the $70 million, but let me follow up with you on that. And we'll put a clarification out on that.

Kristen Owen - *Oppenheimer & Co. Inc., Research Division - Executive Director & Senior Analyst*

Okay. Perfect. So then I did want to ask a follow-up to the previous sort of resegmentation, but more granular about what those KPIs are, how we should think about or track, whether it's ASPs or revenue per ton. Just how to think about the proxy for the specialty value uplift that you're getting through this reorientation and appreciate the cash count nature of sort of the core business. But as we're watching some of these higher growth areas with higher margins, what's the KPI that you guys are watching that would be helpful for us to be paying attention to?

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

Yes. With the new segments, I think that we have an intention to also be disclosing for the three primary segments gross margins, right? So that will be part of our required reporting in 2025. As we work through our 2023 historical, we're going to have a better perspective of the lap and how the gross margins are changing. So we're nearly right in the midst of working all of that historic 2023 and appreciate the work that my team is doing to get us there. But I think as we look forward, you'll see that the Texture and Healthful Solutions is going to have gross margins in the high 20s as well as there's product lines in there that are well into the 30s.

So those higher gross margins are reflective of the customer value in terms of the price per ton paid. And then also, as we've spoken at CAGNY as part of our strategy, we look at the texture market globally, almost $20 billion. We think it's growing at least in the mid-single digits, maybe the low single digits. But we've talked about urbanization, we've talked about the pull for convenience to make the eating occasion and the grocery shopping experience easier, and we really play well to that demand pull. So you should see a KPI from us either on sales volume or volume itself, but also the growth that we think is supporting the Texture and Healthful solutions. That will be something that's important to us.

And then when we look at, I think our Food and Industrial Ingredients business while we have, I think, very competitive positions in some of those broader product categories. And we're always going to highlight things like, "hey, how do we think the confectionery pull is for glucose syrups," but look to us to also talk about sustainability because we have this wonderful feedstock, and we already have all the infrastructure built. And I think that as the world looks to sustainable sources for either some chemical inputs that may have been previously petroleum based. I think there's some opportunities for us to take some step change in how we might direct our wet mill output, but in a way that then looks at stabilizing revenue growth and maybe slightly changing the trajectory of revenue growth.

So Kristen, we'll be -- we're very much focused on volume, on top line growth as well as we want to be really clear in terms of the level of profitability within the segment. That will start with gross margin. Today, we're disclosing OI margin ranges, and we'll work through that as we go through the years.

Operator

Our next question comes from the line of Ben Theurer with Barclays.

Benjamin M. Theurer - *Barclays Bank PLC, Research Division - Head of the Mexico Equity Research & Director*

Not much left, there's a lot has been asked, but just wanted to follow up a little bit on the volume in the different regions. And one of the things that I wanted to understand a little bit better. You just called out Mexico being very strong. And I mean, we've seen obviously some of the food and beverage companies reporting very decent volume performance in the region. We also had Brazil results coming through from some corporates very strong. It kind of doesn't align with that minus 3% volume you had. So I just wanted to understand how much of that is still that destocking overhang, that negative impact? And what you're seeing sequentially with your customers in Latin America as to the engagement to buy product again from you guys.

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

Yes, Ben, thanks for the question. None. So literally, we had a significant customer in Colombia. We have an exclusive arrangement with them. They had some budget/demand management. The volume is such that it's on a contractual obligation for them to take the volume throughout the full year. The customer absolutely needs the volume. There's every intention for them to take it. And it was just kind of a kind of an unexpected kind of how they load their channel.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

And we've seen it in the past in prior years, but never have seen in the entire quarter that this unique customer did not pull any volume, but there is a contractual obligation and they have historically always met their full year calendar year obligation. But if not for that, Jim, in LATAM that was all of the 3% decline.

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

Sales volume would have been just slightly down.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Yes. So it's a very good -- it's a very astute observation on your part to pick that out, and there's a unique explanation for it.

Benjamin M. Theurer - *Barclays Bank PLC, Research Division - Head of the Mexico Equity Research & Director*

Fantastic. Very good. And then as it relates to like your expectations and what's ultimately been reported in Texture and Healthful solutions that flat volume. Was it like within the expectation range that you had for the quarter? Or were you expecting maybe that already to be a little bit better in 1Q, but then just got impacted by some of these adverse situations that happened during the quarter weather related.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Yes. Let me take a shot at it a little bit and then let Jim add some color commentary. So first of all, on Texture and Healthful Solutions, to remind you, the performance of what is now the newly defined segment was really exceptionally strong in quarter 1 of 2023. And that was because we were able to achieve some really very strong exceptional pricing in reaction to double-digit inflation at the time for specialty corn types and the run-up in natural gas prices that were happening in Europe. And as these, I would call them extraordinary costs moderated as we enter 2024, there was just a natural reset to pricing levels that was necessary.

In addition to the pricing impact, margins in quarter 1 were compressed due to the higher value of 2023 inventory, which carried over into the new year as we move through 2024, however, newer inventory will reflect the lower cost of the specialty corn and lower fixed costs as these items normalize because this is a make-to-inventory business, it takes 2 to 4 months typically for this segment to typically work through changes in inventory and carrying costs.

And the other thing that's just noteworthy is the segment is absorbing still some costs from the early stage capacity expansion investments for growth that we made in recent years. For example we more than doubled our specialty starch capacity in China and expanded capacity for specialty starches in Thailand and Mexico. So it's a combination of all of that, that hopefully helps to put in perspective Texture and Healthful Solutions this quarter, but we really are very bullish, obviously, on the winning aspiration, the strategy and the health of that position and the assets that we have around the world to support customer growth.

