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INGR.N - Q1 2026 Ingredion Inc Earnings Call

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OVERVIEW:

Company Summary

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the Q1 2026 Ingredion Inc earnings conference call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

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

Noah Weiss - *Ingredion Inc - Vice President, Investor Relations*

Good morning, and welcome to Ingredion's first quarter 2026 earnings call. I'm Noah Weiss, Vice President of Investor Relations. Joining me on today's call are Jim Zallie, our Chairman, President, and CEO; and Jason Payant, our Vice President and Interim CFO.

The press release we issued today as well as the presentation we will reference for our first quarter results can be found on our website, ingredion.com, in the Investors section. As a reminder, our comments within the presentation may contain forward-looking statements. These statements are subject to various risks and uncertainties and include expectations and assumptions regarding the company's future operations and financial performance.

Actual results could differ materially from those estimated in the forward-looking statements, and Ingredion assumes no obligation to update them 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.

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

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

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

Thank you, Noah, and good morning, everyone. While we expected a challenging quarter after last year's strong first quarter, results were weaker than anticipated in Food and Industrial Ingredients US/Canada due to operational challenges at our Argo facility. At the same time, performance in our Texture and Healthful Solutions and Food and Industrial Ingredients LatAm segments were in line with our expectations despite an increasingly uncertain macroeconomic environment.

Overall, net sales were down 1% and adjusted operating income was down 22% versus last year, driven by Argo and softer industry volumes in Food and Industrial Ingredients, US/Canada and LatAm. As expected, our Texture and Healthful Solutions segment delivered a solid quarter with broad-based volume growth reflecting increased adoption of our expanding solutions portfolio and continued customer demand for clean label offerings.

Turning to the next slide, we are pleased that our Texture and Healthful Solutions segment posted its eighth straight quarter of volume growth, up 2%, led by Clean Label and Texture Solutions in EMEA and Asia Pac. In Food and Industrial Ingredients LatAm, overall volumes were slightly down for the quarter due to expected weaker consumer demand versus a strong first quarter last year.

We saw a modest recovery in Brazil, supported by improved customer demand and early benefits from our polyols network optimization completed at the end of last year. Additionally, this morning, we announced plans to cease operations at our Cabo manufacturing facility in Northeast Brazil by end of quarter two as we drive enterprise productivity to deliver operational efficiencies while sharpening customer mix priorities. We expect the actions we have taken in Brazil, both commercially and operationally, to deliver continued benefits throughout the year.

In our Food and Industrial Ingredients US/Canada segment, net sales volumes declined 7% in the first quarter, driven primarily by operational issues at our Argo facility as well as softer demand across certain food and industrial markets. As noted earlier, Food and Industrial Ingredients US/Canada results were negatively impacted by Argo in the quarter.

Within our February outlook, we expected $10 million to $15 million of additional costs to impact the quarter as the facility recovered to normal grind rates. However, additional operational challenges slowed the recovery and negatively impacted saleable inventory. As a result, the actual quarter one impact was much greater than anticipated, coming in at $40 million comprised of higher maintenance spend and the costs associated with elevated levels of rework.

Additionally, we incurred higher logistics costs as we source products from other facilities in our network to meet customer commitments. In response to challenges in our refinery operations, we took meaningful actions during the quarter to diagnose and remedy the sources of process failures. We assembled a multidisciplinary team of internal and external experts in refinery unit operations and are pleased to say that downstream production returned to normal levels by quarter end.

Unfortunately, in the midst of this progress, on April 10, there was an isolated thermal event in Argo's corn germ processing operations. While the front-end grind and refinery were not impacted, crude oil production went offline. Our teams are working diligently to restore our germ processing capabilities, and we expect to return to normal operations in this unit within the second quarter.

Our balance of the year assumptions for Food and Industrial Ingredients US/Canada are based on the germ processing recovery timeline that I just outlined as well as sustaining current levels of production and yield through the refinery operations at Argo.

Turning to a significant driver of Texture and Healthful Solutions growth in the quarter. Our solutions sales continue to outpace overall segment growth. As a reminder, our solutions portfolio is approximately $1 billion or 40% of this segment's revenue.

Clean label remains a major growth driver within our solutions offering. It is noteworthy to point out that even against a challenging volume backdrop, customers continue to seek clean label options.

Our industry-leading portfolio of functional native starches grew strongly in the quarter, benefiting from sustained customer demand for simpler ingredient panels and increased reformulation support. Examples include customized texturizing systems for dairy and dairy alternative applications as well as solutions supporting reformulation for healthier bakery and beverage platforms.

