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INGR - Q4 2013 Ingredion Incorporated Earnings Conference Call

EVENT DATE/TIME: FEBRUARY 06, 2014 / 2:00PM GMT

OVERVIEW:

INGR reported 4Q13 results. Expects 2014 EPS to be $5.35-5.75.

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Ingredion fourth-quarter 2013 earnings conference call. (Operator Instructions) As a reminder, today's conference is being recorded.

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

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

Good morning and welcome to Ingredion's fourth-quarter 2013 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 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 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 am pleased to turn the call over to Ilene.

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

Thanks, Aaron, 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 2013. Clearly, the year did not unfold as we had planned initially, and we have kept you posted on the changes over the past several quarters. However, we ended largely in line with our fourth-quarter expectations and on the whole turned in a good year.

North America faced the challenges of a historical drought, low sugar prices in Mexico, and weak consumer volumes to still deliver operating income of $401 million, just a few million dollars short of the region's all-time high of $408 million in 2012. I am pleased with how our team dealt with these issues to still deliver a solid year. We expect to see operating income growth in 2014.

South America, as we have consistently communicated throughout the year, created the majority of the shortfall compared to our expectations. Of the $88 million decline in total Ingredion adjusted operating income this year, $82 million can be traced to South America and almost three-quarters of that related to Argentina.

The situation in Argentina continues to be unstable. While costs for raw materials, energy, and labor remain very high, pricing opportunities are limited by government restrictions on consumer prices that impact our customers, and therefore, us. At the same time, the official rate for the Argentine peso remains far below the unofficial blue market rates.

This disparity creates challenges -- notably, that farmers choose to limit their corn sales in the fear that the pesos they receive will devalue rapidly. We anticipate further devaluation. However, we are clearly not a position to predict the timing. Jack will talk about our views on Argentina and how we have incorporated them into our guidance later on our call.

We also saw weak brewing demand in Brazil, though it has shown improvement as the year progressed. For now I will note that we do expect operating income growth in South America in 2014.

Moving along to Asia-Pacific, this region delivered another year of volume and operating income growth, validating our view that the region is healthy and represents a good opportunity for our specialty food starches. We expect further growth in 2014.

Finally, in the EMEA region volume strength was offset by ongoing energy costs and availability challenges in Pakistan. In spite of these issues, like our other three regions, we are forecasting operating income growth in 2014.

While the year had its challenges from an operational perspective, we can conclude that outside of Argentina, our strategy and business model continue to deliver solid performance.

Beyond the operations, we continue to utilize our cash flow in shareholder-friendly ways. Between the third and fourth quarter we bought back 3.4 million shares, exhausting our previous authorization. Our Board of Directors put a new authorization in place for 4 million shares. This gives us the ability to be opportunistic in the future.

We also raised our dividend twice during the year, by 46% in the first quarter and 11% in the fourth quarter. This took the rate up by more than 60% in total during the year.

We continue to appropriately invest in capital projects to ensure that we can execute cost savings and process improvement projects as well as add capacity for future growth. As always, we see our strong balance sheet as a real asset, and we will deploy capital in ways that we believe best enhance our business and position us for long-term growth.

Let's now spend a minute on each of the regions and our fourth-quarter business performance. After a strong first nine months, North America had a weak fourth quarter. Volumes fell more than we had anticipated. Beyond our decision to exit some low-value industrial business, low sugar prices in Mexico in some trade inventory adjustments late in the quarter pressured our sales. While we took numerous actions to manage controllable costs, at the end of the day we experienced unfavorable fixed-cost absorption that resulted in operating income being below last year's all-time record of $108 million.

I have already covered some of the high-level issues in South America. In the quarter, though, we saw some positive trends in Brazil that we believe are indicative of a better 2014. Volumes in the region rose 3% as strength in Brazil offset some erosion in Argentina. We have pointed out that Brazilian food and industrial volumes have been positive throughout the year, and that the decline was based on weak sales to the brewing industry. Our volumes to the brewing industry turned positive during the fourth quarter, providing momentum as we head into next year.

Operating income, while still down substantially, showed some sequential improvement compared to the third quarter. And as I already discussed, the issues in Argentina persist.

Asia-Pacific delivered solid revenue growth behind good specialty starch sales in Thailand and China, two of our key markets in the region. South Korea, which faced pricing challenges for its HFCS in the third quarter, saw some relief as lower corn prices narrowed the GAAP with sugar.

In EMEA, volumes have been relatively stable in spite of the ongoing impact of the recession. We have opportunities in the market for our specialty food starches and have brought capacity online to capture the incremental demand.

In Kazakhstan, volumes remain strong, though that benefit has been muted by energy issues in the country. We have taken steps to mitigate the problem, but the cost to acquire various energy inputs remains quite high.

I am pleased to now turn the time over to Jack, who has quickly and effectively taken on his new role as CFO. I'm very pleased by the operational perspective he brings to the table, along with his extensive financial background. Jack?

Jack Fortnum - *Ingredion Incorporated - EVP and CFO*

Thank you, Ilene. Good morning, everyone. It's a pleasure to be on the call for the first time after listening to them since we went public in 1998. As I take you through the results, I will focus in on some of the more noteworthy items.

So starting off on the summary chart, we will deconstruct these line items in a moment, but you can see the sales decline carries through to the gross profit and operating income and then down to the EPS, though the benefits of the lower tax rate and share count mitigated some of the potential decline.

