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INGR - Q4 2014 Ingredion Inc Earnings Call

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OVERVIEW:

Co. reported 4Q14 reported EPS of $0.83. Expects 2015 EPS to be $5.40-5.90.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Ingredion fourth quarter 2014 earnings call.

(Operator Instructions)

As a reminder, this conference is being recorded. I'll now turn the conference over to Heather Kos, Vice President of Investor Relations and Corporate Communications. Please go ahead.

Heather Kos - *Ingredion Inc - VP of IR & Corporate Communications*

Good morning, and welcome to Ingredion's fourth quarter 2014 earnings call. Joining me on the call this morning are Ilene Gordon, our Chairman and CEO, and Jack Fortnum, our Chief Financial Officer.

Our results were issued this morning and a press release that can be found on our website, ingredion.com. The 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 statements 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 Forms 10-Q and 8-K.

Now, I'm pleased to turn the call over to Ilene.

Ilene Gordon - *Ingredion Inc - Chairman & CEO*

Thanks, Heather, and let me add my welcome to everyone joining us today. We appreciate your time and interest. I will go deeper into the fourth quarter in a moment, but first I'd like to look back on 2014.

Clearly, the year was not without its challenges; however, we ended the year with modest growth in adjusted operating income and adjusted EPS and generated strong operating cash flow of $731 million. Volumes grew 2% overall, and our higher valued specialty ingredient volumes grew by 5%. We're expanding our higher value specialty ingredient portfolio by capitalizing on sustainable, fast-growing consumer trends like health and wellness, authentic ingredients and gluten free.

In the regions, our operating results were mixed. Two of our four regions were up year over year. North America increased volumes in the US and Canada, but results were impacted by adverse weather in the first quarter. Despite a good second and third quarter, higher than expected net corn costs caused margins to compress at the end of the year. Volumes of specialty sweetener products, including crystal and dextrose continue to grow.

Overall, our Mexico business performed well for the year, including double-digit specialty ingredient volume growth in every quarter. However, the peso's rapid devaluation at the end of the year resulted in lower than expected returns on our Coke products, which contributed to the region's margin decline in the fourth quarter. In fact, the Mexican peso devaluation impacted our performance below the line as well, given the higher taxes we recorded as a result of the currency driven gains on our dollar denominated net assets. Jack will talk more about this later.

For the year, North America delivered operating income of $375 million down about 6% from the year before. South America, as we've consistently communicated throughout the year, remains in the grip of an unfavorable economic situation specifically in Argentina and Brazil. In fact, as a result of the continued uncertainty over the rate of recovery in Argentina, we recorded a $33 million non-cash impairment charge to write-off the remaining balance of goodwill from an acquisition years ago in Southern Cone.

I'd like to point out that we continue to believe in the long-term viability of Argentina for our business. We've operated successfully for over seven decades in the country. While we have faced stiff challenges in 2013 and 2014 and expect another challenging year in 2015, we believe this is truly a cyclical event and not a permanent structural change. We have stabilized our business to operate in this environment and performance met our forecast for the year.

Adjusted operating income in the region for the year was $108 million. In fact, operating income in Brazil and the Indian region were up year over year, but not enough to offset the decline in Southern Cone from the first half in 2013. The South America team is dealing with these issues and is focused on continuous improvement opportunities and cost management actions.

Moving along to Asia-Pacific, this region delivered $104 million of record operating income for the year bolstered by strength in our specialty food business. Finally, the EMEA region reported record volume in operating income. Operating income reached $95 million driven by strong results in Europe and lower energy costs in Pakistan.

Additionally, our food technologists at our innovation idea lab innovation centers are collaborating with our customers across the globe. As customers look to formulate more healthy eating options, as well as seek lower-cost alternatives, we have several programs to help our customers optimize formulas to provide nutritional benefits as well as reduced costs, processing time and capital.

Despite this year's operational challenges, our solid cash flow from operations and strong balance sheet enabled us to strategically deploy cash to generate excellent shareholder returns. We made significant strides in the advancing of our strategic blueprint.

Our pending acquisition of Penford Corporation, a leader in specialty potato-based starches, is expected to be complete in the first quarter pending regulatory approval. This will nicely expand our product portfolio with complementary specialty ingredient solutions and will be immediately accretive to our earnings.

In fact, yesterday Penford shareholders approved our proposed acquisition. I'm very excited about Penford joining our organization.

We completed our accelerated share repurchase program of approximately $300 million, which will be accretive to earnings per share this year and going forward. Our Board of Directors has authorized the repurchase of an additional 5 million shares giving us the ability to deploy our cash in shareholder friendly ways.

We also continue to appropriately invest in capital projects focusing on growing our specialty portfolio and driving cost savings and process improvements.

Given our specialty ingredient expertise, our focus on expanding our portfolio is based on evolving consumer trends. For example, in September we committed to spend about $100 million in capital investments in North America and Asia over the next few years to increase capacity for our fast-growing specialty portfolio in the areas of texture and clean label ingredients. These products deliver against key consumer trends and have richer margins.

Overall, I'm pleased our return on capital employed for the year was 10.6% exceeding our stated long-term objective of 10%.

Now, let's spend a moment on each region's performance in the quarter. North America had 5% higher volumes than last year driven by strength in the US and Canada, partially offset by lower volumes in Mexico. The obesity tax in Mexico continues to affect our core products; however, specialty sales in Mexico continue to grow, up more than 10% year over year for the fourth consecutive quarter.

The rapid devaluation of the Mexican peso and Canadian dollar late in the fourth quarter resulted in unfavorable returns on our co-products. Additionally, higher than expected net corn costs resulted in margin compression throughout the region. We took numerous actions to manage controllable costs, but at the end of the day we experienced lower operating income by 7%.

In South America, operating income was down 8%, largely as a result of foreign exchange headwinds caused by the strong US dollar. As we have commented in the past, we expect to re-price our contracts for currency effects but it can take three to six months. The Andean region delivered modest volume growth and continues to be a bright spot in the area. Bakery and nutritional products offset weakness in confectionery.

Brazil experienced weakness given the industrial slowdown and flat GDP growth. With brewing offsetting lower volumes in confectionery and food products, our local leadership team continues to manage through the slowdown through cost reductions and price mix management.

As I mentioned earlier, the Southern Cone economic challenges continue. Volumes in the South America region were off 4% from last year driven by the economic headwinds as well as power outages in our Argentine plant. The management team has been able to adjust to the difficult operating conditions and remains profitable.