Solutions growth is coming from more than just clean label ingredients. It also reflects the breadth of our capabilities and how we are partnering with customers through co-development, providing formulation expertise and differentiated ingredients. This combination is helping us deepen customer engagement and improve mix within Texture and Healthful Solutions.

As part of the innovation engine for solutions, we are increasingly leveraging artificial intelligence to power the consumer insights and predictive formulation work that are at the heart of our solutions customer briefs. This is helping us accelerate the brief-to-solution cycle time.

Moving to another bright spot in the quarter, our Healthful Solutions portfolio comprised of clean taste solutions for sugar reduction and protein fortification continue to grow strongly. Sales of our pea protein isolates driven by recent new product innovations grew more than 50% in the quarter, and our clean-tasting Stevia-based solutions also demonstrated a solid 6% growth in the quarter. Growth in these categories is broad-based across both branded and private label, reflecting the heightened consumer pull for protein fortified and lower sugar offerings.

As we look ahead to the remainder of the year, we are actively monitoring and managing both the direct and secondary effects of higher energy prices. The largest impact we foresee is related to increased logistics costs, which we are actively working to offset with in-year price increases. It's important to mention that at this point, we don't foresee major challenges related to sourcing any of our important manufacturing inputs. The work done in recent years to increasingly localize our supply chains should position us well to mitigate disruptions.

We are also monitoring the impact higher energy costs are having on packaging inflation and gasoline prices and the effect that together they could have on consumer demand in the second half. At this point, it's too early to estimate the degree to which these inflationary pressures may impact volumes.

We are also carefully monitoring fluctuations in the value of the US dollar. The Mexican peso has unexpectedly maintained its strength, and this is presenting a meaningful transactional foreign exchange headwind for F&II LatAm segment.

The dynamics brought on by new inflationary headwinds are familiar to us as we have successfully managed through these periods before. We have the operational experience to react with agility. And we are leveraging our pricing centers of excellence to implement targeted price increases where they are required and where possible.

With that, I'll turn the call over to Jason for the financial review.

Jason Payant - *Ingredion Inc - Vice President & Interim Chief Financial Officer*

Thank you, Jim, and good morning, everyone. Moving to our income statement, net sales for the first quarter were $1.8 billion, down 1% versus prior year. Gross profit declined 14% with gross margin decreasing to 22.4%, driven primarily by operational challenges at Argo, lower volumes and unfavorable mix in Food and Industrial Ingredients US/Canada and Food and Industrial Ingredients LatAm, and transactional foreign exchange impacts in Mexico.

Reported and adjusted operating income were $203 million and $212 million, respectively. Turning to our Q1 net sales bridge, the 1% decrease was driven by $32 million in lower volume and $22 million in lower price/mix, partially offset by $33 million of favorable foreign exchange translational impacts.

Moving to the next slide, we highlight net sales drivers by segment for the first quarter. Texture and Healthful Solutions net sales were up 2%, driven by sales volume growth of 2% and foreign exchange favorability of 2%, partially offset by lower price/mix.

Food and Industrial Ingredients LatAm net sales were up 1%, driven by favorable foreign exchange, partially offset by lower volumes and weaker price/mix. Food and Industrial Ingredients US/Canada net sales declined 9%, driven by operational challenges at Argo and weaker consumer demand.

Now let's turn to a summary of results by segment. Texture and Healthful Solutions net sales were up 2% in the first quarter, and operating income was up 1%. The increase in operating income was driven by favorable input costs, foreign exchange and better volumes, partially offset by strategic price and mix management.

In Food and Industrial Ingredients LatAm, net sales were up 1% in the quarter. However, operating income decreased by 9% to $115 million with operating margins of approximately 20%. These decreases were driven primarily by Mexico transactional currency impacts and softer volumes in Mexico and the Andean region. Positive performance in Brazil and the Argentina joint venture helped offset some of these headwinds, allowing the total segment to deliver results in line with expectations.

Moving to Food and Industrial Ingredients US/Canada, first quarter net sales were down 9%. Operating income was $34 million, driven by operational challenges at our Argo Plant and weaker volumes and mix. Net sales in All Other increased approximately 3%, driven by continued growth in protein fortification, particularly in higher-value isolate and specialty protein applications. Operating income improved by over $3 million year on year, reflecting improved mix and operating leverage.

