Ingredion, Inc.

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Benjamin Theurer: Well, good day. Thank you very much for joining us. Next on stage, we have Ingredion, a leading global ingredients solutions provider.

We're pleased to welcome Jim Zallie to the stage, who was appointed president and CEO of Ingredion in January of 2018, elected to the board of directors in September '17, and now serves also as chairman of the board.

Given the announced acquisition plan for Tate & Lyle, Jim will address the deal in his opening remarks, and then our focus during the fireside questions will be on current business developments.

With that, Jim, please go ahead.

Jim Zallie: Thank you, Ben, and it's a pleasure to be back at the Barclays Conference. It's been a busy year for Ingredion as we continue to transform our portfolio, our business, and as you'll see, with the announced acquisition of Tate & Lyle, to continue to create the future of food on behalf of our customers and with our customers.

So, let me get right into it. Obviously, anything I say today will be protected by the safe harbor provisions in the forward-looking statements.

For those of you that are not familiar with Ingredion, I just wanted to give you a quick snapshot. We're a global ingredient solutions provider. We've been around for a long time, more than a hundred years. Revenue is $7.2 billion. We're traded on the New York Stock Exchange. Market cap, $6.6 billion, as you can see. But most importantly is the global reach and the extensive customer intimacy: 15,000 customers around the world and ship and sell products in 120 countries around the world.

And our business, we re-segmented it a few years ago, and it's a combination of global and/or multi-regional, multi-country segments: one is Global Texture & Healthful Solutions, about a third of our revenue; Food & Industrial Ingredients--LatAm, you can see also about a third of our revenue; Food & Industrial Ingredients--U.S./Canada, about 30%; and then Other businesses, which is made up of the Pakistan business, which we recently sold a majority stake in, as well as our sugar reduction and protein fortification businesses.

Seventy-five percent sold to food and beverage; 20%, approximately, sold to non-food applications, which would be industrial, but also into pharma and personal care businesses, which are increasingly becoming larger and important and higher margins and growing fast.

And then we grind a lot of corn, and we sell that for animal nutrition.

And the cash flow, the strong cash flow that the business has generated – over the last three years, we've generated more than $1 billion of cash each and every year; this year, projected $700 million to $800 million – a lot of that comes from the Food & Industrial Ingredients segments that we then are investing into the faster-growing Texture & Healthful Solutions business.

And so, these are the three segments, and they're scalable. They are profitable businesses in their own right. And they are all about working with customers to enable customers to generate consumer-preferred innovation through the ingredients we supply to give them a front-of-pack labeling differentiation. For example, texture – a certain texture, a certain crispness or crunchiness or velvety texture. Or a protein-fortified claim. Or the ability to reduce sugar. So, we're all about influencing front-of-pack claims and consumer-preferred innovation.

The Global Texture & Healthful Solutions business I wanted to highlight because it's at the center of the strategy for the acquisition to acquire Tate & Lyle. Tate & Lyle is going to bring $2.7 billion of revenue; this business, $2.4 billion. So, together, more than $5 billion. With the combined company, it will be more than 50% of our revenue.

But this business has been doing very well: nine consecutive quarters for net sales volume growth this past quarter, Quarter 2, and the second-highest operating income in the business's history. And the operating margin, which you can see going back from '24, '25, and you can see in this most recent quarter at 18.7%, continuing to increase its margins. A lot of focus on solution selling, which inherently have higher margins, and also just higher growth rates as well.

And we have been reshaping our portfolio, transforming our portfolio, over a number of years if you've been tracking us over, say, the last decade. But most recently, in the last couple of years, we divested our South Korea business. That was a business that had exposure to high-fructose corn syrup and industrial starch pretty much. We divested that. We sold it at a multiple above our current multiple – or the multiple at the time, and we generated $250 million of proceeds.

Most recently, in June, we divested the majority stake, 51%, of our position which we held for many, many years – many decades – in Pakistan. It was a great business at the time, but not strategic to where we want to take the portfolio into the future, more towards higher-value specialties. It was a business that was exposed to textiles and also into glucose syrups predominantly. We generated $165 million of net proceeds from that.

