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INGR - Q2 2014 Ingredion Incorporated Earnings Conference Call

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OVERVIEW:

INGR reported 2Q14 YoverY sales decline of $150m. Expects 2014 EPS to be $5.40-5.70.

CORPORATE PARTICIPANTS

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Brett Hundley *BB&T Capital Markets - Analyst*

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Ingredion second-quarter 2014 earnings conference call. (Operator Instructions). As a reminder, this conference is being recorded.

I would now like to turn the conference over to our host, Aaron Hoffman, Vice President of Investor Relations and Corporate Communications. Please go ahead, sir.

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

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

Our results were issued this morning in 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 discussed during today's conference call or in this morning's press release can be found in the Company's most recently filed annual report on Form 10-K and subsequent reports on Form 8-K.

And now I am pleased to turn the time over to Ilene.

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

Thanks, Aaron, and let me add my welcome to everyone joining us today. We appreciate your time and interest.

We feel good about having delivered a strong quarter that reflects the positive overall momentum we see in our business. After the severe weather challenges of the first quarter, we are back on a more normalized pace.

The results were good almost across the board. Volumes rose in each region during the quarter and for the first half, for that matter, reflecting good organic growth and strong product offerings. This growth translated into a 16% increase in operating income. North America, Asia-Pacific, and EMEA delivered strong growth that was slightly offset by a small decline in South America. As you'll see in a minute, the source of the decline was Argentina.

Earnings per share also rebounded nicely and were up 13%, driven by the strong operating income growth and the impact of last year's share repurchases, but offset by a higher tax rate compared to the year-ago quarter.

And our cash from operations more than doubled compared to the first six months of last year. This keeps us in a good position to continue to deploy capital in shareholder-friendly ways. To that end, today we have entered into an accelerated share repurchase program. We will retire $300 million worth of shares or up to 4 million shares, whichever comes first.

Combined with the repurchases made last year, we will have bought back more than $500 million of stock in a roughly 12-month period. At the same time, we have increased our dividend meaningfully. We have been quite clear that our preference is to deploy capital on value-creating acquisitions, if possible. We continue to pursue strategic opportunities even as we return substantial capital to our shareholders.

We come to the midpoint of our year in a good place, with operations delivering strong growth, while we made prudent moves with our cash and still maintain our optionality for future actions.

Finally, you will note that we are narrowing our guidance range slightly. This allows for the possibility of volatility in Argentina on the downside and potentially continued volume growth, particularly for our specialty products, on the upside. The midpoint remains unchanged.

Let's spend a minute on each region. In North America, volumes rose 3%, driven by the US and Canada, which more than offset modest declines in Mexico. While our Mexican beverage business was negatively impacted by the tax on sweetened beverages, our specialty business grew double digits for the second quarter in a row. Operating income was up 6%. With good spreads or dollar margins, if you will, in the US and Canada and improved mix and cost management in Mexico, we delivered a very solid quarter.

Let me spend a moment on our position in Mexico, which is our second largest market in the world, behind the US. We remain very bullish on our opportunities there. We have an advantaged position with three in-country facilities and a highly effective distribution network. We also continue to believe that we are uniquely positioned for a meaningful opportunity to support our customers.

Our customers are making significant investments there. We're also able to help them navigate the impact of the beverage and obesity taxes, which has helped drive specialty volumes. Combine these factors with the robust, long-term outlook for economic development and you can understand our enthusiasm.

Turning to South America, while volumes rose across the region, operating income declined 5%, or about $1 million, as growth in Brazil and Colombia was offset by a decline in Argentina. While we have seen Brazilian brewing volumes roar back with the World Cup, with the weakened economy, food and industrial volumes have been under pressure. As a result, we have tempered our outlook for Brazil and thus South America. Jack will talk more about this in our guidance.

Colombia continues to deliver solid results, particularly in the personal care, food, industrial, and confection industries.

Throughout the year, we have discussed the likelihood of Argentina being weak in the second quarter, as we faced fairly strong comparisons to last year. As you remember, we saw our business there begin to decline over the course of the second quarter of 2013, leading to the higher comparison. We have now lapped all the difficult comps.

The story in Argentina remains much the same as we have discussed for the past year. Raw material, energy, and labor costs remain quite high, while we are limited in the pricing we can achieve.

Turning to Asia-Pacific, we saw volume increase across the region, with strong specialty results in Japan, China, and South Korea. Operating income increased in every major country.

Finishing up with EMEA, the story was also very strong there. Volumes and operating income increased in both Europe and Pakistan. Both markets benefited from strong marketplace demand that we were able to satisfy as a result of recent capacity additions. In particular, the specialty capacity we added in Hamburg is providing significant benefits. Not only are we able to better meet our customer demands locally, but we no longer source product for these customers from our US operations. The result is a lower cost structure as we avoid the overseas transportation costs and we open additional specialty capacity in the US to enhance our global specialty production network.

That concludes my review of the operations, which had a very strong performance in the quarter. With that, I will turn the time over to Jack for a review of the financials. Jack?

Jack Fortnum - *Ingredion Incorporated - EVP, CFO*

Thank you, Ilene. Good morning, everyone. As we always do, let me start off with some financial highlights.