Turning to our first quarter earnings bridge, the top half of the slide reconciles reported to adjusted earnings per share, and the bottom half walks through the drivers of the year-over-year change. Adjusted diluted earnings per share declined by $0.63 year over year, including $0.71 of margin impacts and $0.14 of volume impacts that were primarily the result of the operational challenges we previously discussed. These headwinds were partially offset by foreign exchange benefits of $0.07 and other income benefits of $0.08 per share as well as $0.07 of nonoperating items, including $0.06 of share repurchase benefits.

Turning to cash flow and capital allocation. We continued to demonstrate financial discipline in the quarter. Year-to-date cash from operations was $33 million, reflecting a planned investment of approximately $205 million in working capital. This was driven primarily by receivables and payables. We invested $110 million of capital expenditures, net of disposals, to support reliability, capacity, and strategic priorities across the business.

During the quarter, we continued to return cash to shareholders through $52 million in dividends and the repurchase of $14 million of shares. This underscores our commitment to balance capital allocation and long-term shareholder value creation.

Now let me turn to our updated 2026 outlook. As Jim noted in his opening remarks, we have revised our outlook to reflect the updated impact from Argo, foreign exchange transactional impacts from continued strength of the Mexican peso relative to the US dollar, the impact of higher energy prices on input costs, and logistics and softer volumes in LatAm.

For the full year 2026, we now anticipate net sales to be flat to up low single digits and adjusted operating income will be flat to down low single digits. Our 2026 financing cost estimate is in the range of $35 million to $45 million and a reported and adjusted effective tax rate of 26% to 27.5%.

Our full year adjusted earnings per share is now expected to be in the range of $10.45 to $11.15. This outlook assumes sequential operating improvements at Argo and continued resilience in the Texture and Healthful Solutions segment. Our adjusted earnings per share range is based on a diluted share count of 63.5 million to 64.5 million shares.

We anticipate that our 2026 cash from operations will now be in the range of $725 million to $825 million, reflecting our updated net income expectation as well as working capital investments in line with net sales growth and normalized inventory levels in Food and Industrial Ingredients US/Canada. Capital expenditures for the full year are now anticipated to be between $400 million to $440 million.

Please note that our guidance reflects current tariff levels in effect at the end of April 2026. In addition, this guidance excludes any acquisition-related integration and restructuring costs as well as any potential impairment costs.

Turning to our updated full year outlook by segment, our net sales outlook for Texture and Healthful Solutions remains the same. But operating income is now expected to be up low single digits, which still reflects volume growth but is partially offset by higher input cost inflation. For Food and Industrial Ingredients LatAm, net sales are now estimated to be flat to down low single digits and operating income is expected to be down low single digits, reflecting foreign currency transactional headwinds in Mexico and softer volumes in LatAm.

As a reminder, our Mexico business is US dollar-denominated, but most of our SG&A and operating costs are in pesos. As the peso strengthens against the dollar, our transactional costs increase in dollar terms, which negatively impacts operating income and can more than offset translational benefits against a weaker US dollar in other parts of our LatAm business.

For Food and Industrial Ingredients US/Canada, we now expect net sales to be down low single digits, and operating income is projected to be down low double digits, which reflects the impact of Argo operational challenges in Q1 on our full year outlook. All Other operating income is still anticipated to improve by $5 million to $10 million from full year 2025.

Lastly, for the second quarter of 2026, we expect net sales to be flat to up low single digits and adjusted operating income to be down high single digits as we lap a very strong second quarter in 2025.

That concludes my comments, and I'll turn it back over to Jim.

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

Thank you, Jason. To close, even in a challenging quarter, we continue to see momentum in the highest value parts of our portfolio, particularly Texture and Healthful Solutions, where customer demand remains robust, supported by clean label, healthy eating, reformulation, and solutions-led growth.

As stated, our Food and Industrial Ingredients US/Canada projections are based on the sequential operational recovery at Argo throughout quarter two and reflect sustaining current levels of production and yield for the balance of the year. We are actively monitoring and managing the impacts of energy and currency movements and are pursuing targeted price increases where required and where possible.

Our enterprise productivity initiatives, specifically from network optimization are providing operational and commercial benefits, which will support margins. With a strong balance sheet and solid cash generation, we remain well positioned to invest for growth, support our strategic priorities, and deploy capital with discipline as we continue to build long-term shareholder value.

Now let's open the call for questions. Operator?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Pooran Sharma, Stephens.

Jack Hardin - *Stephens Inc - Analyst*

This is Jack Hardin on for Pooran. Once Argo normalizes, do you still view the Food and Industrial Ingredients US/Canada business as capable of getting back to the mid- to high teens operating margin profile? And is that more of a 2027 target now? Or could that run rate be possible exiting 2026?