And also, we announced most recently last year the closure and execution of the Alcântara facility in Brazil, outside of Rio, and then invested in our Mogi Guaçu facility, and that went off seamlessly.

And then, most recently this year announced the closure and divestment of our Cabo facility.

But the big news was on June 8, where we announced the acquisition – intended acquisition – of Tate & Lyle. Significant enterprise value of $5 billion. It adds to our texture portfolio, mouth feel, fiber fortification, and sugar reduction capabilities.

We also announced a stronger entry into India. For the last couple of years, we've made acquisitions in pharma for India. And I think of it this way: taking the investments in Pakistan and basically putting them into the most populous country in the world that's growing at a nice clip, but also a very strong pharma presence and a lot of upside in food ingredients as well. And we partnered with a very strong company called Sanstar, one of the leading corn wet-millers, a good family-owned business, but also publicly listed in India, and had cultivated that relationship for a number of years.

And then, consolidated an acquisition of a company called Mannitab for pharmaceutical excipients also in India as well.

And so, the net effect is we're transforming the portfolio to a higher-growth, higher-margin mix. And again, with Tate & Lyle, more than 50% of the portfolio in Texture & Healthful Solutions. And this, as you can see, the revenue will get to approximately $10 billion and the EBITDA at $1.8 billion. And you can see the fact that there's really two complementary portfolios. And really what it does is it creates more scale for us to service our customers.

And that portfolio will give us an ability to provide more differentiated value, specifically through solution selling. Both companies focus more and more on solution selling, but think of it as adding more tools to the toolbox to provide more textural innovation, more sugar reduction solutions, and more fiber fortification, which are highly on trend as the reformulation boom takes place, appealing towards increased regulation around products to be healthier, more clean label, and also enables us to also provide more affordable solutions as well.

The other thing that it does is it provides a complementary network of supply with more inherent, just naturally built-in redundancies of supply. And that is something that we're hearing from customers they're very pleased about because of what they went through during the pandemic, during the supply chain crisis, but also what's happening right now geopolitically with increasing tensions related to tariffs or related to energy prices. And having reliable supply is one of the things also that we think is going to position us as a preferred supplier. With this combination, it makes it very compelling.

And it makes us better positioned to serve consumer needs and address industry trends such as clean label; again, affordability; sugar reduction; we call multi-sensory experiences, which is textural innovation. For those of you that have been tracking the food space and have been reading a number of the food articles in the last one to two years, you're hearing more about texture being positioned as the new flavor, multi-textured foods. You're familiar with boba tea, boba tea now making its way into pudding-like products.

Consumers looking for different eating experiences and companies looking to drive innovation and drive overall liking for products that will taste interesting and great, influenced by texture. Ingredion, with this acquisition, intends to be the go-to provider for texture and healthful solutions that make healthy taste better.

And then you can see also pharma, home, and personal care. The other thing that this acquisition will do, both companies have not-so-well-known areas of focus in the area of skin and haircare as well. These are businesses that are now not so small. They're $200 million, $300 million businesses. Combined, it's going to be even larger. Growing at high single digits and higher profit margins as well. So, the acquisition is very compelling on that front.

And really, the way we go to market with solutions is it starts with bringing consumer insights, talking the same language as our customers, and then developing a co-creation brief where there's skin in the game on both sides, and then really customized formulations, and then helping them scale the products up.

And an interesting statistic, we don't work with just large CPG companies. We're working with private-label manufacturers. We're working with insurgent brands as well. And most of the volume growth – the very elusive volume growth that's happening in the food industry, where it's happening – is coming from insurgent brands. And we are partnering with a lot of these insurgent brand companies, especially in the areas of protein fortification, sugar reduction, and all of that. This acquisition, we believe, brings complementary capabilities to drive a higher margin mix.

The acquisition will deliver $130 million of cost synergies. That's not taking into account any cross-selling or revenue synergies. That's 4.8% only on the stated revenue of Tate & Lyle, which is something we think is very achievable. We have to execute that, but it's very achievable. It's not something that we think is overly stretchy. And you can see what that will do to the adjusted EBITDA once we complete the acquisition.