The first thing you will note -- you will likely notice is the absence of any adjusted figures, as they were none in the second quarter of 2014 and none in all of 2013, so it is a clean comparison.

Sales fell $150 million, largely as a result of passing through lower-price corn and the impact of numerous currency devaluations. Gross profit rose by $20 million and that flowed down to operating income, for an increase of $23 million. This reflects the good regional performance that Ilene just described.

Earnings per share increased only 13%. I say only because we would normally expect a 16% operating income increase to drive even stronger growth at the EPS line. In this quarter, nonoperating items netted out to a slight negative as the benefit of a 22% tax rate in the second quarter of 2013 more than offset the accretion from last year's share repurchase. I will lay this out more completely in just a few minutes.

Slipping over to the sales bridge, you can see the significant impact of the lower pricing and currency headwinds. The primary currency working against us where the Argentine peso, the Brazilian real, Canadian dollar, and Thai baht.

Volumes were up $63 million, again reflecting the nice operational results.

Looking at the sales variance by region, you will see the primary source of currency headwinds was South America, while North America was the main driver of the lower price/mix. Positively, we saw volumes increase in all four regions.

Turning to operating income, you can see the strong positive variances for North America, Asia-Pacific, and EMEA, offset slightly by the small decline in South America. Notably, you see a reduction in corporate costs, reflecting our keen focus on managing costs in all parts of our business.

On the earnings-per-share bridge, the operational impact was positive $0.20 per share, largely a result of better margin and volumes, slightly offset by foreign-exchange headwind. This was partially offset by a negative $0.05 per share from nonoperating items. I mentioned this a moment ago; you can see the EPS impact of the lower tax rate in the quarter ago -- in the year-ago quarter. That resulted from the two to three tax items, compared to a more normal rate this quarter. This was partially offset by last year's share repurchases.

On the previous call, we said that we expected foreign exchange to be headwind of $0.30 to $0.35 per share, and this remains unchanged.

I'm going to move fairly quickly through the year-to-date figures. You see the sizable decline in sales, driven by lower raw material prices. As you just saw, we are back on our growth trajectory in the second quarter. However, for the first half, gross and operating profit, as well as earnings per share, are down, entirely a result of the first-quarter performance.

The net sales bridge highlights the lower raw material prices, currency headwinds, and the fact that volumes were up for the first half. In fact, on this slide you can see the volumes were up in each region for the year to date. North America is up 0.3%, but rounds to flat on this slide.

The operating income bridge reflects the very weak first quarter by North America, which was both timing and weather. We expect to recover the decline over the course of the year. It shows that the declines in South America, which are largely due to the difficult comparisons in Argentina. And we see ongoing strong results in Asia-Pacific and EMEA, along with a favorable variance on corporate expenses.

Earnings per share for the first half is down, as the benefit of higher volumes was offset by lower margin and FX headwinds.

On the nonoperational side, the two largest buckets, tax rate and share count, essentially offset each other thus far for the year. I expect that to change in the back half of the year as the tax rate comps are more typical and we have more share buyback flowing through the income statement.

That's a good transition to our 2014 earnings outlook. We're expecting earnings per share in the range of $5.40 to $5.70. This narrows both the top and bottom of the range by $0.05 and reflects a less robust outlook for Brazil and the benefit of the ASR.

We are leaving a larger range than we'd like. We need to still reflect the uncertainty in Argentina, while allowing for the potential upside from higher volumes as input costs continue to fall.

Asia-Pacific and EMEA continue to be in line with our favorable outlook for the year.

Last quarter, we discussed the relative outlook for our quarters and told you that the second quarter would show substantial improvement over the first quarter, and it did. We also told you the third quarter would likely be the strongest for the year, and we still see things playing out that way. The fourth quarter should be solid.

Turning to the regions, in North America we expect sales to continue to decline significantly, as we have passed along much lower corn prices to our customers. Volumes for the region should be down slightly, as pressure in Mexico from the tax on sweetened beverage hurts volumes in the short term. This negative impact should be offset by volume increases in the US and Canada, as lower prices stimulate consumer demand.

We still expect operating income to be flat or increase modestly in North America, driven by our ability to expand our dollar margins, as well as the mix benefits, by selling more specialty product. We also continue to effectively leverage the free trade opportunities across all three NAFTA countries.

South America sales are expected to increase as volumes grow in the region, particularly Brazil and Colombia. We now see operating income for the region as being down slightly, as Brazil's economy has not shown the growth that we expected earlier in the year.

For Argentina, our views haven't changed. As a reminder, we have factored in assumptions that currency continues a fairly rapid devaluation. The low end of our assumption is predicated on very significant devaluation and a slow, roughly six-month recovery. A better scenario would be a quick, complete devaluation soon and a more speedy recovery, perhaps three or four months instead.

As we see the devaluation, we are looking for the scenario where farmers begin to release more corn into the market, bringing prices down and making corn-based sweeteners more competitive with sugar. We would also look for peso-denominated costs to come down, providing relief to the cost crunch.

Ultimately, this is an unpredictable situation and the political and economic risk remains. As we have said before, we believe we have captured significant further downside in our guidance.