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

Yes. I think the heart of your question as well, Ben, is I mean we are seeing that volume uptick. It is not near -- I mean, look, if you look at the Q1 lap in '23 on a scan basis, volumes U.S. at least for the type of texture products were down 5%, 6% unit volumes. And then obviously, we got into Q2 of last year and unit volumes within -- from grocery retail, really, really stepped down. And so I do think that we are seeing that kind of 0% sales volume that we advertised for the segment is pretty good. And we're feeling pretty solid that we're definitely seeing broad customer takeaway.

Can I just want to respond to Kristen's question on -- so Q2, Korea net sales last year was about $80 million. So just to put that one on the record for everybody.

Operator

Our next question comes from the line of Josh Spector with UBS.

Lucas Charles Beaumont - *UBS Investment Bank, Research Division - Associate Analyst*

This is Lucas Beaumont on for Josh. I just wanted to sort of go back to kind of the resegmentation. I was curious about sort of why the expectations to the margins in the Texture Health segment are sort of below Food and Industrial. Is any of that sort of being driven by how you're allocating SG&A or transfer pricing across the business? And would you expect that to kind of diverge over time so that texture kind of benefits as you get further scale there?

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

Lucas, that is kind of dead on. So Texture and Healthful Solutions as a global segment, as Jim has alluded to. And it does carry higher gross margins than the other businesses by at least 600 to 800 basis points. And it also gets a higher proportion of SG&A costs, and those are the people capabilities that we need, the technologists, the food scientists, the solution selling, sales capabilities, the marketing insights to be able to really lead with those solutions that our customers are looking for.

And so much like some competitors in Europe that may carry like a flavor or a fragrance house that may have more SG&A as a percentage of sales in the business to reflect the competencies and the people capabilities that you need to support this type of business, that's the similar kind of business model and operating expense model that's in our Texture and Healthful solutions. And we do see that as the top line grows, we do expect to get operating expense leverage out of that.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

And also, Jim, the investments that we -- I highlighted as far as the early-stage capacity expansion that we've made we are obviously in the early innings of getting the returns on those investments, which are allocated cost-wise to that business.

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

Yes. And then maybe, Lucas, just one note, since I know that the team is a little bit newer. But we -- when we do acquisitions and tuck-in acquisitions, any amortization of intangibles. We keep those in. So we don't adjust out or call those out. And so there is some amortization as well against some of the past acquisitions that we've done that have now really fall into the Texture and Healthful Solutions segment.

Lucas Charles Beaumont - *UBS Investment Bank, Research Division - Associate Analyst*

Right. And then just secondly, I just wanted to ask you about kind of the free cash flow phasing during the year. So typically, 1Q is sort of a use or a minor contribution, but you got 30% of your full year target already in the first quarter. So I mean you called out working capital as being a factor. But if you kind of just walk us through how you see the progression in the moving parts here through the year, that would be great.

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

Yes, sure. And I think that one of the things that we called out was that because of the cold weather in January, we really had to pull out of inventory more and sell out of inventory. So I do see that we're going to be -- we should be building back some of that inventory in Q2, Q3. So where traditionally, you might have seen Q2, Q3 generating a bit more cash from ops with a smaller investment in working capital. I'm kind of seeing that just a bit of a timing shift in Q2, Q3.

And then I think more broadly, for the full year, what we're really watching is kind of the balance between how raw materials are working through our balance sheet, our working capital in terms of accounts receivable as well as accounts payable. And so right now, traditionally, where we've had -- so I think some nice leverage in accounts payable from different types of financing programs around the globe. With short-term rates still a bit elevated, we may not see some of our suppliers and our farmer partners taking advantage of that. So I'm just a little bit thoughtful about what the accounts payable leverage might be year-over-year. But that's -- it's primarily a timing thing, I think, between Q1, Q2, Q3.

Operator

Our next question comes from the line of Heather Jones with Heather Jones Research.

Heather Lynn Jones - *Heather Jones Research LLC - Founder*

So I hate to belabor the South Korea question, but I just want to make sure I'm understanding this correctly. So Jim, you mentioned that South Korea in Q2 of '23 with $80 million revenue, so an adjusted base of roughly $1.99 billion. And so the flat to down low single digits, it's off of that base of the $1.99 billion?

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

Approximately, yes.

Heather Lynn Jones - *Heather Jones Research LLC - Founder*

Okay. And then when you talk about OI for Q2 to be up low to mid-single digits. Is that off of the base, excluding Korea? And if it is, what's the adjusted base that we should be using?

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

Correct. So that would be approximately, I would say that that's probably -- Korea is going to be anywhere between $5 million to $7 million of OI. It kind of depends on each quarter for Korea in terms of kind of where they were at to the prior year. So what we can do, we can follow up from that. But approximately, I think that's about where we're at on an OI basis.

Heather Lynn Jones - *Heather Jones Research LLC - Founder*

Okay. And then my second question is going back to the question about the high cost carryforward inventory in texturants and understand the dynamics behind that. But wondering if you could -- is that completely worked through going into Q2? Or is there some lingering effects into Q2 on that business?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Very small amount that will be worked through in quarter 2. So for the most part, the higher cost inventories are by now, through the system. You would say so, Jim?

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

Yes.

Operator

That concludes today's question-and-answer session. I'd like to turn the call back to Jim Zallie for closing remarks.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

All right. Well, thank you all for joining us this morning. We look forward to seeing many of you at the upcoming BMO conference in New York on May 16. And I want to thank everyone for your continued interest in Ingredion.

Operator

This concludes today's conference call. Thank you for participating. You may now disconnect.

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