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

Yes. The answer to that question is yes. We are still committed to getting back to the mid-teens operating income margins for that business, consistent with what we put forward in the Investor Day in September of last year. The issues at Argo are the predominant driving factor in relationship to the margin decline and the operating income decline in that business.

We are encouraged by how the grind and how the refinery operations finished the quarter. We were disappointed with the April 10 issue in the germ processing unit. But again, that particular issue is isolated. It's in a very specific location within the plant, separate from grind, separate from the refinery operations, and the repairs are well underway, and that unit should be back up and running again within quarter two.

So in answer to your question from a standpoint of getting back the majority of the 1,000 basis points of margin decline in this quarter compared to the 16% to 17% that we are typically projecting, I think we would say for 2027, certainly, that is our aspiration. That is our expectation at this point in time. And assuming that we can string a couple of good quarters together of runability reliability, we feel that from a standpoint of the demand and how we've been able to service customers through this period, we feel that we can get back to those levels of operating income.

Jack Hardin - *Stephens Inc - Analyst*

And a quick follow-up on capital allocation. With the updated cash flow from operations guidance and CapEx guidance remaining the same, how should we think about capital allocation through the rest of the year? And is the prior commitment of $100 million roughly the right way to think about it? Or has that been updated as well?

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

Jason, do you want to take that?

Jason Payant - *Ingredion Inc - Vice President & Interim Chief Financial Officer*

Yes. I would say, yes. Certainly, based on our current cash flow projections and capital allocation priorities, we plan to build on the $14 million of shares we repurchased in Q1 to meet our full year targeted commitment.

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

And quarter one's CapEx came in consistent with the full year projections as well. So yes, it's to continue as planned for the capital allocation priorities.

Operator

Josh Spector, UBS.

Joshua Spector - *UBS AG - Equity Analyst*

I want to drill into Texture and Healthful a little bit more and just understand some of your kind of assumptions through the year. I guess, if I look at the first quarter, your organic growth was about flat. You got a couple of points basically from FX.

So assuming FX becomes less of a tailwind, you basically need organic growth to pick up. So I'm just curious relative to kind of the 2% volumes and the down 2% pricing, how do you expect that to evolve through the year to get the segment to the low to mid-single-digit growth kind of you expect for the year in total?

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

Well, the mid-single-digit target is part of our long-term algorithm for growth. We're pleased to deliver the 2% net sales volume growth in the quarter. And I think it's noteworthy, again, to highlight that it's the eighth consecutive quarter of sales volume growth.

We really believe that the focus that we have now on solutions, which is a result of the resegmentation work that we completed nearly two years ago and the solution selling approach that we have globally implemented with trainings and certifications and formulation experts that collaborate with our 30-plus Idea Labs around the world plus our technical headquarters in Bridgewater, New Jersey. All of that continues to come together very well on behalf of the customer.

And at the same time, driven by regulatory changes, health and wellness trends, there is a number of reformulations that are coming to us from customers. We also have proactively decoded, I guess, you could say, better than we have in the past, the private label ecosystem and the supply networks, the co-packing networks. And we have an increasing pipeline of project briefs to support customers with solution selling and co-creation, which is driving really deeper engagement and faster delivery of solutions to customers.

And so I think all of that makes us feel confident that when the macroeconomic conditions and inflationary pressures lessen a bit, that's going to enable us to move from what currently is low single digits to that mid-single-digit territory that we believe is absolutely achievable and correct for that segment based on the portfolio that we have, based on the differentiated ingredients that we have, and based on the investments that we have made in capabilities, both in people capabilities as well as in equipment capabilities within our R&D facilities. So that's what gives us the confidence that we can do that.

Joshua Spector - *UBS AG - Equity Analyst*

Okay. No, I appreciate that. I guess I'd be more specifically curious on pricing because you guys have done well on volumes, but pricing has been a persistent headwind. It sounds like from kind of how you described the call today, you'd expect pricing maybe to pick up to cover some of the higher costs that you're starting to see logistics and other areas. Is this the right framework or -- go ahead.

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

Yes. Let me try to clarify in relationship to something that occurred uniquely in the quarter to try to help put that in perspective. So first of all, let me speak to margins, which is what you're also getting at with your question around pricing. What's encouraging to highlight is that margins in US and Canada in Texture and Healthful Solutions actually increased in the quarter.