Asia-Pacific delivered solid volume growth behind double-digit specialty and solid core growth, highlighting the strength of the underlying business. Throughout the region we managed through a challenging price environment, especially in Korea, which negatively impacted price mix. Additionally, we face significant currency headwinds as a result of the strengthening US dollar. These impacts resulted in an operating income decline in the quarter about $3 million versus last year.

In EMEA, we delivered record volume growth in our specialty portfolio and record operating income, which was up just over 30%. Our portfolio in Europe, which is primary specialties, continued to deliver on-trend products and continued to perform well despite the sluggish economy. Volumes remain resilient despite the euro's devaluation relative to the dollar.

Pakistan volumes were in line with the prior year, and the team there has done an excellent job of implementing cost reductions and managing an unreliable energy environment, which impacts our customer's ability to operate as much or more than our own manufacturing facilities. In fact, operating income was up double digits in Pakistan for both the quarter and the full year.

I'm pleased to now turn the time over to Jack, who will spend time on our financials. Jack?

Jack Fortnum - *Ingredion Inc - CFO*

Thank you, Ilene. Good morning, everyone. Let me start by covering the highlights of the income statement.

Sales were down $131 million for the quarter. The effects of foreign exchange and lower-priced corn, which is passed through in our selling prices, were partially offset by the solid volume growth. Gross profit was down $19 million as a result of unfavorable currency, primarily in South America, and modest margin compression in North America from higher net corn costs.

Adjusted operating income was lower than last year by $8 million as the decline in gross profit was partially offset by a reduction in operating expenses. Reported operating income was lower than adjusted operating income by $35 million. This reflects $33 million from a non-cash charge of goodwill impairment in Southern Cone given the political and economic volatility and continued uncertainty. In addition, we incurred $2 million from the acquisition costs related to the Penford transaction.

Our earnings per share reported and adjusted EPS were $0.83 and $1.30 per share, respectively. For the quarter, our adjusted earnings per share was $0.05 lower than last year's earnings per share.

Moving on to the sales bridge, our sales of $1.4 billion are lower than last year by $131 million. Volume growth contributed $44 million, but was more than offset by $74 million of foreign exchange headwinds. Approximately two-thirds of the foreign exchange impact is attributed to South America, with over half of that amount from Southern Cone. The remaining reduction in net sales is largely due to lower pricing from passing along lower corn costs relative to last year.

As we look more closely by region, you can see foreign exchange headwinds affected us across all four regions, however, most prominently in South America. Good volume growth in North America, Asia-Pacific and EMEA helped offset weaker volumes in South America, specifically Brazil and Argentina. Lower pricing was largely due to North America with a small portion coming from Asia-Pacific from passing through lower corn costs in both regions.

Price mix was favorable by 7% in South America, as we started to re-price to recover the currency devaluations. Adjusted operating income fell $6 million in the quarter with modest margin and compression in North America. In North America we typically don't talk about foreign exchange given the stability of the Canadian dollar and the fact the Mexico's functional currency is the US dollar. However, both the Canadian dollar and the Mexican peso rapidly devalued at the end of the year causing a squeeze on our margins as we experienced lower dollar-based co-product returns. In addition, the Canadian corn crop proved to be smaller than anticipated driving higher basis costs for our corn.

Outside North America foreign exchange headwinds in South America and Asia-Pacific along with pricing pressures were offset by good performance in EMEA. EMEA's results includes a small benefit from a land sale, and even without this transaction the region would have posted a record operating income.

We'll wrap up the quarter with the earnings per share. On the left side of the page you can see the reconciliation from reported to adjusted. As mentioned earlier, our impairment charges on the remaining Southern Cone goodwill and the acquisition costs are from the pending Penford transactions. On the right side, operationally we saw a hit of $0.08 per share driven by the items Ilene and I have been discussing, primarily foreign exchange headwinds and some margin compression partially offset by higher volumes. The non-operational benefits of $0.03 provided a partial offset to the negative $0.08 operational charge.

Our tax rate was higher primarily due to the rapid devaluation of the Mexican peso during the quarter. This increased the US dollar tax expense of our Mexican subsidiaries, which uses the US dollar as the functional currency. From Thanksgiving week to the end of the year the peso exchange climbed from $13.66 per US dollar to $14.75, a devaluation of 8%. We estimated this impact to be about $0.10 per share negatively. This was partially offset by other favorable items for a net impact of negative $0.06 per share.

Financing costs were favorable about $0.03, which also included about $0.02 favorable impact in foreign exchange related to Mexico. Therefore, the net impact of the rapid devaluation on the Mexican peso was about $0.08 below the line when considering both taxes and financing costs.

The accelerated share repurchase resulted in a $0.06 per share benefit, and this program will continue to favorably benefit earnings-per-share throughout 2015.

Let's now roll back to the summary chart for the full year. Net sales were down $660 million and gross profit was up about 1%. Adjusted operating income and adjusted earnings per share up modestly for the full year.

As mentioned for the quarter's results, reported operating income and reported earnings per share include a non-cash goodwill impairment charge of $33 million, or about $0.44 per share, and acquisition costs relating to the pending Penford acquisition of about $2 million or $0.02 per share. Breaking down the $660 million decline in net sales, we see that price mix was down from the pass-through of lower priced corn to our customers as expected. However, we can also see the significant negative impact from foreign exchange, which was partially offset by steady volume growth throughout the year.

Moving to the sales bridge for the regions, we can see foreign exchange impacted us in almost all the regions but primarily South America. In fact, over $200 million of the $253 million of negative foreign exchange came from South America, the vast majority of which was in Argentina and Brazil. Volumes were up in North America, Asia-Pacific and EMEA and were flat in South America.

Price mix was up in South America and EMEA but down in North America and Asia-Pacific, reflecting the pass-through of lower raw material costs.

Operating income in North America and South America is below last year . North America was weighed down by the first quarter's adverse weather and the fourth quarter's margin compression due to the higher net corn costs as discussed earlier. South America remains challenging, especially in Argentina and Brazil; however, we remain positive over the long term. Asia-Pacific and EMEA continued to be a bright spots. With strong presence in specialty products in both regions, we continue to feel confident about our prospects going forward.

Corporate expenses were favorable, primarily due to the classification of the tax indemnity in Germany we recorded in the third quarter, which is fully offset as an increase in our provision for taxes. For the year, adjusted earnings per share is up $0.15 with operations contributing $0.05 and non operational items having a $0.10 positive impact. Volume growth is the largest contributor to the operational gains, adding $0.30 of earnings per share, but this is offset by some margin compression and foreign exchange headwinds I discussed earlier.