Looking at the components of the $145 million sales decline, we experienced the continuing currency devaluations that we expected, particularly in Argentina and Brazil, but also in Pakistan and Thailand. Volumes fell, driven in large part by North America, as Ilene discussed; and we started to see pricing fall, reflecting the lower raw material costs as the new record corn crop in North America came to market. I will address how we see lower prices playing out in 2014 a bit later.

If we take a look at the regions, we see a more granularity. You can see the sharp FX hit in South America, then the negative volume in North America, and then the turn to positive volumes in South America for the first time this year. And in North America you can see the price/mix decline, driven by much lower corn prices than we saw year ago. As you may recall, about half of our contracts in the region are grain-related, and the lower-priced corn prices pass through quickly.

Operating income fell $26 million as North and South America both were down substantially and only partially offset by some favorability in corporate costs and good performance in Asia-Pacific. The favorable results in corporate expense reflects our ability to actively manage our costs as the year progressed.

We will wrap up the quarter with the earnings per share. On the left side of this page, you can see the reconciliation from recorded to adjusted. I think this is pretty self-explanatory. The real story is on the right side, where we illustrate the factors impacting the year-over-year change in earnings per share. Operationally, we saw a hit of $0.23 per share, driven by the items Ilene and I have been discussing -- margin erosion, volume declines, and foreign-exchange headwind.

The non-operational items provided a partial offset to the $0.23; most notably, a favorable year-over-year tax rate and the impact of our third- and fourth-quarter share repurchase. I will talk more about the tax rate in the context of the full year, as that is really how we manage our tax position. The tax and share count benefits were partially offset by slightly higher financing costs and a modest negative impact of noncontrolling interest. This resulted in an $0.11 per share benefit.

Let's now roll back to our summary chart and look at the full year. The P&L has a similar flow, with sales down, reduced gross profit, and operating income leading to lower earnings per share. Breaking down the roughly $200 million decline in sales, we see that foreign exchange and volumes were significant headwinds, offset by a substantial increase in price/mix that reflects the very high raw material costs throughout most of 2013.

Moving to the sales bridge for the regions, we see the strong headwinds from currency devaluations in Argentina and Brazil as well as Pakistan. Volume was down in three of the four regions, with a small increase in EMEA. And price mix was favorable around the globe as we passed on higher raw material costs. I would point out that we were quite effective in appropriately pricing the increased costs in most markets, but came up short in South America, and especially Argentina, as the economic circumstances there superseded our normally good ability to price.

That point about South America plays out clearly on this slide, as the vast majority of our operating income decline occurred in South America -- and again, particularly in Argentina. As Ilene discussed, we faced a severe cost crunch and have not been able to fully recover higher costs through pricing.

Looking again at the right side of the EPS slide, we see the impact of margin contraction and negative volume, largely caused by South America. The currency headwinds came in at a negative $0.19 per share, which fell a bit under the range of $0.20 to $0.25 per share that Cheryl had provided during the year. Her forecast was a little conservative but still quite accurate.

Net-net, operational items were negative $0.79 per share. Partially offsetting that impact was $0.27 benefit from nonoperational items, largely due to the lower tax rate. On a year-over-year basis, we have seen the tax rate come down to 26.3%, which is probably a little lower than our expectations going forward.

For 2014 we are expecting earnings per share to be in the range of $5.35 to $5.75, equating to a 6% to 14% growth. The major variable in that range is no surprise: Argentina, which I will touch on in a moment.

In terms of the quarterly flow, I won't provide you with specific guidance, but I will point out that the first quarter is likely to be down in the neighborhood of 25%. First, the comparison in Argentina is going to be very challenging, and more like the declines we saw in the third and fourth quarters of 2013. Around half of this first-quarter decline is expected to come from Argentina.

Second, the North American business will start slow, with a tough comparison to the first quarter of 2013, when we had extremely favorable corn costs. In addition, North America will likely also be impacted by the cold weather affecting transportation energy costs and consumption. As the year goes along, I believe that the year-over-year earnings-per-share results will improve sequentially.

Quickly, for your modeling purposes, I expect corporate expenses will be directionally in line with 2013. And the tax rate should be slightly higher than 2013 but still around the 27% to 28%. We are also expecting headwinds, largely from Argentina, of about $0.20 to $0.25.

In North America, we expect sales 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 low sugar prices and the newly-implemented tax on sweetened beverages 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 expect operating income to increase in North America, driven by our ability to slightly expand our dollar margins as well as the mix benefits of selling more specialty products.

We also continue to effectively manage our costs as an integrated organization as well. Mexican volume softness should mute the level of increase, particularly early in the year, as I mentioned.

South America sales are expected to increase as volumes grow in the region. We anticipate improved results for both Brazil and Colombia. For Argentina, we have factored in assumptions that the currency continues a fairly rapid devaluation.

The low end of our assumption is predicated on a very significant devaluation and a slow -- roughly 6 months -- recovery. A better scenario would be a quick, complete devaluation soon and more speedy recovery, perhaps 3 or 4 months, instead.

As we see the devaluation, we're looking for a 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 I discussed.

Ultimately, this is an unpredictable situation, and political and economic risks remain. We believe we have captured significant further downside in our guidance. And we do see some scenarios where our Argentine business holds its ground in 2014.

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 have installed in Hamburg should help drive volume and profit levels, helping overcome the energy cost issues in Pakistan.