The majority of the slight margin compression we're seeing is related to the rapid rise in tapioca costs in Asia Pacific. And tapioca for us is a significant business. And that increase or pretty rapid increase in tapioca costs in Asia Pac started to occur at the end of quarter four last year. And so the time lag that it takes to pass through those costs through increasing pricing is what we're seeing in quarter one manifest itself.

And so that typically takes about a quarter, 1.5 quarters to work its way through just on how tapioca pricing works. So that may help to clarify what you're highlighting in relationship to the quarter and some of the margin compression that we experienced. It's something that's pretty heavily weighted and unique to that particular issue.

Joshua Spector - *UBS AG - Equity Analyst*

Okay. I guess one other quick follow-up around that issue is just -- so pricing was still reported down. So how do I square escalation in cost and the pricing side there? Is that the timing that that margin and that price recovers in 2Q? Or are there other factors outside of this, which are still pressuring that?

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

Yes. So regarding pricing and taking it back to, I think, maybe the prior earnings call and what we said in relationship to Texture and Healthful for the full year. Going into contracting, we were, for our less differentiated products, having to price to maintain market share and in some cases, increase our market share to a degree.

And we are expecting and are seeing increases in fixed cost absorption through our Texture and Healthful Solutions manufacturing facilities because we did pursue volume in the contracting period, and that's why the setup for this year, you're seeing some of that play itself out in the way of how pricing is being viewed. But we believe that that was absolutely the right approach to continue with our relevance with the customer base that we segmented and targeted to then bring our solutions capabilities, which over time are going to increase our margins just due to the higher gross profit associated with solutions versus the, say, less differentiated parts of the Texture and Healthful Solutions portfolio.

So there's a few things going on here strategically as it relates to how we approach the year from a standpoint of what the market, say, gave us related to competitive dynamics going into contracting and how we pursue pricing. But the thing to be most encouraged about is the solutions growth in the quarter, which are margin accretive and over time -- and then we had this one issue related to the tapioca costs, which, again, we've been there on the other side of that before many times. And given our market position, those prices will flow through. It just takes about a quarter to 1.5 quarters to get them.

Operator

Benjamin Mayhew, BMO Capital Markets.

Benjamin Mayhew - *Bank of Montreal - Analyst*

So my first question has to do with just thinking about the tough macro environment, customers having to manage pricing. So I'm just wondering what are you seeing in terms of elasticity on your products? And how -- when you're trying to take this pricing, how might that impact volumes should you need to pass through an extended amount of costs through the balance of the year?

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

I'm going to let Jason take this, but let me just set it up. So obviously, very similar to last year in relationship to the tariff implementation. We obviously have been very proactive to put in place a Middle East response team that is collecting all of the inputs to our business as it relates to the inflationary impacts of increasing energy prices, and we're monitoring and managing those direct and indirect impacts.

So we have a handle right now on certainly the direct impacts and what we need to do to offset the logistics cost increases and any increases that are flowing through to us directly with chemicals and/or packaging. Jason, do you want to -- you're overseeing that. Do you want to give some perspective on -- it's early -- I know it's very early in the cycle, but the team is actively working that.

Jason Payant - *Ingredion Inc - Vice President & Interim Chief Financial Officer*

Yes. And as we've done in the past with tariffs and other disruptions like this, we do believe that we will be able to pass through most of the costs. There may be a small but manageable net negative impact. But overall history has shown that contractually and consistent with market dynamics, we are able to pass those costs through. I mean, at this point, what's more difficult to predict is the indirect impacts this may have on consumer demand as our customers work to pass through those incremental costs on to the market.

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

Yes, I think that's absolutely correct. I think that last year, if you remember, we navigated tariffs extremely well. And in fact, I think the net impact to us was after putting through price increases, a net impact of about $6 million for all of the tariffs that went into place last year, and we managed through that very well.

This year, as it relates to the direct impacts thus far that we've been able to project forward for the Middle East energy price situation, we're seeing a number in a similar range. So we think that's extremely manageable.

But to Jason's point, the bigger watch out, I think, for everyone, for the industry at large, is the longer the conflict lasts and the inflationary impacts are felt through increases that consumer products goods companies are putting through in packaging, plastic-related packaging, which is mid-single digits, high single digits and passing that on to the consumer as well as, obviously, gasoline prices that are going to impact lower to middle income consumers.

That's where I think the watch out is for the second half of the year, which is very hard to predict even though in the first quarter, we saw minimal to no impact of this. But everyone is watching cautiously despite the fact that consumers seem to remain robust in the first quarter, at least in the United States.