And when the acquisition completes, which it's scheduled to complete in the second half of next year, we'll be at 3x leverage, with a commitment based on their own inherent cash flow and based on our own strong balance sheet to take our targeted leverage down to less than 2.5x, eighteen months post the close.

And our capital allocation priorities will remain focused on investing for growth, where we have projects for growth; obviously, reliability cost savings; but then, preserving the dividend, where we have had eleven straight years of dividend increases; and opportunistic buybacks. Even this year, despite this acquisition, we're going to generate $700 million to $800 million of cash, and we reaffirmed our intent to buy back more than $100 million of shares this year. And in the last three years, we've bought back $550 million of shares, approximately.

So, we are right now in the regulatory and antitrust review stage and, again, expect completion towards the second half of next year. And then, obviously for 12 to 24 months we'll be feverishly working to deliver on the synergies and the promise of the acquisition.

And again, 15% EPS accretion – greater than 15% EPS accretion of adjusted EPS in the first full calendar year post acquisition.

And so, what this reinforces in regards to the investment thesis for Ingredion is multiple pathways to value creation. Specifically, the ability with scale. And again, the focus to expand the Texture & Healthful Solutions portfolio to be that go-to provider for texture and healthful solutions that make healthy taste better for our customers, just a broader solution set overall, with the ability to drive 1% to 2% volume growth. Two percent to four percent will come from mix upgrades, primarily solution selling. And then, that will help drive the 4% to 6% Texture & Healthful Solutions compounded annual growth rate.

Many of the product lines specifically in the areas of clean label are higher average selling price, higher gross margins. Those are growing fast right now based on all the reformulation that's taking place.

And these are durable positions. There will be a combined enhancement of our IP estate as well that will make us a more intimate partner for customers to help drive innovation. And we think that provides really defensible positions, especially in the areas that we're targeting.

And we get more scale from the acquisition, and we've talked about those numbers.

And then, the disciplined capital allocation as well. Again, a very strong balance sheet today, with a commitment to get the leverage down to 2.5x in approximately eighteen months post close.

So, with that, I'm going to go over and talk to Ben.

Benjamin Theurer: Perfect. Take a seat.

Time for the fire.

All right. Well, thanks for that. And as said, we're not going to go any deeper in any questions Tate & Lyle-related. But maybe to start off, Jim, obviously a big topic – and we've heard this in the morning as well – is just the health of the North American consumer. So, maybe just help us from your side, what are you seeing in terms of any change in customer behavior or maybe potential trade-down? And how is your portfolio kind of, like, balanced, call it private label/value goods? How to think about your exposure as to the consumer dynamics in the U.S., especially?

Jim Zallie: I think, first of all, it's important to highlight that we're a global company, not just a U.S.-centric company, even though so much of our focus is also obviously on the health of the U.S. consumer. But we're a global company and diversified in that regard.

We're a company that helps our customers formulate affordably affordable solutions. And so, that's been part of our DNA for quite a long period of time.

Going forward for the second half, we haven't dialed back any of our, say, outlooks on volume, but we are watching the consumer very, very closely because of all the news that we're all watching in relationship to some food companies' outlooks for the forward outlook.

And I think that the other thing that's compelling about our business is that we sell across multiple customer channels. So, we're selling to the fast-moving consumer goods companies, yes, but we also are selling to private label. Maybe 15%, 20% of our business in the U.S. goes to private label through direct partnerships or the co-manufacturing networks that they use. In Europe, it's a higher percentage; it could be 40%, 45%. In the UK, it can be even a little bit higher than that. So, private label is not an insignificant portion.

We sell to food service and quick-service restaurant customers and are there with continuous new product launches, and those insurgent brand customers that we're talking about as well.

So, we're diversified across the customer base.

And what we've been focused on through solution selling – and we believe that the nine consecutive quarters of net sales volume growth in Texture & Healthful Solutions, which I don't think is any small feat, that we've been able to achieve, and a large portion of that's been coming from steady growth in the U.S. market – is because we're trying to be smart about segmenting our customers, trying to identify which of those customers have the right strategies, are listening to their consumers, and are partnering.