Other income of $0.08 a share is primarily attributable to the classification of the tax indemnity in Germany we recorded in the third quarter, which is fully offset as an increase in our provision for taxes. There is no impact to earnings per share for the indemnity.

In the non-operational items, the $0.14 negative impact from taxes is primarily the result of the two unusual items, the rapid devaluation of the Mexican peso, which I mentioned previously, and the classification of the tax indemnity recorded in the third quarter. These two unusual items are offset slightly by smaller favorable items.

Financing costs were slightly favorable and non-controlling interests were slightly negative given the strong earnings in the majority-owned business in Pakistan. Earnings per share for the year benefited from lower shares outstanding and from the share repurchase made in 2013 as well as the accelerated share repurchases we made in 2014.

Turning to our guidance, I'd like to point out that it generally excludes the impact from the pending Penford transaction. We expect net sales and total volumes to be in line with 2014 while specialty volumes are expected to show continued growth. Earnings per share are expected to be the range of $5.40 to $5.90.

As we expect the Penford transaction to close in the first quarter, we are adjusting our expected accretion to $0.08 to $0.12 in calendar 2015, reflecting the timing of the close, with no changes to underlying earnings or synergy assumptions.

As more than two-thirds of our sales were outside the US, we expect foreign exchange headwinds around the world to continue as a result of the strengthening US dollar. Therefore, we have factored in a negative $0.25 to $0.30 per share impact on our guidance, which we expect to be partially

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offset by incremental pricing. As we explained in our business model, these pricing actions typically take three months to six months for full effect. We anticipate our operating income to be up mid- to high-single digits.

Corporate expenses will be up year over year to a more normalized level . Recall that the 2014 corporate expenses are lower than normal due to the classification of the German indemnity and other small items. We expect financing costs to be up slightly as we refinance a portion of our debt coming due later in the year. The effect effective annual tax rate is expected to be in the range of 29% to 30%. As you recall, our 2014 adjusted tax rate was 28.3%. Finally, the ASR we completed in 2014 will continue to benefit us in 2015.

In North America we expect volume and sales to be in line with 2014. Our contracting with customers is generally complete and has been factored into our guidance. We expect operating income to increase in North America to a low-double digits as we lap the adverse weather effect in the first quarter of last year from improved product mix and margins.

South America sales are expected to be in line with the prior-year. We anticipate slow economic growth and foreign exchange headwinds to continue in the region. In Argentina, the situation remains challenging and uncertain and our outlook is for operating income to be flat relative to 2014.

In other countries, such as Brazil and Columbia, we continue to actively manage our costs and drive efficiencies that will offset inflationary pressures. Overall, we expect modest operating income growth in South America primarily as a result of good cost management.

Asia-Pacific should continue to deliver operating income growth. The business will be negatively impacted by currency headwinds associated with the strengthening US dollar, but we expect to overcome these headwinds with good cost management and product mix enhancements from continued growth in our specialty portfolio.

We expect our EMEA region to continue top- and bottom-line growth after our record 2014 performance. The underlying European business is anticipated to continue to grow fueled by our specialty ingredients portfolio and our investments in the region. Pakistan is expected to continue its effective cost management and core product growth, which will contribute to EMEA's overall performance improvement in 2015.

Moving on to our cash flow, our cash flow provided by operations was strong at $731 million, which is about $100 million more than last year, primarily a result of lower working capital use versus last year. We continue to put our cash to work in the form of capital expenditures, dividend payments, and share repurchases. This speaks to a very healthy business that has the ability to both reinvest and return capital to shareholders, which we'll continue to do.

Looking to 2015, we expect cash from operations of $650 million to $750 million (Sic-see presentation slide-21 $700m) This is slightly down from last year as working capital normalizes after a year-over-year benefit in 2014 from significantly lower corn costs versus 2013, which impacts our inventories, payables and receivables.

Importantly, we'll continue to deploy our cash for capital expenditures, remain active in looking for M&A and continue to return cash in shareholder friendly ways including our share repurchase program. We expect to spend around $300 million in capital expenditures in 2015 for growth as well as cost and process improvements around the world.

We remain interested buyers for potential M&A. We look for complementary businesses that add long-term value to our portfolio. But I will stress, as we always have, we will be disciplined buyers. We will look for the right strategic fit at an appropriate price.

As Ilene mentioned, our Board authorized a 5 million share repurchase program in late 2014. We generally expect a buyback dilution going forward, but we have the flexibility to buyback additional shares giving us the ability to deploy our cash in shareholder friendly ways.

That brings my section of the presentation to a close, so now I will turn the time back over to Ilene.

Ilene Gordon - *Ingredion Inc - Chairman & CEO*

Thanks, Jack. As we've said a few times this morning, our business model, which is reflected in the strategic blueprint, is working. In spite of economic challenges and slowing economies our underlying business is doing well. Our balanced geographic footprint, broad product portfolio and focus on higher value specialty products are expected to drive growth and minimize risk.

North America is well positioned to return to growth. South America continues to manage through his challenges. Asia-Pacific and EMEA are projecting modest growth in the face of currency headwinds from a strengthening US dollar. We continue to demonstrate a track record of good stewardship of shareholder capital.

As I mentioned earlier on the call, we are excited about the Penford announcement. This expands our higher value specialty portfolio addressing growing consumer trends, including nutrition, gluten free, food textures and sustainable green solutions. Excluding one-time costs, we expect this to be $0.08 to $0.12 accretive to earnings during 2015. In 2016 and beyond, we expect earnings accretion to be even greater.

This coupled with attractive dividends and significant share repurchases demonstrates our ongoing commitment shareholders. As Jack said, with the benefit of our strong balance sheet, we continue to explore other M&A opportunities that will accelerate our growth. We continue to look for ways we can broaden our portfolio as well as expand geographically.

Taken together we are confident that we will continue to deliver excellent shareholder value.

Now we're glad to take your questions.

QUESTIONS AND ANSWERS

Operator

Thank you.

(Operator Instructions)

Brett Hundley, BB&T Capital Markets.

Brett Hundley - *BB&T Capital Markets - Analyst*

I have three questions. My first one is regarding your Mexican business. Specialty continues to perform really well there and that's clearly a focus for you. I'm curious, Ilene, if you can give some color on your view specific to the Mexican business as to how you see that performing overall over the interim, just given the specialty strength and maybe some of that lingering pressure on the core?