Benjamin Mayhew - *Bank of Montreal - Analyst*

Got it. Thank you so much for the context. That was very helpful. And just a follow-up question, going a different direction here. Your balance sheet, the cash balance is still very strong. And we know that you've been looking at a pretty robust M&A pipeline, but that valuations haven't quite been where they need to be to take action.

As you're looking at a potentially tougher environment for the industry, how are you thinking about your M&A pipeline? Is it getting more interesting? And are you prepared to pursue more inorganic growth?

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

Yes. I mean one of the things we're obviously fortunate to have is a strong balance sheet and strong cash flows, and that does provide us optionality to pursue value-accretive M&A. I think it's important to note that we have a track record for remaining disciplined in pursuit of M&A prospects. And when we do pursue a target and integrate that business, we've typically integrated and delivered on the business case.

We have a robust M&A pipeline. We always do, and we're actively pursuing a number of businesses that could bring us, obviously, sales and EBITDA and talent and technology. And anything that's going to, again, enhance our winning aspiration in the areas of Texture Solutions and Healthful Solutions, that's going to be our priority. But again, we'll remain disciplined in relationship to the value-accretive nature of those and the executability and the synergies that we can deliver from those targets.

Operator

Ben Theurer, Barclays.

Benjamin Theurer - *Barclays Services Corp - Analyst*

I just wanted to follow up a little bit on the performance in Latin America and what's been driving this. You've called out the volume decline. But if we look at some of the underlying trends, be it at the Coke bottlers or even what we saw with the large brewers in Brazil earlier this morning as well reporting surprisingly better results.

I was just wondering where the mismatch is in between what we saw operationally for the Coke bottlers, brewers in the region with actually flattish to maybe even slightly up volume versus you guys having about a 7% impact on volume. Just wanted to understand the mismatch here.

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

Yes. Ben, it's a really good question, and we saw those results as well that you referred to. So what we can say about our LatAm volumes, we expect volumes to be down slightly, lapping a strong 2025. For us, brewery volumes have been lower than anticipated thus far due to conservative customer ordering ahead of the World Cup, which is surprising.

We believe this has the potential to pick up in quarter two. However, we're lapping soft volumes in quarter three of last year related to a particular customer contract management issue, and we think that the second half, the volumes are going to be stronger.

The Mexican economy continues to demonstrate softness. And thus, we have a cautious outlook on volumes for the remainder of the year for Mexico. I think GDP growth now is in the, say, 1% to 1.5% territory. And so overall, against a record Mexico performance last year, we're seeing softness in relationship to that. And then as Jason alluded to, we have the impact of the Mexican peso, which is a headwind for us as well.

And we'll dig more into the numbers that you referred to, specifically in brewing and try to understand what may be happening in relationship to, say, no and low alcohol beers, which appears to be growing 25% in comparison to mainstay beers and understand how that then flows through to us and impacts us. But that's what we're seeing. That's what we can say to you in relationship to trying to reconcile it at this point in time.

Benjamin Theurer - *Barclays Services Corp - Analyst*

Okay. And then just following up, the price mix, was it more price? Or was it more mix in terms of what drove the headwinds here? Just to understand if it's more like just price pass-through or if it's actual mix effect to lower priced items?

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

In Latin America, you're asking?

LSEG DATA & ANALYTICS

Benjamin Theurer - *Barclays Services Corp - Analyst*

Yes, correct.

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

Jason, do you want to take that?

Jason Payant - *Ingredion Inc - Vice President & Interim Chief Financial Officer*

Yes. I would say that the -- all the impacts from the price were reflected in our guidance and even our original guidance. It's really at this point, it's kind of a mix issue. We're seeing differentiated customer mix and some product mix that is having a little bit of an impact there. But overall, results were in line with our expectations for the quarter.

And we're not seeing a huge change in LatAm balance of the year. Obviously, the bigger drivers in our guidance change are Argo, which is about half of it. And then the balance is really the Mexican peso and some of the Middle East impacts on energy costs. So the LatAm piece is really a smaller component of that.

Operator

Kristen Owen, Oppenheimer.

Kristen Owen - *Oppenheimer & Co Inc - Analyst*

Just following up on this thread on LatAm, I wanted to ask if you could provide a little bit of background on the Cabo plant, just what the decision factor was there and how we should think about that influencing margins? Also just a clarification on the model, is the shutdown of that plant included in the updated outlook? And then I have a follow-up.