Asia-Pac, Asia-Pacific should continue to deliver top- and bottom-line growth behind an attractive portfolio of specialty starches sold in a balanced mix of mature and emerging geographies. EMEA should also see top- and bottom-line improvement. In particular, the new specialty starch capacity we installed in Hamburg should help drive volume and profit levels as we meet growing customer demand. We're also more fully utilizing the new capacity in Pakistan to meet strong consumer trends.

Cash generated by operations was positive in the first half and much better than the year-ago period, as the seasonal build of working capital was a smaller use of cash, reflecting lower raw material costs.

Looking to 2014, we expect another strong year for cash from operations, potentially exceeding our record 2012 figure. And we will continue to invest in capital projects for growth, as well as cost and process improvements around the world. We continue to expect to spend about $300 million on capital expenditures this year.

This brings my section of the presentation to a close now and I will turn the time back over to Ilene.

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

Thanks, Jack.

We feel very good about where we are at this time. Our strategic blueprint is working, as is evidenced by volume growth across the business and strong operating income in the quarter. North America is working its way back from a tough first quarter and is on a positive track. Asia-Pacific and EMEA continue to do very well.

Even in South America, while there are broad economic issues, we are holding our own and diligently working through the challenges.

Importantly, the strong business model affords us a strong cash flow. We continue to deploy our cash in shareholder-friendly ways. The ASR we executed comes on the heels of significant buybacks late last year and marries well with the numerous recent dividend increases. At the same time, we remain highly disciplined in our M&A activities, with an eye to being good stewards of shareholder capital. Taken together, we believe in our prospects and our ability to deliver shareholder value over the long term.

And now, we are glad to take your questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Robert Moskow, Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

I had a quick question about the guidance. You said that you have lowered your expectations for Brazil, but you are still expecting sales growth in Brazil for the year, and I just wanted to know if you feel like you lowered it enough.

And then, secondly, can you go through the logic about why the accelerated share repurchase program? Why not do a share repurchase program that is more steady and consistent over time? How did you evaluate the pros and cons of each? Thanks.

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

Okay, good, Robert, I'll start, and then I will turn it over to Jack.

In terms of Brazil, you have seen the GDP slowdown in all the forecasts, and it's under 2% now. And so, while the brewing volume came back and I think industry numbers are something like 12%, the food and industrial did not grow in the second quarter in the industry. And so, we think that as the summer months start to come to Brazil -- in other words, Q3 and Q4, there should be more momentum, both for brewing for the summer and then a little bit of a lag that people weren't buying food, and so there is a little bit of what I call pent-up demand, people back to work after the World Cup, and that we should see some of that coming back. And so, I think it's both a combination of the time of year and that there hasn't been a lot of restocking at the shelves of the consumer that we ought to see in the next few months.

And I will let Jack address the accelerated share repurchase.

Jack Fortnum - *Ingredion Incorporated - EVP, CFO*

On the accelerated share repurchase, obviously we could have went into the market on a daily basis and repurchased our shares. We actually evaluated and thought the certainty of doing an ASR at this point in time was actually a good communication vehicle to show both our intent and as well as the action to fulfill it.

In addition to that, we chose an amount of $300 million, which wouldn't impact any other strategic choices that we had to make in terms of our funding and things like that of potential acquisitions, and so we thought the balance of the two was an appropriate area.

Robert Moskow - *Credit Suisse - Analyst*

And just a quick follow-up on Argentina. I was a little unclear. Did you lower the low end of your guidance for Argentina based on the risk of a default? There is going to be news this week, I suppose. Or is it the same kind of guidance you had before for Argentina?

Jack Fortnum - *Ingredion Incorporated - EVP, CFO*

Our guidance has remained unchanged on Argentina. We are halfway through the year. We're still looking for that potential devaluation that we had in place.

Obviously, the timing of the recovery is a little bit different because as time progresses, it doesn't happen that way. But we are looking at the earnings coming through basically the same as we always have, with the transition taking place from a potential devaluation almost in check with what we had in the first half of the year.

Robert Moskow - *Credit Suisse - Analyst*

Okay, thank you, Jack and Ilene.

Operator

Brett Hundley, BB&T Capital Markets.

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

I wanted to spend some time in North America with my questions. Can you first just go into whether dextrose was a help or a hurt during the quarter in North America?

Jack Fortnum - *Ingredion Incorporated - EVP, CFO*

I think dextrose volumes were strong during the quarter. I guess I would say it that way. With sugar prices rising, we see demand for dextrose increasing.

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

Okay, so you saw positive volumes in dextrose during the quarter, and it sounds like the pricing environment is very favorable as well?

Jack Fortnum - *Ingredion Incorporated - EVP, CFO*

As you know, most of our contracting in North America is on an annual basis and most of the -- there is very little spot business in the marketplace. And so, the pricing on a spot basis doesn't impact us that much.

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

Okay, helpful. And then, in Mexico, some of the numbers out of Mexico suggest that there is continued challenges for fructose imports, consumption. I am just wondering if this is a concern, if you are seeing this, and if you can give some examples of how you're trying to mix in to other growth areas? You talk about this, Ilene, but just wanted to address both those things and hear comments from you guys.

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

Sure. I think that what we are seeing in Mexico, and I continue to be very excited, earlier in the year nobody quite knew the impact from the obesity and sweetener taxes, and I think some of the numbers that I have seen out of, let's say, FEMSA where they perceived maybe a volume decrease of 4%, as opposed to something closer to 8% or 10%, was a little bit of, I think, a positive.