Moving on to cash flow, let me start with the 2013 results. In spite of operating income and net income being down during the year, our cash flow provided from operations was strong at $619 million. This good result allowed us to repurchase $227 million worth of stock; pay $112 million in dividends; and spend $56 million to further fund our pensions and still execute on our capital plans.

At the same time, our cash balance only modestly declined, as you can see on the balance sheet slide and in our earnings release. This speaks to a very healthy business that has the ability to both reinvest and return capital to shareholders, which we will continue to do.

Looking to 2014, we expect another strong year from cash from operations, potentially exceeding our record 2012 figure. And we will continue to invest in capital projects for growth as well as cost process improvements around the world.

We view capital as the lifeblood of our business and have historically seen very good, generally controllable returns on these projects. Our strong balance sheet and cash generations gives us the proverbial high-class problem of deploying our cash. And most of you know, we are a patient and conservative team around here, and I don't think this will change.

We seek to be acquirers of complementary businesses that add long-term value to our portfolio. We remain actively engaged in potential M&A; but I will stress, as I always have, we will be disciplined buyers. We will look for the right strategic fit at an appropriate price.

Regardless of whether or not acquisitions materialize, we maintain the ability to opportunistically repurchase shares. We expect to buy back the creep from our option issuance, and that is as far as I will go at this time. We are well positioned to act if we choose to do so.

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

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

Thanks, Jack. As we have said a few times this morning, our business model, which is reflected in the strategic blueprint, is working. In the case of Argentina we are in a short-term severe situation that we expect will right itself over time.

Elsewhere, in spite of challenges, our business is doing well. North America is well positioned to return to growth. South America has real opportunity for improvement, as Brazil appears to be getting back on track and should benefit from the World Cup in June.

Asia-Pacific continued its good trajectory, and EMEA has a solid growth profile that will be augmented by new capacity. We've also demonstrated a track record of good stewardship of shareholder capital. Two dividend increases in 2013 along with a significant level of share repurchase demonstrate our ongoing commitment to our shareholders.

We sit today with a strong balance sheet and a disciplined team executing a clearly defined strategy. We believe this is a position that will continue to benefit our shareholders in the year to come. Taken together, we believe in our prospects and in 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) Brett Hundley, BB&T.

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

You guys called out volume growth in South America; and Ilene, you talked about brewing volumes in Brazil getting back on track during the quarter and increasing. You gave your outlook language, but I'm wondering if you can talk more specifically to the near-term. Have we seen that continued overall into Q1 here?

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

Yes, good question, Brett. On brewing, we have actually -- as I said, we started to turn in the quarter year over year. And in fact, I think some of the local papers there is talk of increased brewing sales in the first quarter.

And the reason is -- you may have heard that there's a lot of hot weather, almost a little bit above average for this time of the year. And of course, the World Cup anticipation. And, actually, having Carnival, and Easter being late, I think everybody feels that it is a bigger summer season. And so we are starting to see that improvement.

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

Okay, great. And then, Jack, what kind of currency are we talking here for Argentina in the guidance? Does the low point assume a 13, a 15? can you give a little bit more color on just what we are throwing into guidance here with Argentina?

Jack Fortnum - *Ingredion Incorporated - EVP and CFO*

Sure, Brett. I think if you think about Argentina, it continues to be unstable and unpredictable. We have modeled various scenarios based on the rate and level of devaluation.

In the middle of our range we built about a 40% reduction in our earnings from the $45 million that we have in Argentina right now. And in our worst case it brings it to the bottom end of our earnings-per-share range, though Argentina would still be slightly profitable. It doesn't account for complete collapse of the economy or anything like that at this point in time.

So if you think about -- I think one of the things I want to highlight is the devaluation is also -- that happens in terms of the translation in the near term, but we also have what I would call the inflationary impact and the timing of that. And that is how our business can respond in terms of getting the prices back up and in line with the inflationary rate.

And so we will still see some cost crunch with the inflation and things as we value this. But as we looked through it, we have taken it right down to almost three or four different scenarios where we have taken the peso down dramatically. And then we have to look at the inflation rates within the country, what does that does to the release of corn, and how competitive it does; and how it frees up the sugar in terms of the export market as well.

So I am fairly comfortable that in the middle of the range there that we have taken our earnings projection down about 40% and at the bottom of the range. We basically got just a slight little earnings of Argentina in it. And we have walked through so many different scenarios I think I am fairly comfortable with that at this point in time.

I know I didn't give you specific rates of devaluation, but it is really predicated on the different assumptions in terms of inflation in the country, as well. And it is the matching of those two that becomes very critical.

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

That is actually really helpful. I appreciate it.

And then just my last question: I want to talk about the North American market. Because South America is difficult, with the impacts from Argentina; and they are out of your control.

But in North America I think you have a situation where overall it should be very beneficial. And you talked to that with growing operating income year on year. And given the drop in corn, and especially what coproducts are doing over the short term here, I wanted to look at the revenue side for a second.

And everyone focuses on HFCS -- and I do want to touch on it here -- but I wanted to look more broadly, as well. So my question on HFCS is: regarding contracting for 2014, do you think that the season went too long, comparatively speaking? Do you think the season went too long for INGR, in specific?

And then can you just talk about contracting for the other products that you produce? Maybe not even contracting, but just how you are set up from a margin standpoint; or what the outlook is for, say, dextrose, specialty starches, high maltose syrups, things like that. I really appreciate it. Thank you.