Ilene Gordon - *Ingredion Inc - Chairman & CEO*

Okay. It's interesting, Mexico as you've seen the forecast, the GDP there, actually right now, according to the IMF is 3.2%, so overall the Mexican economy is looking pretty good. Now, as we've talked about before, our core business continues to be able to serve the sweetener market, as well as some of the brewery market and some of the other base business.

And our specialty growth is very much focused on this focus on obesity taxes that we expect to continue, and we've had a lot of success there. What we've done is we've taken recipes and formulations from other regions and brought them into Mexico and Mexicanized them. This is not only for the Mexican taste, but we actually have been able to show our customers how we can take cost out of their formula. We call it, save money or value matters.

In fact, in things like spreads, low-fat spreads, we can use our modified starches to reduce vegetable oil and reduce some of the costs in those formulations. It's not just lower calories, but it's lower formulations that have been very exciting.

I'll turn it over to Jack to see if he has any other view on the Mexican market, but in general we think between the GDP and the way contracting went and our growth in specialty, we are excited about our position in the Mexico market.

Jack Fortnum - *Ingredion Inc - CFO*

Ilene, I think the only thing I have to add really is, is in terms of the core it's fairly stable down there. We see the growth in the brewery sector continuing and been fairly stable, and even with the lower corn prices, we're fairly competitive with sugar in general, so I think that the market is a very positive market for us. I've always been impressed by our operations down in Mexico, and we have three very efficient facilities down there.

Brett Hundley - *BB&T Capital Markets - Analyst*

That's helpful. I appreciate it.

My second question is, you have alluded to North American contracting here and there. As we understand it, pricing across sweeteners looks to be pretty favorably contracted across North America. I'm wondering if you can give us a picture globally into your modified starch business? Just talk maybe qualitatively about what pricing trends look like there in 2015? I think some of us struggle to understand the margin dynamics there, how they flow year to year, and I think it might just be helpful to understand qualitatively how pricing went cross modified starches?

Ilene Gordon - *Ingredion Inc - Chairman & CEO*

Okay. This is Ilene. I'll start out and then Jack will add some comments.

If you take a region like Europe, which we've talked a lot about, where we are very much focused on a specialty ingredient market, our specialty modified starches have continued to perform very well in Europe. A lot of that is due to capacity that we've added for some of our strong products that are physically modified with heat, rather than enzymes and are particularly attractive to the trends in Europe in terms of clean label.

So we been able to demonstrate success with modified starches in Europe. Asia would be another example, take a place like China where I talked about that our business there is largely specialty food with modified starches, and again we've been able to grow our position there and deliver value to customers.

South America is an early modified starch market. We do have capacity in several plants and have been the leader there. Again, I think I said on the last quarter call, that it's interesting to see how the dairy segment in particular had started to grow in South America with the demand for healthy products, dairy and our modified starches have done well in delivering value there to customers and for our shareholders.

Then you come back to North America, and again when you look at the three different countries and our modified starch capabilities in a number of different places, again we're delivering value and able to grow. It's interesting, the modified starch business in North America is in a more contractor-type environment whereas the other markets are much more spot market. So, it moves very similar in terms of the flow of the year with the North America contracting of the core products.

Again the raw materials are a lower percent of the total costs. We talk about our specialty margins being 2x the core, and so we've been able to create value for customers and that has manifested itself in appropriate pricing.

Jack, I'm not sure what you'd add?

Jack Fortnum - *Ingredion Inc - CFO*

Brad, I think just in terms of even modeling and things, if you think about how we sell our modified starches, it's principally a value pricing where it's, what value are we bringing to our customers? Which then is not as much correlation to the raw material input.

As Ilene mentioned, they have significantly higher margins. Those margins will move a little bit with the raw material input, but fundamentally it's based on the value we bring to our customers. Versus on the core business, it's more correlated to a cost-plus type of marketplace. I think that may help you in terms of how you're looking at it.

Brett Hundley - *BB&T Capital Markets - Analyst*

Yes, exactly. Thank you. Quickly, my last question, I just wanted to go back into South America, and I'm just curious what you're seeing from a new plant build competitive stance in South America? You guys have long been the leader in the majority or all of those markets, and you talked about your desire to take pricing to recover some of these currency headwinds. I'm wondering if you could give us an update on what you're seeing from a competitive standpoint there and what you think gives you competitive advantages longer term?

Thank you.

Ilene Gordon - *Ingredion Inc - Chairman & CEO*

I'll start out and see if Jack wants to add anything.

If you look at Brazil, as you've probably seen in the press, one of our competitors there, Cargill, has opened up a second plant and obviously has a portfolio of different customers there. You know that we have six facilities there in South America with different product portfolio, and so we've been a leader there for many years. Of course, we talked about building capacity ahead of the growth in terms of being able to serve customers, and of course building these plans takes many years and so we've added capacity for the brewing industry and other food industries in the northeast, as an example, which has been growing and will continue to have some opportunities.

It's interesting because there's been a drought, as you've read about, in Brazil this year. It's certainly in the Sao Paulo state, which has been causing some issues to some of the manufacturers, but we've managed very well. In fact, in the northeast, where we added capacity recently, there hasn't been a drought. It's been a more normal summer. I think that in Brazil, it will continue to be a very good place to be operating with, again, the future growth and GDP looking over the five years.

In Argentina, we have two facilities there and there is competition. Occasionally, we do see some people adding capacity. Again as Jack said, it's a tough economic environment but we believe in it long term. And in Columbia, where we have a number of facilities, we haven't seen any local capacity being added. Of course, with the free trade agreement, there is always an opportunity for people to ship in from the outside.

Anything you'd add, Jack?

Jack Fortnum - *Ingredion Inc - CFO*

The only thing I would add, Brett, is, particularly on the core business, in which most of South America is, we continue to drive our costs for low delivered costs. We have a network of plants throughout the region, and we try to drive our low delivered cost throughout the region. That really gives us the ability to at least be the low cost producer in the marketplace, at least from our estimation.

We continue to look at our entire network of facilities to say how do we improve them? How do we drive the continuous improvements through them? And even how are we actually utilizing the network? Very similar to what we did in North America from a total network optimization perspective, to drive the low delivery cost thought process.

Brett Hundley - *BB&T Capital Markets - Analyst*

I appreciate it. Thank you.

Operator

Robert Moskow, Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

A couple things about looking at the first quarter. I was just wondering, Jack and Ilene, some of these issues like the co-product values related to currency, the price mix pressure in Asia-Pacific, I wanted to know to what extent is that just isolated to fourth-quarter or are you going to have to live with that into 2015?