And so, I think that we have been able to temper any impact on the beverage side, and you are right. As I've said, both first quarter and second quarter, we have had double-digit specialty growth for the food companies selling products in Mexico, and that's been a combination of ingredients that we have to, we call it, Mexicanize for appropriate local flavor and taste, and it has been everything from dairy and yogurts to even in the baked goods segment, so that we are able to produce products that have the right texture, because we are the leader in texture, and at the same time have a more healthier view and lower calories.

And so, I think you are seeing that demand grow in a number of those different areas, and as I said, the Mexican food companies are very aware of what they need to do to provide different choices to the consumers.

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

So with that as a backdrop, can you give me a sense of what the mix looks like locally for you in Mexico? I'm just trying to get further clarity on the growth that you're talking about in specialty. So, I think across the entire Ingredion business, you guys have said that you are maybe up to 20% specialty now. Can we assume that Mexico might have a larger mix specialty than that or how should we think about your mix in Mexico?

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

I will start out, and then Jack will make some comments.

I think about North America as a region, and I think what I have said before is if you think globally and the numbers may be around 20%, we have said that Europe, and that's one of the reasons for our very good success there, is a much higher specialty market, virtually 100%, and I guess I would say that South America is probably less than the average, given the development of consumer taste and trends there, though that should be something for the future.

I think North America is closer to that 20%. We don't break out Mexico, and so, again, as I think about it as a region, I think you would have to look at the whole region as the 20% level.

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

That helps. I do appreciate that. Just one quick last one, Jack, can you just give us a sense on the ASR, just timing wise, sooner, later in the year, that kind of a thing?

Jack Fortnum - *Ingredion Incorporated - EVP, CFO*

Obviously, they are restricted in terms of how they can buy back the shares on their daily average, but effectively it will start on Friday of this week and it will continue until the shares are repurchased, and we anticipate that to be sometime by the middle of December, early December type of time range. So for us, it is affected and so the shares will be retired, I think, as of this week. So the accretion begins effectively at the end of this week.

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

Perfect. Okay, thanks, guys.

Operator

Farha Aslam, Stephens.

Farha Aslam - *Stephens Inc. - Analyst*

Starting with North America, your outlook is incrementally perhaps a little bit better than originally your guidance. And we are wondering, is the timing mostly -- the incremental optimism in the fourth quarter reflecting incremental volume that you are picking up or the decline in grain? We're just trying to figure out timing of earnings in North America.

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

I'll start out, and if Jack wants to add anything. But I think the third quarter is clearly a very strong anticipated quarter for North America, as we talked about the layout out of the corn. But also as demand for products come in during the third quarter, that is a big contributor.

Now with grain prices coming down, we do have some view that there might be some upside in terms of volume, and that's what we said in terms of the guidance and that would be, let's say, more of a fourth-quarter event. So I think it's a combination for both of those.

Jack Fortnum - *Ingredion Incorporated - EVP, CFO*

No, I don't really have much to add to that. I think third quarter will be stronger. As you know, last year was -- on a comparable basis, we had some expensive corn in our layout of our corn, and so we predicted the third quarter to be higher and I think that's what our forecast still is anticipating.

Farha Aslam - *Stephens Inc. - Analyst*

That's really helpful. And then, when we look down to Brazil, clearly the World Cup was a big driver of brewing volumes, and as you look into the second half and into next year, how do you think your products will compete with the cheaper grits, given the decline in grain, but the less need to run those facilities to capacity in terms of the breweries?

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

I think that when we look at the third quarter, and as I mentioned earlier, as Brazil starts to come into the summer months, that while we don't have the World Cup, we still have momentum in terms of the demand for brewing, and therefore we think that the demand for high maltose will continue in the third and fourth quarters as a continuation, but not quite to the World Cup level.

Farha Aslam - *Stephens Inc. - Analyst*

And then, so, and going into next year, do you think maltose can be competitive with grits, given the decline in grain?

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

I think -- I will start out and then if Jack wants to add, but I think that when you look at the supply/demand for the brewing capacity, the brewers added capacity. It's been a little while, and the population growth continues. Obviously, the rise of the middle class has helped grow with that demand.

And by the way, if you recall, there was a potential beer tax last spring that got delayed to the fall, and now it has been delayed again, which is a positive for the demand for beer.

And so, I think that the brewers look at the consumer and their ability to deliver the value, and then they look to companies like us to enable them to deliver that value. And so, the expectation is that maltose has a nice position there and is needed by the brewers to be efficient.

Jack Fortnum - *Ingredion Incorporated - EVP, CFO*

And the only thing I would complement on that is maltose is a superior product to grits in general by the way you apply it and it is more consistent, and so there is other reasons than just cost to actually use our maltose versus a corn grit, which you have to cook yourself. So, it's a better product in general.

Farha Aslam - *Stephens Inc. - Analyst*

My last question relates to Asia-Pacific. Is the strength that you are seeing there driven by incremental -- the volume in starches or sweeteners? If you could just give us some color around the mix of business in Asia-Pacific.