Jack Fortnum *- Ingredion Incorporated - EVP and CFO*

Brett, I am going to take that. This is Jack.

I hate to say that I have a little bit of experience in this area, but unfortunately, I probably know a little bit more than I would like to share with you. But I will give you a fair amount of insight into how I see contracting happening.

If you think about the sweetener market, obviously there was some compression in margins that we have seen, both in Mexico as well as generally here in the US. But it was really at the tail end of the contracting that that started to happen. And it was on a small volume of fixed-price contracts that had materialized.

And so with North America being up, I think it kind of correlates very closely to what you see with the rest of the business. We have a number of different ingredients in our portfolio. Many of them are specialty ingredients. And so what we have seen is the margins actually expand a little bit there and actually came out with a fairly -- I would say a positive result in terms of our contracting.

Obviously, we will have a little bit of volume reduction in Mexico, because of the exports into Mexico declining a little bit. But all in all I think the contracting went on a little bit longer than I like. I don't sleep too well during the contracting period.

But in general, I think we're fairly pleased with the result of the contracting. Near the end there it got a little bit compressed in terms of some of the sweetener margins, but it was on a small percentage of the volume.

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

So I think, Brett, this is Ilene. I would further emphasize that as we look at those other sweetener products, and you know, we talk about having 1,000 ingredients. And as you do point out, the dextrose, and maltodextrin, and those others -- we do see opportunities for growth in those areas as well as the specialty starches.

And the one thing we didn't mention is -- while Jack talked about a little bit of a down volume in Mexico in HFCS, we are looking to grow our specialty starches in Mexico with the new heightened awareness with their new obesity laws. And so I look at that as a big opportunity over the next couple of years.

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

Thanks, guys.

Operator

Farha Aslam, Stephens Inc.

Farha Aslam - *Stephens Inc. - Analyst*

I have a question regarding your balance sheet and the cash on your balance sheet. Given your share repurchases, how much of the cash is here in the US, and how much of it is in the international market?

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

I will take it -- Ilene -- and then I'm going to turn it over to Jack.

I think on the last call Cheryl gave a detailed answer. And I believe it was about half was outside the US, a little more, and spread around in a number of different places. So I think she gave a little bit of the details. I don't know, Jack, anything to add to that?

Jack Fortnum - *Ingredion Incorporated - EVP and CFO*

No, I think that is about correct. It is about 50% outside the US; 50% is here in the US. Is there anything else you are specifically looking at?

Farha Aslam - *Stephens Inc. - Analyst*

Well, I'm trying to figure out how you repatriate your cash and how you can use your cash to buy back shares or pay dividends. Because you do have a significant cash balance, and so, therefore, you should be able to afford to buy back a significant amount of shares.

The only thing that I can imagine that would limit your share repurchases is that the cash is housed outside of the US, and for some reason you don't want to repatriate it, and so therefore don't have the ability to buy back shares here in the US. Are you at all restricted in terms of using your cash to buy back shares?

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

The answer is that is not the restriction. Of course, we're always looking to optimize shareholder value, in terms of how we move cash around and not pay above and beyond what we should do in terms of the losses you have when you move cash around.

The reality is that we do have a very robust cash flow. And I think, as I said on calls before, we always look at our opportunities to use the cash. And our primary one has always been, number one, to fund the capital needs of the businesses, which we do either locally or around the globe. So we are not constrained. We have a good cash flow to support our growth.

Number two, we are looking for growth opportunities. And M&A is something that I think that there is an opportunity for us to grow, both geographically and a number of areas where we don't have a position or to build on our position. And equally as important, to broaden our portfolio with of other ingredients that build on texturizers or adjacencies that make us more important to our customers.

At the same time, we do believe in a strong dividend, which we have demonstrated. And we have used share buybacks in places where we want to buy back, certainly, any kind of creeper dilution and opportunistically. So it is not related to any capital constraint around the world and where the cash is, but rather the decisions that we're making to build long-term shareholder value.

Farha Aslam - *Stephens Inc. - Analyst*

And in terms of M&A, could you just share with us the M&A landscape that you see? Are there opportunities that are available and look attractive?

And Ingredion has not done any material acquisitions since that National Starch acquisition. Is it really valuation or opportunities that haven't presented themselves?

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

It is interesting -- so the National Starch was about three years ago. And of course, we spent a number of years to make sure we integrated that well; and that did go very well, and have a very cohesive organization.

Looking at opportunities, the reality is that there are opportunities out there. For a period of time the ones that we had seen weren't priced appropriately to create shareholder value, and the availability was not that great. I would say that I see that increasing -- the availability of acquisitions.

And part of it is families deciding to sell, or large companies selling a division, or some smaller companies. I do see that opportunity increasing.

But again, it comes back to value. And we are very much adamant on paying the appropriate price to create shareholder value over the long term. But that landscape, as I said before, I think they were geographic. And the broadening the portfolio -- as we've become more successful with our customers in reformulating products and in formulating for new products, this trend of health and wellness that our customers are all focused on has really opened up our thought process to what kinds of ingredients would make us more helpful and successful with our customers. And so the portfolio of opportunities in my mind has grown in the way we think about them. But again, always want to be disciplined buyers.

Farha Aslam - *Stephens Inc. - Analyst*

That is helpful. Thank you.