Secondly, with the way I'm modeling the business, North America really has to carry the load for 2015. I imagine with the price increases that that will be -- it can happen. But North America really hasn't done that great for the last two years. The volume continues to be under pressure for macro issues. Is the volume getting better? Once you take all these price increases, do you still expect the volume to hold up?

Thanks.

Jack Fortnum - *Ingredion Inc - CFO*

Let me start.

Let me talk first about co-products in corn for just a moment. We mentioned that with the sudden devaluation near the end of the quarter, particularly in Mexico, we couldn't adjust our prices. Our prices stay in the market there for a few weeks, actually, and it takes a little bit of time to adjust them upward to US dollar equivalencies.

So that problem is basically should be corrected now, really. It was really a late fourth-quarter issue, from my perspective, and where we've seen the collapse. I also mentioned the Canadian corn crop was an issue where we've seen some run-up in basis, as well as the quality of the corn.

Really, if you think about North American total, there is abundant corn this year, and so we can source corn from other locations. I think it was just the timing of it. We didn't realize the quality of the crop wasn't as good, and we had to source it from further away so it added to our cost as well.

From a North America, I'd say from a co-product perspective and a corn perspective it's primarily a fourth-quarter issue. Obviously, these are competitive products. It depends on how the market moves plus and minus, but I expect with the abundance of corn, corn to be relatively stable in the current year. I don't see many major issues there.

You had also you also asked about APAC and EMEA, and it's reflected in our guidance accordingly, is some of the strong US dollars and how we can get our prices up in those regions. One of the things that we look at and it's factored into the guidance, and that's why the guidance might be a little bit lower than some people's expectation, was is the fact that we are having some currency issues in APAC in terms of getting our prices up. That's largely because if you think about the dollar strengthening and impacted all currencies including Europe, so if we're seeing competition it's probably coming out of the European market versus a local market at this point in time. It's probably a little bit more challenging and may take us a little bit longer to get our prices up in those regions.

I think that those things have all been factored into our goals, but as you know, EMEA and APAC both have specialty products and they sell more for functionality, as well. I'm going to pass it over to Ilene to see if she has anything to add.

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Ilene Gordon - *Ingredion Inc - Chairman & CEO*

Well, on that North America question, Robert, I think that we feel good about North America and our prospects for 2015 and beyond. I think you've got to remember when you talk about the last year, we're starting to lap the bad weather from last year. So we articulated specifically that impact it had on our business. Obviously, that one will be a positive.

More importantly to the long-term outlook is growing our specialty business. Again, I talked a little earlier about Mexico and the GDP growth and the desire for healthy eating, but even in US, Canada, when you look at the food companies, while there is some challenges there, they continue to want to develop new products and the consumers really want food that is healthy, low in calories, has good nutritional value. We're the go-to texture guys to help them formulate, so we're working with all the major companies.

With the GDP growth for the US forecast to be 3.6% for 2015 and lower gasoline prices, consumers are going to have more disposable income and they like to eat. They have to eat. They like to good restaurants. All of that bodes very well for our ability to grow with the demands for food products.

Robert Moskow - *Credit Suisse - Analyst*

Thank you.

Operator

Ken Zaslow, Bank of Montreal.

Ken Zaslow - *BMO Capital Markets - Analyst*

Couple questions. One is on a philosophical question, over the last several years Ingredion's done -- made a concerted effort to increase ingredient products and reduce the volatility. Then this North America number comes out, which again I don't think anybody expected that.

So philosophically, it seems like all the work you've been doing is like look, you should be taking down this volatility but yet the volatility seems very high, particularly in the business that should not be as high. Can you just talk to that? That just seems, again, a stark contrast to what your strategy has been for the last several years.

Ilene Gordon - *Ingredion Inc - Chairman & CEO*

What I would say, Ken -- it's a good question. We're in the middle of the story, which is what we said at our analyst day in November. In that as we reposition the Company, first, we had the National Starch acquisition which brought on specialty products. We're in the middle of getting ready to close on the Penford acquisition. We're using our strong balance sheet to focus on specialty products with modified starches and other nutritional-focused products.

As we reposition the Company, we said that actually we were 24% in revenues for specialty products for 2014 and our five-year outlook was to grow that to 28%. We're making progress, but we're still in the middle of the story.

Clearly, our strategy and our blueprint is moving in the right direction, but our intent is, as we've said, is to use our strong balance sheet and look at other M&A opportunities to broaden the portfolio and build on the specialty products so we're more important to our customers, and at the same time, use our excellent R&D and product development capabilities in our idea centers around the world to work with customers to build our specialty business organically. Those two together, organically and using balance sheet to grow M&A, should portend well for growing in our specialty and smoothing out some of that volatility.

Jack, you had something to that?

Jack Fortnum - *Ingredion Inc - CFO*

Ken, I agree with you to a large extent. I think we've made significant strides in terms of keeping our core relatively stable as well. It wasn't what I'll call a noisy quarter.

You might highlight North America where we've seen corn prices going up, problems with our co-products and a lot of this happened very late in the year. Some of it was some of it was exchange-related. Some of it was actually just even the crop-related that what surprised us a little bit. That's unusual.

We're fairly comfortable that we've got a good business model. We utilize grain related pricing on half our contracts and fixed pricing on the other contracts to try to stabilize the risk associated with our Business. I do think we've made some good, I'll say, movements in terms of the keeping our quarters stable and thing. I think that this was a fairly noisy quarter. That's all I would say, where a lot of the different things happened simultaneously that negatively impacted the Business.

Ken Zaslow - *BMO Capital Markets - Analyst*

It looks more like to me -- everything else seemed reasonably within range. North America just seemed completely out of whack. If I continue just on one more -- if you do not have the steep devaluation in the last couple weeks of the quarter, where do you think that penalized you?

Jack Fortnum - *Ingredion Inc - CFO*

If I look at Mexico itself, and I'll start below the line first, because that one is very evident to us, is because we have the US dollar monetary assets in Mexico and for tax purposes they're considered actually a gain in pesos, and that actually impacted us about $0.10 negatively. Then, we also got a benefit because now we had this incremental tax payable, so it was positive $0.02, so net-net it was about $0.08 hit there.