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

It is interesting. The only place that we are in a major way in sweeteners would be in Korea. There is a minor amount, though it is not corn syrup, in Thailand. So while that has certainly enjoyed some growth, we obviously compete in Korea with the sugar side of the equation and sugar prices are going up.

But I think the growth is coming more from the starch side, and in particular, as an example, when I have talked about China, where we have had good growth and that is 100% specialty starch, a little bit like our European franchise. And again, we are creating products for the local companies for the Chinese consumer for, again, dairy and baked goods, creamy texture, and the fact that we are a high-quality global company that focuses on delivering quality products has been a positive in that China market.

So I think that, obviously, the starch side is a positive. And I think the one other factor is that as we have talked about before, in Thailand, as an example, we use the tapioca root as our starch raw material, and we are able to provide products that are gluten free for both that area of the world, as well as for shipment to other parts of the world. And so, Thailand uses 100% of the tapioca and that's a very attractive product in texturizing because you can get the gluten free and then different type of textures.

Farha Aslam - *Stephens Inc. - Analyst*

Thank you very much.

Operator

David Driscoll, Citi.

David Driscoll - *Citigroup - Analyst*

Ilene, I wanted to go back to South America for a minute. I want to make sure I heard something correct that you said. I believe you said that South America was facing a tough comp in the second quarter.

I would like you to explain that a little bit because I'm a little bit off on that comment. South America operating profits in the year ago, I think, were like $17 million versus 2012 at $47 million, and that was a 64% decline. So when I was thinking about second quarter, I thought this would be, quote, unquote, the easiest comp that you would ever find, but I don't think that's what you are saying. So, I need a little clarification.

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

Sure.

David Driscoll - *Citigroup - Analyst*

Is that (multiple speakers)

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

Absolutely. And I will start off and then Jack may want to add to it.

So when you think about Argentina a year ago, April and May last year were still on a very strong trajectory and what we reflected a year ago is when -- it was in June when we saw the decline, but April and May was on the 2012 basis.

So when I said in 2014, we were facing a tougher comp, it is the April and May last year were the strong old basis, and this year, it was on the new world, so to speak, the cost squeeze. June to June would have been the same, but April to May had the tougher comp.

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

So Dave, just to be clear, I think our comment, and I am happy to go back and look at it in the script, it was about Argentina having a tough comp, not South America. You are correct about total South America, no dispute on that point, but Argentina really was a headwind year over year.

David Driscoll - *Citigroup - Analyst*

That is much more clear if it was just on Argentina.

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

Yes, and if we weren't clear, our apologies.

David Driscoll - *Citigroup - Analyst*

No, no, no, it may be my fault. Conference calls.

But anyways, focusing still on South America, what I really want to get to is the forward look here. I thought previously the expectation was that every quarter that we would see a moderation, an improvement, if you will, on the year-over-year changes. I think that's the comment you made last quarter. This one doesn't turn out that way. This one turns down $1 million. But when you go forward and you think about 3Q and 4Q, Jack, where do you put these numbers?

I feel like the numbers here that we can model on the outside can be like anything. You have 20s, 30s, 40s; you could pick between any one of those numbers on a quarterly basis. What kind of guidance can you give us for Q3, Q4, and full year? Is it $105 million for South America? Is that a good range?

Jack Fortnum - *Ingredion Incorporated - EVP, CFO*

David, I think in terms of ranges and things, I think where we are breaking it out is the third quarter will be up significantly from the third quarter last year, and then in the fourth quarter, Brazil had come back quite a bit in the fourth quarter of last year, and so it will be up maybe a little bit, if we anticipate it to be around the same type of levels, where in Argentina we were still anticipating the fourth quarter to be fairly more of a regular quarter as they start to go into their summer months, and so it will be stronger.

And so, year over year in the second half of the year, we would expect South America to be up in both quarters, we are anticipating at this point.

David Driscoll - *Citigroup - Analyst*

All right, that's really helpful. Final question for me is just a clarification on North America. One of the prior questioners said that you made a comment to say that North America would be better. When I look at your first-quarter slides in the data today, you have added a word here. You said OI in North America for the full year would be up slightly. That was the previous comment. Now you are saying flat to up slightly. So we actually take that as a modest degradation in your outlook for North America. Am I correct on that? What is the driver?

Jack Fortnum - *Ingredion Incorporated - EVP, CFO*

I would say that you are correct. We are saying flat to up slightly.

I think the driver of that was in the very first part of this quarter. We had a little bit of a slow comeback out of the cold weather, and so it took a little while for the logistic channels to straighten out and things, but fundamentally as we have seen the quarter progress, it got back on track right in line with our forecast.

And so, it's only a small amount that we were looking at from that perspective is that we were basically at the same levels as last year and we could be up somewhat, and we were anticipating to be up or down. It's so close to the flat line.

David Driscoll - *Citigroup - Analyst*

Okay, thank you. I will pass it along.

Operator

Ken Zaslow, Bank of Montreal.

Ken Zaslow - *BMO Capital Markets - Analyst*

I just have a couple questions on the long-term outlook. Obviously by repurchasing this stock, it adds somewhere between $0.30 and $0.40 next year in earnings. So does your long-term growth from an operating level seem more concerning to you? Is that one of the reasons so you can keep on target for your long-term growth algorithm, because it seems like you are allocating more capital to share repurchase than your initial plan?