Operator

Ken Zaslow, BMO Capital Markets.

Ken Zaslow - *BMO Capital Markets - Analyst*

Ilene, my first broad question is, can you talk about your view on the long-term growth algorithm? Obviously, 2013 and 2014 are below your expectations of growth. How do you regain -- first of all, is the growth algorithm still at play? Second is: where do you regain your growth in 2015 and 2016?

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

As I have said before and I continue to say, I think the growth algorithm is still there, and that we believe long term in the 10% to 12% EPS growth off the 2012 base.

Now I know that arithmetically puts pressure on the outer years, certainly, of that range. But I think that if you think about the different growth areas that we've talked about, people do believe that South America, with its GDP -- and if you look beyond 2014, there's certainly a return to growth in that area. We are the leader. We ought to be able to organically grow with the GDP growth.

Asia certainly falls into that same category, with healthy growth coming in a number of different regions. EMEA, because we have a specialty product, a specialty portfolio of specialty starches that are very much focused on clean-label and other on-trend issues in Europe. Again, we are a leader, very well positioned.

And then North America -- you know, the mature economies are the ones that are really driving and focused on this health and wellness. And again, you can't pick up a paper in North America without seeing the focus on what people want to eat and the new product development that is being worked on by the food companies.

So that is all kind of the organic side. We always said with that growth trajectory, that we thought that two-thirds of that growth would come from organic, or things that we would be doing with our R&D and our capital investment. And the other one-third would be from a good use of cash.

And what we have demonstrated, dividends and some share buyback; as I just talked about a moment ago, I think the M&A field is pretty rich with some opportunities. And so we would use our strong balance sheet and a third of that to drive some of the growth with some of those opportunities.

Ken Zaslow - *BMO Capital Markets - Analyst*

But which division would be the one that you would recapture the growth in? I understand that health and wellness, but is there a certain division? Is it just South America that would actually be restored to historical levels and move forward? Or where would be the outsized growth? Which division would have the outsized growth to recapture your algorithm?

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

Well, I look at the growth in all the regions. As we talked about, in 2014 and beyond, obviously in North America is a big piece of the Company, 50%-plus. And so the health and wellness will certainly be driving some of the growth in US/Canada.

And then, of course, I talked about Mexico. And the Mexico GDP -- while there is a short-term hit in one sweetener product, the high-fructose corn syrup competing with sugar, the other sweeteners and other specialty starches are really in demand from the growth of the GDP that will come in Mexico. It is over 3%. And the awareness of obesity for health and wellness products is really creating a great environment.

So I wouldn't pick one area versus another in terms of the arithmetic. I'm sure you could model that and come up with slightly different numbers, but it is -- the emerging nations, really, still -- long term, we believe in them, with the rise of the middle class, the GDP growth, as well as the demand for health and wellness in the mature economies.

Ken Zaslow - *BMO Capital Markets - Analyst*

And then my final question is: have you changed at all the way that you are going to be allocating CapEx? Because you are still keeping it relatively strong at $300 million, $350 million. Is there a change of how you are thinking about your projects? Are you retrenching certain areas? Are you expanding other areas relative to your initial expectations?

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

Well, certainly some of the capital we are spending were from decisions that we have made in the last 12 months. And so we're funding different projects. And as I said before, where one adds capacity, it takes a number of years. In other cases we look at cost-reduction projects.

I would say the only thing -- you know, we talked about a couple of years ago where we have invested in Brazil $75 million to $100 million, and we added some capacity. And I would say that I would not be adding large amounts of capacity in South America now, because we need to wait for the GDP to come back in Brazil as it forecasted to be; Argentina to stabilize a little.

Colombia is another great opportunity with the Free Trade Agreement. So that is where I think we would temper some investments and get that in line.

But the rest of the world has some great opportunities. And we continue to be good stewards and make sure that we improve our processes and add features which will, again, make us more successful to customers.

Ken Zaslow - *BMO Capital Markets - Analyst*

Great. I thank you.

Operator

Akshay Jagdale, KeyBanc.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Can you give us a little bit more color on North America? I think you mentioned the contracting season implied some compression into the tail end of the season. And I believe you said slight increase in EBITDA.

But with lower corn, can you just help us understand that dynamic? I would expect this year, with the change in the net corn calls being a significant as it is in favor of your Company, you would expect to see a lot more EBIT growth. But can you just help us understand that dynamic this year, and where you might make that up, perhaps, in future periods?

Jack Fortnum - *Ingredion Incorporated - EVP and CFO*

Just a couple of comments. I think if I could summarize what your question is from my vantage point, it's kind of like a recap of the contracting in North America. And with lower corn prices.

I think that you have hit one of the key points, as lower corn prices are good for our industry, in general. I say the industry in general. It makes us very competitive on the sugar side of the equation, from the perspective that we are now competitive with sugar as it falls in pricing, as well.

And as well on the consumption side, I think it is very good, as well. Because the should get passed on to the consumer level. So we are anticipating some volume improvement due to that.

In terms of the specifics of the contracting, I think I summarized it before. As sweetener margins got a little compressed during the contracting phase, the rest of the business did extremely well; and that included our industrial business. From that perspective, we were fortunate to have our industrial business contract out fairly well.

So I think in the very tail end of the sweetener business we got a bit the compressed margins, and the market got a little challenged. But I think in general we were fairly pleased with the way it turned out.