It's much more challenging to understand the impact of the devaluation pertaining to both the co-products and things because it's really just chasing the market a little bit and you don't know how much is the market and how much is the exchange in those marketplaces. So there, I would say that it's at least another $0.05 type of range just in Mexico itself. I would put it into that framework that those last few weeks probably caused us about $0.13 just for Mexico itself.

Ilene, we've talked about the issues. Do you have anything to add to that?

Ilene Gordon - *Ingredion Inc - Chairman & CEO*

I would say that on the other part of the exchange noise that we talked about in the script was the Canadian exchange that sometimes we take for granted, and that was an unusual movement at the very end of the year. That pricing of co-products had a squeeze there, and so we said that was a couple of cents. Then of course, we talked about the exchange in Asia also.

At the end of the year, we had to deal with that. But you're right, Jack, the Mexico was the biggest impact.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. I won't belabor this one more point, if I take out the adjustment for the weather, adjust for the fourth quarter, you probably had at least $40 million of lost profits throughout the year just on that, but yet you're only calling for double-digit growth in 2015 even though you have really strong pricing. So if this was truly one-time in nature, I feel like the guidance on the North American business, again, seems light and I feel like I'm missing something more than what you're saying. Again I'm not trying to be difficult it just seems --

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Jack Fortnum - *Ingredion Inc - CFO*

If I could just add a couple comments on that, one of the things that -- we talked about the $20 million in terms of the cold, during the remaining portion of the year, we did a lot in terms of our controllable costs within North America, as well. Our plants ran very efficiently and effectively causing us to be able to satisfy the volume needs as well, so we were able to offset some of those numbers in the year as well.

I don't think that -- I think at the prior year we said that we would come back from the drought with some incremental dollars, but our teams do an excellent job in terms of actually trying to minimize some of the impacts throughout the year. They do offset some of those costs, so it's not totally additive in nature.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. I appreciate it. Thank you.

Operator

David Driscoll, Citi.

David Driscoll - *Citi Research - Analyst*

Just a quick statement.

Ilene, maybe this is a little tough love here, because it's a great Company, but you said a number of times that the business model's working. EPS was down 10% in 2013 and it grew just 3% in 2014 on what should have been an, quote-unquote, an easy comp. I think when you make this kind of statement, that your business model's working, it's considered to work if you're growing 10% to 12% per your outline, but I certainly recognize the five-year track record is better, but you just feel a bit more optimistic than I think what the actual results are.

So two quick questions. I'd just follow up on this fourth-quarter issue. The $0.20 miss was pretty big. That was a large number to us. There was two months to play from the time of your last call, Nov and December. It sounds to me, Jack, it's $0.10 from Mexico, Asia contributes a few cents and then other miscellaneous. Is that the $0.20 reconciliation relative to where consensus was?

Jack Fortnum - *Ingredion Inc - CFO*

I would say that there's probably a little bit more on the exchange in South America as well, David, from what we expected.

David Driscoll - *Citi Research - Analyst*

Okay. Big picture, is 2015. This range is enormous. It's enormous. Ken, just gave this very optimistic view that everything you've given his low, but your initial guidance this year was $5.35 to $5.70. You come in at $5.20, so I get the optimistic side of it, but obviously there's some factors out there that have been hard for you to call.

I really think it would be helpful to be people just to talk about what shows up in the numbers if you produce $5.40 in earnings? And what shows up in the numbers if you produce $5.90? Again, an enormously wide range. It's what, 4% or 3% to 13% growth or 14% growth? The range here is quite huge, and I think in any of us trying to explain this to investors in the coming months, we really need to hear the details as to what drives low and high end.

Ilene Gordon - *Ingredion Inc - Chairman & CEO*

David, I'll start out, and I appreciate your comment. When I talk about the business model working, I've talked a lot about our global footprint and being a strength. And being in a lot of different economies and being in 40 different countries, has been a positive, when you look over five years, to be able to take advantage of the different global trends, with the rise of the middle class, the focus on consumers wanting healthy food, lower calories.

So, it's a positive, but of course you have to take the headwinds in a company like ours, when you have this foreign exchange at the very end of the year that really goes against us in most economies. Our job is to really deal with that and build shareholder value over the long term. That's why I feel that our Company and our people are focused on the right things in terms of growing with the right formulations in R&D and product development, not just waiting for M&A to happen, so that we can serve these consumers and our food companies over the next five years. So that's what our job is.

In the meantime when there are headwinds you got focus on continuous improvement. We have a very good Six Sigma process that we're implementing, especially in South America when you have this lull in the GDP. That's when I say our business model is working, that we got to contend with that over the long term.

Now, in terms of the range, and then I'll turn it over to Jack. It's interesting because while there may be 4% above and below and he'll talk about what could drive that, the reality is that it's a lower number than when we were giving our ranges back in a much lower EPS world. There is some volatility, and we don't like to miss our numbers. We like to deliver on our commitments. We feel that, from a shareholder value point of view and return on capital employed, we're delivering on our commitments But clearly we didn't in terms of the guidance.

Jack, why don't you explain the different parts of the range.

Jack Fortnum - *Ingredion Inc - CFO*

Let me first of all start with the higher end of the range, because I think that that is the one that I would like to focus on first. Maybe you might say it's optimistic, David, but I will tell you that if you look at the higher end of the range, that's really driven by the fact that as we have some of these devaluations, how hard will it be to get pricing in these markets when the economies are operating at relatively slow levels? Usually it's at 3 to 6 months. We've seen Argentina get stabilized, but we haven't seen the same recovery rates as we anticipated. It's been elongated out there.

Will there be something that we can really start to drive some of these price increases to offset the exchange? This is happening in both -- EMEA's very challenging from that perspective. It's principally a specialty market and so therefore your selling in euros. Therefore, it's much more challenging to get the exchange out. Can we still get pricing through there?

APAC is basically the same. Will we get the pricing out of our APAC region to offset from some of the exchange differences? If we do, then we're going to hit the top of the range. Included with that if some of these economies start to pick up, we'll start to see volume growth, as well, in these regions.

The other piece is, Ilene's commented on it quite a bit in terms of what's hitting on the top end of the range, can we really execute on our continuous improvement programs, particularly in South America? Where we've changed from a growth environment to a low delivered cost type of environment, and we're really driving our efficiencies there. What we have to do to get our network actually optimized there and how quickly can we do that?

Those actions that we have laid out in South America, in terms of costs, are a major driver to get to the top part of our range. Those are within our control, and so you would think that that should be there, but some of them take time to actually execute upon because it's a configuration of some of the facilities.