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

It is Ilene. No, I don't think that's true. In other words, when I look at our balance sheet, we still have a great balance sheet and an ability to continue to do acquisitions. In fact, we are looking aggressively at bolt-ons and continue to do that. And so, the accelerated share repurchase was to use some of the cash that we have to make it shareholder friendly now.

If you look at the last couple of years and how we said that we were going to be using our balance sheet versus driving shareholder value through operations, we are right on track where we said that we would use one-third of our -- one-third of our EPS growth could come from shareholder-friendly actions, and that doesn't mean a year-by-year basis, but over a couple of years. Even when we gave the numbers in 2012, we said one-third over a five-year period.

So, maybe in the last 12 months, we have been more proactive on that because we haven't found acquisitions that really add enough shareholder value, that are creating value, versus what's available in the marketplace. So we have done the share buyback.

But we continue to believe in the opportunities in our operations. In fact, if you think about the capital that we are spending, $300 million a year, and adding capacity in specialty products in different regions where there is growth in GDP, and that's paying off now. When you look at places like Europe, the fact that we spent capital in Europe to support that growth -- Pakistan is another place, that's very exciting for us in operations.

So what I would say is that we look -- as we look to the future to continue to invest in our organic growth, particularly where we have strength in texturizing, as well as to use our balance sheet for shareholder-friendly actions.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. I guess just further on that, your goal over time, from my understanding, is to try and become more of a consistent company, an ingredient company, and yet you do very, very lumpy share repurchases. Why wouldn't you just institute a plan like a General Mills or a [Titan] or somebody like that where we would say, all right, we're going to buy X percentage of shares over time on a consistent basis. If an acquisition comes up, we stop it.

But you guys do very lumpy share repurchases, which almost seems like when things are not as good operationally, you will do it rather than just trying to be consistent. Philosophically, can you answer that?

Jack Fortnum - *Ingredion Incorporated - EVP, CFO*

Let me try. I think from a philosophical perspective, we continue to look for sizable acquisitions, as well as the bolt-ons and items like that, and so you may say it's a little lumpy in terms of how we buy back the shares, but I think what we're looking at is more of a five-year time horizon and making sure that we are deploying our capital both for our growth, as well as for our shareholders.

And so, we are looking at it from a much broader perspective and you could say you could go into the market every day, but that causes issues as well, from my perspective. And so, I would rather make sure people understand when we are buying and when we don't buy or institute our share buyback program, so it is known in the marketplace as best as possible.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay, and then can you do another share repurchase, given your cash repatriation, or is this the end of the line? How does that work in terms of your cash generation and repatriation?

Jack Fortnum - *Ingredion Incorporated - EVP, CFO*

We have lots of leverage. I think the one thing that I would like to highlight is that we have utilized our full authorization of our shares from our Board right now, and we will probably be going back for further authorization for repurchase in the next quarter. However, we can't go back into the marketplace in excess of this amount until this program is executed upon.

Ken Zaslow - *BMO Capital Markets - Analyst*

All right, but you would be able to come back again, or -- I didn't understand (multiple speakers)

Jack Fortnum - *Ingredion Incorporated - EVP, CFO*

After this program has been fully executed.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. And then, my last question, just going on the acquisition side. Last quarter, you guys seemed a little bit more emphatic about acquisitions and the timing of it, coming sooner than later. Obviously, that seems to have changed, and also your language changes now more to bolt-ons rather than a little bit -- all varying sizes. Is something changing in the market on acquisitions and can you help us out with that?

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

I think that I have always said that our preference would be to do three $300 million to $500 million acquisitions, which I call are more of the bolt-on nature, so that we build our specialty ingredient portfolio and that we become more important to our customers and our offering and our ability to design these healthy on-trend products.

But at the same time, we don't want to ignore those that will be a little bit larger, and of course, we have had a great balance sheet and ability to do that. But to me, the most important thing is does it create value for our shareholders, and how does it fit with our Company and portfolio, and what do you do the day after the acquisition to create value, as opposed to something that might look nice on paper?

So it's really how you take the organization and go to customers and design those products and create value. So, I continue to be excited about what we see around the world in terms of availability. Some are a little bit more pricey than one would like; on the other hand, it's all about how you create value to the customer and do you have a plan to do that over the long term.

And so, I would say -- in fact, I think I said on the last call -- that I was seeing a few more companies willing to sell than we had in the past, and they could be divisions of larger companies or family held and really in most regions of the world, and we continue to see and we just want to do our homework carefully to make sure that we pick the right ones to move ahead. So we continue to work on that very vigorously.

Ken Zaslow - *BMO Capital Markets - Analyst*

Great, thank you.

Operator

Adam Samuelson, Goldman Sachs.

Adam Samuelson - *Goldman Sachs - Analyst*

First, I want to go back to the guidance a little bit because I still -- on the South America. I am still not sure I understand all the pieces. And Ilene, you have given some detail in talking about an acceleration in consumer activity as you enter the summer months in Brazil. That should all be in the year-over-year comps, right, because it is a seasonal thing.

The guidance implies a meaningful acceleration in sales growth from the second half, and in South America, you were down 10% in the year to date and you are saying up -- you are implying over 20% year-over-year EBIT growth in South America in the second half of the year. And I'm still not quite clear on the pieces of what's driving that.