And so the North American business is going to be up this year. And I would certainly believe it will be up, based on what we are seeing in terms of contracting. This first quarter has been a challenge, as we indicated as well, just because of the weather. So we would like to see that come back a little bit.

And I think the other side of the equation is -- I think -- I did want to -- this is a good opportunity for me, perhaps, to address one of the issues in terms of our quarterly layout, as well. Each year as we lay out our corn on the fixed-price contracts, the layout can be significantly different.

And I think Cheryl has alluded to this in the past, as well, where she has commented that you really have to look at the full year in terms of contracting, of how it materializes. Because it is really that margin that you look at on those fixed-price contracts right across the entire year.

And this year is one of those years where it is a little bit reversed from prior year, where the first quarter layout of the corn is a little bit more expensive than the latter portion in our projections against the fixed-price business, in particular. So I think that helps you with the quarterly layout, as well, if I could comment on that.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

And just a point of clarification, when you talk about margin compression, are you talking about percentage margins or dollar margin?

Jack Fortnum - *Ingredion Incorporated - EVP and CFO*

In this case it is -- here we always talk about dollar margins. The reason being is because of the fact that corn is largely a pass-through on our grain-related formulas as well as many of them in our fixed-price business.

The actual percentages will be up this year because the denominator of the revenues will be down just naturally. So I think that that kind of gives you -- it is all dollar that we are talking about here per unit.

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

But remember, we have also said that in the North America contracting, while there was some late compression in dollar margin in high fructose, we did see an interesting and more positive environment, as an example, in the industrial business and in other types of sweeteners. And so, again, you have to think of the total portfolio. And that is why our outlook for 2014 is certainly positive.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Just, again, on North America, what was not ideal? It seems like Mexico was a major issue; and weakness in high fructose -- not only in Mexico, but also in America, in the US is an issue. So barring those two issues, we would have expected -- or we would expect much better growth there. Is that the two main issues that are holding you back from a dollar growth perspective in North America this year?

Jack Fortnum - *Ingredion Incorporated - EVP and CFO*

I think that summarizes it fairly well. I would like to point out, though, that Mexico -- we are one of the few producers that are in all three countries throughout the North American region, including Mexico.

In Mexico our local production is still very strong, even in terms of HFCS, as it is competitive across the board. And we probably have the -- I guess I am taking some pride here a little bit, but we probably have the best supply chain and delivery capabilities all throughout Mexico. And that will continue to be a growing economy. And so I am actually very bullish on Mexico for the long term, as well.

We see some of our customers investing heavily into Mexico. I actually think that the Mexican volumes will be very solid coming forward, as well.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

So just one last one. What kind of environment would it take for these challenges to reverse? Do we need better carbonated soft drink consumption in the US, along with high sugar prices in Mexico and the US for -- and then better food and beverage industry volumes for the US -- or the North American sweetener business to have a little bit more momentum? Are those the main factors you would say from a macro perspective that you might see turnaround to really get the business going faster than it is?

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

What I have said before is this is an industry where there has been no new announced capacity. So that has been pretty stable.

Obviously, better demand helps the dynamics. And the Mexico sugar extreme glut -- obviously, future harvests will impact that. At the same time, as Jack said, these lower grain prices that have been in the market because of the large crop should benefit the food companies and the consumers. And that should drive the volume. And that is the expectation as we go forward.

You know, we just came off that severe drought, the 50-year drought. So with the lower corn prices going into the market right now, that should be a very positive help, depending on how the food companies pass that on to the consumer as we go forward.

So I think we don't expect more supply. So better demand, obviously, in the total system would be a help. And, of course, our focus on specialty products is a unique piece for us. And it also helps take advantage of that health and wellness trend in Mexico as well as US/Canada.

Akshay Jagdale - *KeyBanc Capital Markets - Analyst*

Perfect, thank you. I will pass it on.

Operator

David Driscoll, Citi Research.

Cornell Burnette - *Citigroup - Analyst*

This is Cornell with a few questions for David. Just the first one here is just looking at share repo activity. The Company bought back 3.4 million shares in 2013. And with shares down year to date and a very strong balance sheet, it would appear that there's good opportunity for further share repo in 2014. So in that vein, I wanted to know: of the $4 million share authorization that you have, how much of that is embedded in the EPS guidance for 2014?

Jack Fortnum - *Ingredion Incorporated - EVP and CFO*

At this point in time, it is really just the option creep that we're really looking at buying back. So obviously, we can do something incremental from an opportunistic basis if we desire.

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

Which would be incremental to the current guidance, predicated on just buying back the creep.

Cornell Burnette - *Citigroup - Analyst*

Very good, very good. And then in South America, earlier, Jack, you gave really good detail on a number of different scenarios in which -- the way that things can play out, especially in Argentina. You spoke about the currency devaluing which would enable farmers to begin selling the crop more. And then, also, you talked about the recovery in FX translation.

So, one, I just wanted to know what was the ideal level that you look for in terms of the exchange rate between the peso and the dollar in order to get farmers to start selling? And then, two, in your best-case scenario I think you had indicated that you could possibly price through the currency impacts in three months, which is a little bit faster than the normal six-month period that it takes. And so under those circumstances, what gives you the confidence that in the best-case scenario that could indeed occur?