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

The answer to your last question is yes. And I'll give you some context in relationship to the decision that we announced today. We're always continuously evaluating the efficiency and optimization of our operations and network. And as part of a broader initiative to adjust our operating footprint in Brazil, with the goal of strengthening operational efficiency, competitiveness, long-term business sustainability, we made the decision to cease operations at our Cabo plant.

That plant is in the northeast part of Brazil, economic growth in that part of Brazil, compared to when we made that decision to make that investment hasn't lived up to its potential. Brazil at the time of that plant going in, Brazil itself was growing 7%. I remember when the investment was made.

And here we are 15-plus years later and the potential for that plant with its location and the economic growth in that territory just hasn't delivered. So while these decisions are never easy, the decision regarding Cabo does align with our long-term vision for Brazil as we concentrate resources on higher value-generating businesses.

And what I think is also noteworthy is the decision we took in Brazil as well in quarter four to close our Alcantara plant. The Ingredion Polyols business in Brazil is a strategic growth platform. And we successfully have executed that, and we've expanded our polyols production at our flagship facility at Mogi Guacu, and that is delivering now on all elements.

And so we're encouraged by that, and that will provide some strength for the Brazilian business in this year as well as the savings associated with the Cabo facility. So these were all necessary moves to strengthen our footprint and our network in Brazil, dealing with the realities of the marketplace.

Kristen Owen - *Oppenheimer & Co Inc - Analyst*

Okay. Great. And then my follow-up question, just -- we've talked about some of the moving pieces in F&I North America. But I'm wondering if you can help us understand how to think about like co-product opportunities, just given where federal prices have moved, maybe some cross winds on the paper and packaging side, how we should think about that influencing the balance of the year?

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

Do you want to take that, Jason?

Jason Payant - *Ingredion Inc - Vice President & Interim Chief Financial Officer*

Yes, I can take that. I think our co-products are always an important part of the business. And what we've been able to do over the past few years is mitigate some of the volatility related to the co-products. So as we've been able to hedge further forward on our corn during our contracting process, we're also hedging forward on our co-products.

So that does somewhat temper any volatility relative to our forecast, which is actually a good thing. So we'll obviously see a little bit of benefit as products rise for the unhedged portion of our contracts, but it will be muted relative to what we may have seen 5 or 10 years ago.

Operator

Heather Jones, Heather Jones Research.

Heather Jones - *Heather Jones Research - Analyst*

I hopped on late, so I apologize if my question is repetitive. But I was wondering on the guidance side, I guess I just wanted to ask about your confidence level. So as far as the Argo issue, you had the issues from last year's fire and now there was a recent fire, I think that was in the corn germ part of the plant.

So I was wondering, have the issues from last year been fully resolved? And does your guidance for the rest of the year assume that the corn germ piece is fully resolved relatively soon?

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

Yes. The answer to your last question is yes. In quarter two, that issue, we believe, will be behind us. Let me -- because Argo was so significant in the quarter, I do want to take just maybe a little bit more time picking up on your question, if you don't mind, to try to put it in perspective, because it's been a disappointment for us.

Early in the first quarter, we had a failure in our corn conveying at the plant, which led to incremental intra-plant logistics basically to have corn flow as it should, and that led to increased logistics and maintenance costs. Now this was repaired in the quarter, and that's now behind us.

In addition, in our downstream refinery operations, we experienced operational reliability challenges in our syrup refining. And that led to product downgrades and unexpected rework costs. And typically, we can overcome that pretty quickly. And in this case, the issue in getting to the root cause proved a little bit more elusive and it just took longer than we had anticipated.

Now this issue unfortunately persisted through the quarter and was the single biggest unexpected negative impact to results. That's now resolved, and that's now behind us. And that came about through really kind of a SWAT team approach to get that behind us.

Now while these issues cumulatively had a significant impact, we're pleased to say with where we're at right now, the issues are behind us, and refinery production is operating at normalized rates as we exited the quarter.

But to the question you asked about the thermal event that we had on April 10. We suffered that thermal event in our corn germ processing unit, which took this unit offline for approximately five to six weeks, and that is scheduled to be back online within quarter two. And it was isolated. It was limited to just the germ processing area. Again, the front-end grind and refinery were not impacted.

And what's important to highlight is that due to the nonrecurring nature and magnitude of this event, that impact will be excluded from our adjusted results. So what I leave you with related to the Argo plant is that we're seeing sequential improvement at Argo, and our outlook assumes we will sustain the production and yield levels we're operating at today. So hopefully, that provides you some additional context as it relates to Argo and the impact in the quarter.