And the whole solution selling model, which starts with that consumer insights and the customer briefs, is allowing us to – it's an overused expression – skate to where the puck is going, to try to find those pockets of growth. Because invariably, there are always pockets of growth. Even though volume has been elusive, there's pockets of growth. Example, this most recent quarter, our protein fortification business was up 40%, and that's driven by of course the demand, the tightness in the whey market for dairy proteins, but protein-fortified products, and even for affordable solutions. Our ingredients get formulated into those products for value launches for food service.

So, it's about really being customer-intelligent, segmenting customers and segmenting the opportunities, and being diversified.

But we're watching it very closely because I think we're at a point where if energy prices and diesel prices continue to go up, the transportation/the delivery cost to get food to customers, I still believe it's a K-shaped economy. I know that Scott Bessent is talking about a C-shaped economy. I'm still thinking it's a K-shaped economy. And we have offerings for both products, for more of the premiumization and nutritionally fortified, but also for the more affordable products.

So, that's how we're looking at it right now. We're watching it closely.

Benjamin Theurer: Okay. So, staying maybe within Texture & Healthful Solutions, as obviously you've highlighted, that's been posting very solid volume growth. And just to understand a little bit better, what are the consumer trends that are driving that and where you see continued momentum for further growth? And particularly, if you could touch on things such as reformulations, et cetera, how that is going to play a key role within Texture & Healthful Solutions and your customer (inaudible).

Jim Zallie: So, we're seeing – and we've been talking about it on the last number of earnings calls – we're seeing a lot of reformulations come our way, partly because of how we've reorganized our go-to-market model to engage with customers with co-creation and solutions briefs and solution selling, but also because volume growth is incredibly elusive for the entire industry and everybody's trying to figure out exactly why. Is it the extreme economizing that's going on with consumers? Is it GLP-1s? Is it regulations, where if they're having to remove synthetic dyes they might as well make the product overall more clean label? So, we're seeing growth coming from our clean label franchise.

We're seeing products that are requiring to be protein fortified or having less sugar in them. And thus, we have our high-intensity natural sweetener products. But at the end of the day, the products always at the end of the day have to taste great.

And we're seeing incremental briefs for textural innovation because – and there are so many stories, so many quotes, so many headlines if you read them a lot in the confectionery space right now talking about multi-textured foods and texture being the new flavor. And we are being seen as the go-to provider for textural innovation. And that's why we're so excited about the Tate & Lyle acquisition, because it's going to give us more texture tools in the toolbox to do that.

So, we think that's driving a lot of the growth right now just based on the strategy we have and the value propositions that we're offering for the industry that's looking to drive volume growth through innovation. The branded-goods manufacturers, because of the affordability challenge and because they took price up too high, lost share to private label. Private label then saw that as an opportunity, and private label went very hard maybe six, nine, 12 months ago to target a lot of that share.

The CPG companies said, "Timeout. What are we doing? We've got to readjust here." They've lowered prices. They've gained back some of that volume. It's a battle. And we're there helping, enabling both drive innovation. Because at the end of the day, they both need innovation to drive sustainable volume growth, and we're there at that intersection to help them.

That's what's happening, and that's what we're seeing, and that's what we're trying to do on the customers' behalf.

Benjamin Theurer: How much does your global footprint actually play a role here with maybe expertise and knowledge of having alternative ingredients to offset some of those changes (inaudible)?

Jim Zallie: It helps a lot because of the supply network that we have. So, we can obviously ship products around the world, especially for the Global Texture & Healthful Solutions business. But really where it's helping is the transportation of ideas, the transfer of ideas and winning products in one geography that we then through our network can transfer to another geography. And a lot of our customers are multinational customers, and if something's working in one country they'll want to roll it out into another country. And having a global presence, being globally positioned, helps with that as well.