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

I will start off and then turn to Jack. But as we said, the third quarter last year was the one in Brazil that was a little bit slow, and the fourth quarter came back up.

And so, some of the year-over-year improvements that we are talking about is coming in the third quarter in Brazil. And I would like to say more -- also, let's not forget about Colombia. Because Colombia is one of those countries where people still talk about a GDP of close to 4%, whereas it may be a little bit -- it's under 2% in terms of Brazil. And so, I think Colombia, where we have a great position, a leadership position, you have economies that are growing in demand for the food and some of the industrial products, and so that's part of the South America equation. So it's not just a Brazil story or Argentina, but it's Colombia.

Take Peru and Chile. Peru, there is a lot of talk about a focus on healthy ingredients, and so we see the consumers there excited about the opportunity for new products. So Jack, I don't know if you have any other comments about South America?

Jack Fortnum - *Ingredion Incorporated - EVP, CFO*

The only thing I would clarify, too, is you have to appreciate that as we went into the last year third quarter, Argentina did slow down dramatically. And that was probably one of their worst quarters from a comparable perspective.

And so, as they get more, I will say, stable, they will improve over those numbers as well -- or we anticipate them to improve over those numbers as well.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay, that's helpful. And then in the US, or North America, rather, volume -- 3% volume growth in the quarter, 6% EBIT growth. I would normally think that kind of volume growth would drive some better operating leverage. Is it simply a function of the layout of the corn costs or is there something else there, because you would normally anticipate some more meaningful earnings growth in North America with that level of volume growth?

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

I will start off and then turn to Jack. But I think it's a combination. When you think about 3% volume growth and you look at what some of the beverage companies did at a much lower level, I think it reflects the mix of our business in Mexico and able to sell specialty ingredients.

But I think that if you -- again, you are right about the layout of the corn costs. That's why we're obviously looking at a nice improvement in the Q3 and Q4, and so we leverage our whole system. Jack talked a little bit about coming out of the winter, but we feel good about the way we run our NAFTA region and I think that volume of 3% was very exciting.

Jack Fortnum - *Ingredion Incorporated - EVP, CFO*

I guess the only thing I would add on the increased volume, there is always some mix impact on the volume, which is a driver in terms of our profitability, but I think that primarily, it is that utilization equation and the corn costs are the major driver in terms of the comps on that one. And so, I do think that is what is really driving the difference that you didn't see that you expected.

Adam Samuelson - *Goldman Sachs - Analyst*

So, was there any hedging losses in the quarter? You talked about the layout of the corn costs at least last quarter and I believe the quarter before, as well. The corn curve has moved meaningfully lower since then. That should have an impact on how you -- on the hedges. Are there any hedging losses that is embedded -- that was embedded in the quarter?

Jack Fortnum - *Ingredion Incorporated - EVP, CFO*

No, as you know, we hedge principally as we are buying -- as we sell our product and buy our corn, so effectively that really shouldn't have any impact in terms of the hedging losses, per se. We don't really have that. We're actually locking in our margin on our fixed-price contracts from that perspective. So that shouldn't have any impact.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay, and then one quick one from me. On the corporate, you alluded to solid cost control. Is this a new run rate on corporate expense? It was down meaningfully year on year. Is there anything we should be thinking about changing on the corporate line going forward?

Jack Fortnum - *Ingredion Incorporated - EVP, CFO*

I think we're still looking at flat type of costs for the full year. I think we always look for opportunities and try to manage those costs. I really drive efficiency as much as possible in all our cost structures, and I think we are not going to say that we are going to track anything other than year-over-year flat type of range, but I think that's a reasonable assessment of where we are at.

Adam Samuelson - *Goldman Sachs - Analyst*

All right, great. Thanks very much.

Operator

(Operator Instructions). Akshay Jagdale, KeyBanc.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

My first question is just on your specialty business. Obviously, the results in Europe were really solid and accelerated, and if I understand it correctly, that's primarily, if not 100%, specialty business there. And you mentioned -- your commentary was pretty positive on specialty in Mexico. Can you give us a sense as to where your specialty business is today and, in aggregate, what kind of growth rates are we seeing? Is it accelerating, decelerating, and where are we tracking relative to a long-term target that you laid out a few years ago? Just specifically on specialty?

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

We feel very good where we are at and haven't specifically given the numbers, but I think certainly we have talked about that round number of 20% of the business. We, obviously, want to try to drive that to double-digit growth, and I think if you look at what you saw in Europe, you saw a very good result and, as I said, we had the capacity to deliver there.

I think when you look at the screen of food companies having overall pretty lackluster growth overall in their categories, but yet the desire for food companies to grow in new products and healthy ingredients, that's where we have strength and we are able to grow with that. And so, I think we feel good about it, but I always want to do more and have the position with the right customers to drive that.

But I think if you look at even in North America, retail grocery was up 2% and it's important when you look at the trends of fresh food versus packaged food and where the growth is, and the consumers definitely want healthy, a lot of them like gluten free. There is even a non-GMO trend, and we are able to provide non-GMO in North America and Europe and a couple of other regions because we have access to that type of raw material.