Heather Jones - *Heather Jones Research - Analyst*

It does. And I just want to clarify before my next question. So the issues from last year where I think there was a dryer issue related to your gluten feed and gluten meal, that was fully resolved and was not a factor in Q1.

It was more on the downstream refinery, but that's all been resolved. It's working well. The corn germ issue is not resolved, but it's expected to be. But regardless, it's excluded from your adjusted guidance.

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

That is 100% -- that is correct.

Jason Payant - *Ingredion Inc - Vice President & Interim Chief Financial Officer*

Yes. And I can say -- the challenge you have when your germ processing goes down is you have more germ, right? So we can store a good portion of it that we can process once everything is back online. But some of that will go into the wet feed pile or -- and it will impact co-product values overall.

And because you have a larger portion of product that you need to dry, we won't be able to manage that through all of the dryers. But the issues of last year are resolved. But we do expect a little follow-on co-product headwinds as we get the corn germ processing back online.

Heather Jones - *Heather Jones Research - Analyst*

Okay. And then I wanted to go through your segment guidance. So if I was reading the releases and Q4's release correctly, I think you took down T&HS a little bit. I think you had been guiding up low single digit. You're guiding up low single digit, had been low single to mid-single.

LatAm now down, and US/Can down low double digit. And US/Can seems obvious because of Argo. I was wondering on the T&HS side and the LatAm side, I heard your commentary regarding brewing demand had been weaker than expected to date, and there's obviously been some increases, broad-based increases from a cost perspective.

Are those guidance changes related to the cost? Or has there also been disappointing demand beyond just brewing in those regions?

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

Jason, go ahead.

Jason Payant - *Ingredion Inc - Vice President & Interim Chief Financial Officer*

Yes. No, I would say that impact on T&HS really just reflects the higher costs that we're expecting from the higher energy costs and the lag that it will take in some regions to pass those costs through. And again, there will be a net negative, but small but manageable impact for certain costs that we can't pass on to customers, warehouse-to-warehouse transfers, things like that.

So that's really the cause of the reduced outlook for T&HS. Beyond that, we're expecting volumes and sales to be roughly in line with our original guidance. Although as we said, it's hard to assess the potential impact on consumer demand that those higher cost pass-throughs may ultimately have. So that's something that we're watching carefully and would be included in the lower end of our range.

Operator

Ben Klieve, Benchmark StoneX.

Benjamin Klieve - *Benchmark Company LLC - Analyst*

Just one quick one for me. You alluded on the call -- excuse me, in your prepared remarks earlier in the call to optionality regarding growth investments. And I'm wondering a couple of things around this dynamic. First of all, have the issues that you've been forced to navigate here, be it Argo or the various macro dynamics, have those in any way compromised your ability to really focus on growth initiatives so far year to date?

And then second of all, can you talk about how you see these growth investments kind of evolving? Are you leaning in now more into the kind of the protein side of the business that you highlighted, still focused quite a bit on the T&HS segment? Any context there would be great.

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

Yes. I think one of the things that we did is alongside of our enterprise productivity initiative, which we always need to have as a lever to drive continuous improvement in our business. As a management team, we got together early in the year looking at that initiative and what we wanted to achieve from that this year alongside of what our CapEx budget presented.

And we ring-fenced certain investments that we preserved for support of our Texture Solutions, for example, capability build. And we proceeded to make the people investments and the innovation investments. So right now, one of the bodies of work in enterprise productivity, which you would think could be solely about cost reduction, but actually one of the biggest parts of our enterprise productivity is over -- is enhancing our innovation operating model.

And how do we become even more efficient and effective from innovation with the investments that we can make in artificial intelligence to get the predictive formulation that's at the heart of our solutions capability as well as the measurement capabilities to do structure function predictability work for, again, texture solutions.

So we've ring-fenced those investments. We're continuing to make those investments. And the cash flows afford us the opportunity to invest both in a balanced way in growth capital as well as reliability capital. And we're always assessing those needs. And I think we've got the balance right going forward. We spent a lot of time debating and discussing that.

Operator

Thank you. I would now like to turn the call back over to Jim Zallie for any closing remarks.

James Zallie - *Ingredion Inc - Chairman of the Board, President, Chief Executive Officer*

All right. Well, I want to thank everyone for joining us this morning. We look forward to seeing many of you at our upcoming investor events with the next significant engagement being the BMO Farm to Market Conference on May 13 in New York. And at this time, I want to thank everyone for your continued interest in Ingredion.

Operator

Thank you. This concludes the conference. Thank you for your participation. You may now disconnect.