Jack Fortnum - *Ingredion Incorporated - EVP and CFO*

First of all, let me just say that we had set up several different scenarios that we walked through. And each one of these were predicated on different devaluation rates, different inflation rates, and different assumptions about how the farmers would react with respect to their corn; as well as what would happen in the sugar market in Argentina, as well. So they are not mutually exclusive in any way, shape, or form, because each one of these are codependent in terms of the other assumptions.

I think what I was highlighting is as the devaluation takes place, there will always be a lag a little bit with the inflation rates. Some of this, as it gets back into what I would call a more normalized equilibrium, where it becomes almost like a dollar-based economy -- I hate to put it in those terms, but it almost becomes dollar-based because of the corn equation, the sugar equation, and the energy equation. It starts to become, shall I say, more stable.

It will take -- I don't see in the near term -- and when I say the near term, next several/few months, it actually playing out exactly like that. I think we had the one devaluation already in January. I think that it will require some further devaluation to really get into the view where the valuation is actually exceeding the inflation rates to catch up a little bit on the cost competitiveness from an Argentine/world perspective and a purchasing power perspective.

But I do see several scenarios where that will work. And that sounded a little complicated, but I am working through about three or four different scenarios. I'm not too sure how else to describe it in generality perspective.

Ilene, I don't know if you have any other comments pertaining to that?

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

I think that the question about why could it be three months to rightsize the economics -- there is a harvest coming out in April and May. And that should promote some of the push to get the corn going in the right direction.

But the other thing is -- Jack said 3 to 4 months. But I think there has been such extremes in the country that any large movement in currency will drive people to make the right decision -- the farmers -- and get back to getting some cash in their pocket. Because they can only hold off so long, and then they have to monetize it.

So I think that that type of devaluation will send the right signal to the farmers. And then they will get to it, and then some of the exports will start up again, especially for sugar, which will drive the prices higher.

Cornell Burnette - *Citigroup - Analyst*

Okay, thank you.

Operator

Adam Samuelson, Goldman Sachs.

Adam Samuelson - *Goldman Sachs - Analyst*

A lot of ground has been covered. Maybe first, I will ask for clarifications on some of the guidance. In South America I think you said that sales are going to be up for the year. And I am just trying to make sure I understand how that is possible, given some of the FX headwinds you are facing. Maybe I am misinterpreting what is in the slides.

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

Well, we talked about operating income being up. I'm not sure we gave anything specific on the --.

Adam Samuelson - *Goldman Sachs - Analyst*

It says sales expected to increase on the slides. That is why I am just --.

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

But I think Brazil is a big country. A big piece of that -- and Colombia, yes.

Jack Fortnum - *Ingredion Incorporated - EVP and CFO*

Colombia as well.

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

Colombia is a quarter of the region and expecting sales growth there. Brazil is half of the region, and we're expecting growth there. So 75% -- you are right; there is some translation risk, and certainly on the Argentine side. But that three-quarters of the business is expected to grow, both OI and top line.

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

So going back to the very first question about the brewing industry, and looking to grow with that during the year in Brazil; and then the continued food and industrial for both Brazil and in Colombia should obviously be where we will see some of the growth.

And the GDP. The GDP forecasts for the country -- Brazil it's 2.5%. So, again, that is where we see some of the growth.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay. I guess I am -- and maybe I will take that off-line. Because I struggle to see how that reconciles with some of the translation headwinds you would face.

And then in North America, what is the impact of exiting the industrial starch business? How big is that? And then what is the expected volume hit from exiting that portion of the business?

Jack Fortnum - *Ingredion Incorporated - EVP and CFO*

It was less than 0.5% of volume in 2013. And that program is essentially over in 2013.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay. And then maybe finally, in North America, how would you characterize the industry -- the pressure -- maybe the prospect for more margin competition in some of the more specialty and non-HFCS parts of the business? Clearly in aggregate industry capacity is still -- is all here.

And demand in aggregate with HFCS down is not really growing. How do see some of your competitors maybe trying to shift some of their capacity away from HFCS and some of the lost volumes from Mexico into some of the other parts of the business?

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

Well, I will start. As part of the specialty products, those are situations where you work with customers to help formulate and test for the product, and then do shelf-life testing, and get it out into the market. So it takes R&D and product development to work with customers to be successful.

And so we have been doing that for many years. And that is what the National Starch acquisition brought us. So some of it uses a similar grind, but it takes different channels in the different facilities.

So there are, obviously, different types of players in that market. Everybody has a different portfolio. But again, it is working with customers over a longer period of time to deliver that growth. And that is part of our strategy that we have been talking about.

Jack Fortnum - *Ingredion Incorporated - EVP and CFO*

The only thing I would like to add, too, is just from a network perspective in North America, where we have fairly dispersed facilities in all three countries; and so effectively we can take advantage or slow down some of our smaller facilities from a capacity perspective, if necessary, and really work the network as much as possible, as well as have the close shipments within Mexico or Canada is a nice outlet for our products.

Adam Samuelson - *Goldman Sachs - Analyst*

Maybe just lastly for me, just quickly, what is the expectation for corporate for 2014?

Jack Fortnum - *Ingredion Incorporated - EVP and CFO*

It is principally in line with the current-year numbers. We don't expect that much growth in it at all.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

Matthew Korn, Barclays.

Matthew Korn - *Barclays Capital - Analyst*

I just want to confirm one thing. The topic has been raised a few times. But back last fall, when lower corn prices were the main theme, it seemed like a lot of the view towards higher op income for the whole enterprise was predicated on this volume elasticity response -- go lower corn prices or sales prices, and consumers are going to respond.