So we are positioned to grow everywhere in the world that the demand is there. So I think we feel good about it, but we are constantly looking for ways. And that's where both our product development, our R&D, really comes into play because we have those capabilities and that investment, and at the same time, we want to use our balance sheet to do bolt-on acquisitions to enhance our capability to do even more formulations for the customers. We see the demand there.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Okay, great. And just regarding your core business, your range for your EPS, and maybe you commented on this -- if you did, I can refer back to your questions. I jumped on the call late. But the range of your EPS guidance, is that -- what's the driver of that? Is it still just Argentina, and can you tell us what corresponding income range you have embedded in there for Argentina and South America?

Jack Fortnum - *Ingredion Incorporated - EVP, CFO*

For Argentina, we are basically in the same situation as we were last quarter, and so that's what is really driving the bottom end of our range. There is a significant negative impact because of devaluation in Argentina.

On the upper side of the range, it is really driven by improved volume growth that we are anticipating could take place, particularly in our specialty business.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

So what is -- at the bottom end of the range, what is the implied EBIT for Argentina? I believe previously you were modeling at the midpoint somewhere in the [25] (multiple speakers) million range?

Jack Fortnum - *Ingredion Incorporated - EVP, CFO*

That's exactly correct, and what we have said is that the bottom end of the range, they would be slightly positive. Now, given the fact that we are six months into the year and they are slightly -- they are positive, there is a high probability that they will end up -- we were able to lift that bottom a little bit because of the fact that they have already got some positive earnings in Argentina at this point.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Okay.

Jack Fortnum - *Ingredion Incorporated - EVP, CFO*

So that's why we raised it the $0.05, basically.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

And so, going back to the top end and specialty volumes, can you give us some perspective as to what needs to happen and perhaps some color on the regions? Is it just Europe and Mexico mainly that are the big drivers?

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

I would add -- I talked about Europe and Mexico. I won't repeat that on the specialty. And I think the other part of the top end is North America, both for specialty and for core because, obviously, this is a mature market and where the demand for specialty products continues to grow. And when I talked about all those gluten free and other healthy option trends, we are well positioned to participate.

And so, the consumers are really keen and will pay more money for those special products, the new products that are coming from the food companies. And then, I think the environment of a lower grain environment has the opportunity on that upside to drive more volume, in terms of people purchasing the more healthy foods in both the retail and the restaurant side of the business.

So I think North America would be the other area, and Asia-Pacific, let's not forget, where we see opportunities in China and Thailand and Korea. We continue to -- when you saw the growth we had this quarter, we continue to be excited about what we have here. So, I think it's in a lot of those regions.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Just one last one, back to specialty. There was a pretty sizable acquisition made in this space by ADM, and it was in a particular segment of the overall specialty market, which I don't believe you are focused on, which is flavors. Can you just talk to what your focus is? Obviously, texturizers are where I think you're a category or market leader, but can you talk about perhaps what subcategories within that broader $35 billion specialty market you're more or less interested in expanding into?

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

Sure, sure. I've talked about the geographic, so, again, that's a piece of it, and I talk about Asia and other developing places where there might be opportunities on the geographic side.

But specifically on the broadening of the portfolio, you are right. Being a texturizing leader, we look at different raw materials that we could bring on so that we could be formulating new products that would give different types of viscosity or texture or mouth feel, which is very exciting to consumers. Texture is like the new taste. So, that's a piece of it.

And then, there is different ways of getting starches, and then there is non-starch hydrocolloids that also give texture, so there's different ways of giving texture. So I think that's an important segment.

But at the same time, we do look broadly at other nutritional type ingredients that would help us formulate and have foods that the consumer -- as an example, fiber is something that is very attractive to consumers, to get the fiber, and so that's -- whether you call that texture or nutrition, it's a broadening of the portfolio. And so, I think those would be two examples of different types of bolt-ons that we look at in different parts of the world.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

So you don't feel like you missed out on a big deal or anything because that's -- perhaps some people have that perception when you see a big public deal announced like that and you are not part of it. I didn't think you were focused on that category. Is that a fair statement, that you weren't really focused on the flavor category?

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

I think we are very happy where we are, and to me, it is all about creating shareholder value, and that I have always said that we want to do acquisitions. We have a great balance sheet, but we have to find those that create enough value for our shareholders and our customers and have a plan to take that to create the value.

So, we continually look at the different opportunities and -- but at the same time, as you see from our action today, we're using our balance sheet in a shareholder-friendly way, and at the same time, we continue to look for those acquisitions that will create shareholder value.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Perfect, thank you. I'll pass it on.

Operator

This concludes our call. I will now turn it back over to Ilene Gordon.

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

Quickly, before we sign off, I just want to reiterate our confidence in our long-term outlook and our business model, which we believe has and will deliver shareholder value over time.

So again, thank you for your attention and this brings our second-quarter 2014 earnings call to a close. We would like to thank you again for your time today. Thank you.

Operator

Ladies and gentlemen, this conference will be made available for replay after 10 AM today, running through August 6, 2014, at midnight. You may access the AT&T executive playback service at any time by dialing 800-475-6701 and entering the access code 330552. International participants may dial 1-320-365-3844 and, again, the access code is 330552.

That does conclude our conference for today. Thank you for your participation and for using AT&T executive teleconference service. You may now disconnect.