Then in the lower end, if we can't get the pricing through and the volume softens because of the challenges in some of these economies, or we do see -- our forecast right now is a relatively stable Southern Cone. I say stable I mean stable in terms of earnings. If we see major slow down or a crash in Argentina, that would take away some of that volume, we'd hit the bottom end of our ranges.

I think if you look at some of the questions around North America, obviously, there's still some -- we haven't come --100% completed all the contracting. It's 99% there type of thing for our volumes, but there's always some pluses and minuses on the volumes there as well. We just want to make sure that we're comfortable with those volumes as we go through the rest of the year and get a quarter behind us to say, where did actual contracting come in?

David Driscoll - *Citi Research - Analyst*

Jack, at current exchange rates can you put a figure on this pricing number? Sometimes I don't even think that the rest of us on the outside know what you're talking about. Are you talking that you need 5 points of pricing in 2015 in order to recover 10 points of pricing? What's victory to get to that $5.90?

Jack Fortnum - *Ingredion Inc - CFO*

I think it's different in all markets. I don't know whether I'd want to put very specific points, because it's different in some place like Korea versus Thailand versus Argentina. I don't know that I'd want to quantify it that way.

David Driscoll - *Citi Research - Analyst*

That's what you get paid the big bucks. Definitely any guidance, if you can't do it this time, next time I tell you it's greatly appreciated because it's a hard thing. Certainly, we are dealing with these currencies that are going haywire and trying to think about how much pricing you need to both catch up from last year's issues and the forward year issues, it's hard. I get why the range is wide, but putting some points on what it takes to get there, I think is very helpful for the Street itself. But I'll leave it right there. Thank you.

Operator

Farha Aslam, Stephens.

Farha Aslam - *Stephens Inc. - Analyst*

Discussion about North America, and in particular your guidance, is it really just the recovery of what you think the first quarter loss is due to the weather? Could you quantify that, roughly, that what we should add back into numbers?

Jack Fortnum - *Ingredion Inc - CFO*

Farha, we disclosed that the cost was around $20 million. As I indicated, that some of those costs were made up during the course of the year. It would be something less than the $20 million, but that's a good number in terms of the cost that the cold actually impacted us.

Farha Aslam - *Stephens Inc. - Analyst*

Great. Then, in terms of contracting, how did the contracting season go? We're all talking that went well, but did you feel that it went well?

About what portion of your volumes in North America are really solid and contracted? What portion can be impacted if all the ethanol crush plants swing out of ethanol, because that's barely breakeven, and swing that capacity into sweetener and starches products?

Jack Fortnum - *Ingredion Inc - CFO*

As you know, we contract from volumes as well as pricing at the beginning of the year. So if you're looking at the sweetener market, where most of that swing capacity would move to, that is virtually all contracted at this point in time. I think it met our expectations in terms of contracting. There's always some variability on the spot market, but we don't do very much spot market in the sweetener business.

In some of the other businesses more than some of the specialty businesses, there's always a little bit of business, some of it, as Ilene mentioned, is fairly much contracted during the contracting season. There's always a lot that goes through distributors and things like that that is more of a spot type of business because they're going into smaller manufacturers as well. That would represent probably 20% of our specialty business in that category, so there's always some spot business but in general.

Then in Mexico, we always have 10% to 20% of our business, which is spot business in North America, just by the nature of not everybody contracts in Mexico.

Ilene Gordon - *Ingredion Inc - Chairman & CEO*

The other thing I would say is, we've talked about capacity utilization in the industry. I think last year it was something like 86%. Then, with some of the actions that we've seen, in terms of that being tightened up, was very positive. The special utilization is expected to be in the high 80%s during the year.

In terms of ethanol, we haven't been in that business, and the piece that will come with Penford is a very small cost optimization model. In terms of people switching over, as Jack said, the contracting has been pretty much done for the year and did go well given those dynamics that I just talked about. We don't see a lot switching over in the short term.

Farha Aslam - *Stephens Inc. - Analyst*

Thank you very much.

Operator

Akshay Jagdale, KeyBanc.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Continuing on North America, can you give us a sense of what you're net corn costs are likely to be? Just looking at the future strip, it looks like flat to slightly up when I take into account current coal products. Can you give us directionally a sense of what your net corn costs might be this year?

Jack Fortnum - *Ingredion Inc - CFO*

Akshay, we don't really even disclose our net corn costs anywhere. I think you can look at the strip like we can and say, okay, where is the market right now? As you can see, it was interesting in the fourth quarter how we've seen the increase in corn costs after what was a phenomenal harvest, really, and so the class did go up kind of thing, here's the true value of corn. I guess is the only way I can interpret that.

It partially depends on when you're buying the corn, how you're laying out your co-products and where your facilities are located a little bit. I don't think we really ever give those type of numbers.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

You report gross corn costs percentage change in your filings. I'm just directionally trying to get a sense, is -- 2015 it seems like it's going to be relatively stable from a cost perspective on corn, correct?

Jack Fortnum - *Ingredion Inc - CFO*

I would agree with that. I would say that if you think about there's abundant corn in the marketplace, so the supply-demand balance is nothing that's going to be driving any unusual anomalies that we can foresee today. Now, the one thing having been in this business for a long time, I also have to highlight that there's always a few little nuances that happen in the course of any year that could even drive it that we didn't expect. But at this point in time, I don't see anything that's going to make it volatile.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

The next part is on the other side of the equation on North America. I'm still trying to understand how I come to your net sales guidance for North America being flat? We're seeing, we're hearing pricing up double digits on these contracts and volume trends, despite what you're seeing in Mexico in 2014, were positive.

I know you're probably thinking of some elasticity as you take prices up, but how do we get to flat net sales growth in North America? Even if I assume a 4% FX headwind, with pricing expected to be up significantly, I'm not sure how we should be thinking about flat sales growth?

Jack Fortnum - *Ingredion Inc - CFO*

When you say pricing up significantly, the corn numbers as you indicated are relatively flat year over year. And when we are talking about margins, it's a small percentage of the actual numbers, and so I'm not too sure that I follow your thought process, that pricing should be up significantly from that perspective. I guess as we've gone through contracting, it varies directly with the corn prices, but I'm not too sure why you would see them be such a large increase in the price as a percentage of the total.