I'm just wondering, have you in fact, seen that play out at all so far year to date in any kind of meaningful way? Or is this year going to be more dominated by the level of economic growth, or changes in consumer tastes, or availability and pricing of sugar substitutes and the rest? Like what is -- and maybe if you just talk about cold weather being an impact. Is that elasticity going to happen, still? And have you seen any signs of that so far?

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

I would say certainly -- it is only January, and it has been cold. So it is really too early to say what we have seen or not seen. And, of course, you know that those price impacts only became effective in January. So it is really too early to say.

I think if you look at, certainly, the way the fourth quarter ended in terms of restaurant sales and retail grocery -- those were both up at the end of the year 3% to 4%. So people are going out to eat. They are buying different products. And certainly the CPIs were pretty low.

So that momentum -- and people still going out and buying their food -- that is the one thing I like about being in the food business, is that people have to eat. And it is -- obviously, people want to eat healthy. And so there is competition within the grocery store between fresh food and packaged food.

But the food companies, they have gotten that message. And they are working on a lot of new product development with companies like us to make sure that the products that are being brought to the market are what the consumers want.

So again, too early to tell. But I think that the consumer environment should be there, with unemployment coming down, people having jobs, and the ingredient prices being a little bit better than they were last year.

Matthew Korn - *Barclays Capital - Analyst*

And then I will follow up quickly. I just saw -- I think it was earlier this month -- in San Francisco they are proposing, I think, a $0.02 an ounce sugar tax for beverages. San Francisco -- clearly, we are still on the frontier of these things. But is there any sense, depending on how the policies could go in the US, to develop some type of an acceleration, or any type of contingency plan? Like, look -- this is a growing political trend; it's an increasing secular trend. Is it accelerating directions for sweetened beverages more than we had expected, to where it is like, we really need to shift over our spend, our, strategies, more toward specialty, more towards other places outside of that business? Is that something in the early stages of consideration? Is that something you are watching closely?

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

Look, when we put our strategic blueprint together when I came in 4.5 years ago, and we executed the National Starch acquisition, it was all about looking at all food trends and what the opportunities are around the world.

And so our thrust to grow our specialty starches and sweeteners has been part of our strategy. So we continue to accelerate that. And certainly, investments that we have in R&D and product development, both in our New Jersey center as well as around the world, are part of that. And adding capacity in specialty starches in places like Europe, and Mexico, and even Brazil have all been part of that.

So we just think that certainly we're not investing in high fructose -- and I said, there is no new capacity in high fructose in North America. For us, the growth is all about specialty ingredients to support our being a global ingredient company. And again, our strong business model and our business sheet are allowing us to do that and be very successful.

Operator

Vincent Andrews, Morgan Stanley.

Vincent Andrews - *Morgan Stanley - Analyst*

Just a couple of quick questions. The tax rate for next year: is this where we should expect your tax rate to be going forward? Or is this a geographic shift? Or what is driving it, and how should we think about it medium-term?

Jack Fortnum - *Ingredion Incorporated - EVP and CFO*

I think medium-term, we are in that -- we have guided towards the 27%, 28%. It does really depend on where the earnings are coming from, actually. So it is a geographic shift to a certain extent. And we don't really expect that many -- anything unusual in our tax rate from that vantage point.

So from a mid-term perspective, it may be at the low end of the range and then creep up to the 29%, depending on the weighting of the countries and things. If you are looking two or three years out in your model, it may creep back up a little bit, depending on how the earnings shift and things. So I would maybe tend towards the upper end of that tax rate in your modeling.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay. And then just one other question. General Mills came out and said that they are going to have non-GMO Cheerios. And leaving aside the fact that there is no GMO wheat, what do you make of that? To me it seems like it is just sort of a marketing ploy. But are you worried about GMO backlash? I am just kind of assuming you are using a lot of GMO corn. And what is the internal discussion about that issue?

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

We believe in providing the right raw materials for our customers. And we actually provide both GMO and non-GMO corn. In fact, we are one of the only people in North America who have access to non-GMO. And we use some of that to fund our operations, to feed it in both US and in Europe.

But we believe that whatever the consumer trends are, we ought to be there to provide and to be partners with our customers. I think if you look at the health and wellness trend and at different types of consumers, I think you will find that in all the different products. And so I think there will be demand for a lot of different types of products.

The clean label in Europe -- you know, demand of certain labeling on the products, and that they be very much physically modified, which is what our product does, rather than use enzymes. And so again, that is just one example. And that is a known GMO product in Europe.

I just think that I see the demand for many different types of products, that many different consumers will be there. The key will be: what are consumers willing to pay? Because some of the products can require higher prices. And while consumers might say they want it, when they go to the store, they don't spend the money.

And so, again, there is many different types of consumers all over certainly US, Mexico, Canada, and other parts of the world. But we just want to be there with our customers to provide all of them.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay. Sounds good. Thanks very much.

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

Okay, so just to quickly close up, as we are at the end of the time, before we sign off, I just want to reiterate our confidence in our long-term outlook and our business model. And we remain keenly focused on shareholder value creation, and we are really committed to deliver shareholder value.

So that brings our fourth-quarter 2013 earnings call to a close. We'd like to thank you again for your time today. Thank you.

Operator

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