Ilene Gordon - *Ingredion Inc - Chairman & CEO*

I think if you focus on the operating income, which is really what we do in terms of the profit. How do we drive profit improvement? In terms of contracting, went well. We're looking at a better mix in terms of specialty products, delivering that higher-margin product, and then lapping the cold weather. I think that that's how we're looking at improving the business, and then getting the benefit of some of our cost reduction investments even in North America.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

I was just trying to get granular. But the bottom line is, in terms of the EBIT growth estimate that you have out there for North America guidance, it's obviously double digits coming from a year that you had. Still pretty good, but why shouldn't -- is there a possibility that it could be better? I'm just looking at the overall industry.

I don't know when the last time you had close to 90% utilization levels, but I would say 2012 would be the most comparable year. In that year, your EBIT was up 20% plus. Is there a possibility that North America could be better than what you're projecting?

Jack Fortnum - *Ingredion Inc - CFO*

I think what we try to do with our guidance is put it right down the center as best as we can in terms of the pluses and minuses that we see. North America, obviously, could be up, if everything breaks well for them, but on the other side there could be also some headwinds that are there as well. I think that we're in a pretty good spot with respect to guidance from that vantage point. Obviously if there's positives, it would be still in that upper end of the guidance range, I would say.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Okay. Just one last one on the South America, lots going on. There's a lot of moving parts. Where did we end up in terms of the EBIT in the Southern Cone? Because I think you had given some guidance on that early in 2014. More importantly, you took an impairment charge, but what's your latest view on normalized EBIT in that region? Thank you.

Jack Fortnum - *Ingredion Inc - CFO*

Let me give you a little bit of how we ended the year, because in the past I've commented very specifically on the Southern Cone. We said that we would be in that $27 million, $28 million, $29 million range, and that's exactly where we came in for the year. That was one of the areas that actually hit very close to where we anticipated them to.

If you looked at going into next year, one of the issues we are seeing is, is some of the same issues are still persisting, particularly within Argentina, which really drives the Southern Cone results. We are forecasting a relatively flat type of number because we're not anticipating a significant devaluation or anything until after the elections in the fall where it could impact 2016 more.

I guess what we're looking at for the Southern Cone, even, we still expect it to come back over a course of a number of years, but one of the reasons we took the impairment is, is the fact that we're seeing that the business, while it's still profitable and a good business, the recovery up to that $60 million to $70 million that we've talked to in the past has been elongated out there for probably until past 2016.

When we're discounting it back at a very high discount rate, it really didn't justify keeping the goodwill on our books. We still think that Argentina, from a fundamentals perspective, it has low corn costs. We have two good facilities there. I would say that in the longer term we're still very bullish on it.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Great. I'll pass it on. Thank you.

Operator

Adam Samuelson, Goldman Sachs.

Adam Samuelson - *Goldman Sachs - Analyst*

A longer term question, and just goes back to the analyst meeting in November, where you laid out the medium-term growth, or the new growth path tend to the low double-digit EPS growth. Most of your guidance range for this year, really does A, you fell and came in below the range for 2014, but the 2015 guidance most of the range would fall below that growth path.

Is it really just the incremental FX pressures? Or how has your, if it all, your long-term thinking changed relative to November that would get most of your plan below the trajectory you thought you were going to be a few months ago?

Ilene Gordon - *Ingredion Inc - Chairman & CEO*

Yes, Adam. We have not changed our long-term outlook. We feel that it's very -- the algorithm is exactly what we said in November, in that looking long term, we see the ability to grow in our specialty products driven by the rise of middle-class and other consumer trends for healthy eating.

We think we should be up to drive two-thirds of the low-double digit EPS growth from our organic capabilities around the world, and that the other one-third would come from using our balance sheet, including M&A. That pipeline remains very robust. These bolt-ons that I've talked about before, we continue to work those. Just because we announced Penford and we're working on that process, we continue to work that equation.

Again, having generated $731 million in cash flow, having a great balance sheet, we continue to look at this M&A around the world in places that can add value and broaden our portfolio and geographic expansion. We believe in that algorithm that we laid out in November.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay. I just comment that it's difficult to reconcile that with the reported results. Really the reported results last two years where you fell below the guide path that you'd laid out a couple years ago and now already trailing what was the expected path that you laid out three months ago, so I presume there's an expectation for an acceleration at some point to get back there. I'm still struggling to see how we get there.

Just a couple of quick cleanups. How much did the EPS in the fourth quarter and the full year benefit, presumably, from lower incentive compensation accruals, if you missed your initial 2014 targets?

Then the reduction in the accretion expectation for Penford: is that really just a function of timing, it's closing later than you thought? Or is there lower contribution from ethanol, which I presume the margins in 2015 will be lower than what Penford has actually will realized in the LTM that you saw in September?

Ilene Gordon - *Ingredion Inc - Chairman & CEO*

I'll start and then I'll turn it to Jack.

On the Penford, when we modeled the accretion, we hadn't given a huge margin to the ethanol knowing that once we get into we're going to try to figure out how to optimize that. We have not changed the Penford equation at all. We haven't closed, so we have no new information and the change that we put in was purely the timing.

We expect to close in the first quarter, and we had the shareholder vote that they approved and we're working through the regulatory. That purely was just the arithmetic on the timing. And I'll let Jack address the incentive that we obviously lowered.

Jack Fortnum - *Ingredion Inc - CFO*

Just to reiterate, we're still looking at $20 million of synergies out of the Penford acquisition and that ends really half a year's synergies that we're looking for and then prorated it over the 12-month period to close. It's more or less in line with what we're seeing.

In terms of compensation, I think it depends on how you're looking at it. If you're looking at year over year, our compensation has been reduced in two years, primarily, because last year we didn't hit our targets and this year we didn't hit our target, as you pointed out, and so effectively you're not seeing a big swing in our competition numbers year over year.

Obviously, as we look at our guidance we are anticipating hitting all our targets. That's one of the reasons why we're say there will be some increase in our operating expenses as we move forward because of the fact that the variable compensation will kick in and will be paid accordingly.

Adam Samuelson - *Goldman Sachs - Analyst*

Any way to quantify that? What's the incremental in the guidance?

Jack Fortnum - *Ingredion Inc - CFO*

No. We don't really break that out.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay. All right. Thank you very much.

Ilene Gordon - *Ingredion Inc - Chairman & CEO*

Before we sign off, I just want to reiterate our confidence in our long-term outlook and the long-term view of our business. We remain keenly focused on shareholder value creation and are committed to deliver shareholder value. That brings our fourth-quarter 2014 earnings call to a close. Thanks again for your time today.

Operator

Thank you, ladies and gentlemen, that does conclude our conference for today. Thank you for your participation and for using AT&T Executive Teleconference. You may now disconnect.