Benjamin Theurer: Okay. Got it. Now, one of the things that obviously has kind of, like, been a little bit of a setback over the last couple of quarters have been the issues at the Argo facility. I want to dig into that a little bit. So, obviously, there were a lot of headwinds still in the last couple of quarters. It seems like things are coming back. So, first of all, where are we in terms of operational performance right now? And do you see any incremental headwinds from the downtime outside of, like, the increased costs that you called out earlier?

Jim Zallie: So, for those of you in the audience that may not be having tracked us very closely, I'll just give you the quick story on it. It's the US/Canada Food & Industrial Ingredients business. It's the business which is 28% of our revenue. And it's the business that has underperformed predominantly; that's the business that's underperformed going back to Q2, 3, 4 of last year, where our Argo facility, which is the largest facility – it's a facility outside of Chicago – really cost us $40 million of operating income.

So, last year, for Ingredion, we had a record year for operating income and EBITDA. Record. The year prior to that was a record. The year prior to that was a record. And despite $40 million of cost, headwind, inefficiencies from the Argo facility in Quarters 2, 3, 4, we delivered a record year.

In Quarter 1 of this year, we had a $40 million negative impact from Argo. So, $40 million for three quarters last year; $40 million just in Quarter 1. Quarter 2, there was marked relief because the plant had stabilized. We stabilized the grind. We've stabilized the refinery. And a lot of the rework that we had has been predominantly worked off. We had an unfortunate thermal event where we had to – which impacted our germ processing, and that happened on April 10. By June, early/mid-June, it was back up and running through just heroic efforts on our part. Exiting June – so, exiting the second quarter – the plant was running very, very well.

And what we're saying to the Street is that we intend to sequentially, throughout the year and going into next year, sequentially improve. When you have your largest facility that struggles and is struggling, you don't – it's like turning a supertanker. You can't turn it on a dime. But it is stabilized, and it is sequentially improving, and we expect it to continue to sequentially improve.

So, not anything has changed in that regard.

However, what we're watching is we're watching our consumer demand for the products that it produces. Because when you struggle, it takes some time to get back volume. And then we're obviously watching what I said earlier, which is the consumer volume.

But I'm pleased to say the plant is running much better, and there's been an incredible amount of focus. We announced additional capital spend to help improve reliability, but also we've gotten into processes and training and all of the things that you need to do, the blocking and tackling. And so, we feel that the plant is definitely in a much better place than it was for the last four quarters. And it is stabilized, and it is on the ascent. The key here is to keep demonstrating that and then win back the trust and the volume from the customers that was hurt during that period of time.

We believe – this is something Jason, who's sitting in front of me here – we believe that perhaps there's a $20 impact in the stock related to that Argo facility. So, you're right to call it out, and we've got to earn back the right to get that $20 back in the stock price. Just to put it in perspective, the operating income margin for the U.S./Canada Food & Industrial Ingredients business going back to, say, Quarter 1 of '25 was probably at 17%, 18%. I think we were in Quarter 1 at 7.8% or 8%. So, ten points of margin on that business alone.

And so, we will get back, but we've got to earn it back. In Quarter 2, we were back up to 12% operating income margin. So, it's coming back, but it's just got to take some time to come back.

Benjamin Theurer: How do you think actually about the shape of that recovery in terms of timing? What's your...?

Jim Zallie: I wish – it's not going to be a Nike swoosh or a hockey stick. I think that what we are saying is sequential improvement is basically what we're striving for. And I think if we do that with the growth in the Texture & Healthful and the stability we have in the rest of the business, we'll be in good shape. We'll be in good shape.

Benjamin Theurer: All right. I wanted to touch before coming to an end time-wise also some of the global footprint you've talked about early on. And obviously, Food & Industrial--LatAm is still a very sizable business. Also, it's a far profitable business, obviously. Will lose a little bit of relevance with the Tate & Lyle acquisition, but as of now, obviously, it's a big player.

So, as we look at that, there seem to be very mixed market dynamics in Latin America, if we think about the bigger countries. So, maybe help us and help the audience understand a little bit better where you play a key role in Latin America, what are, like, the macroeconomic drivers, and what have been maybe the issues, but what have been, as well, more the brighter spots within Latin America over the last couple of quarters.

Jim Zallie: So, Ingredion has an incredibly strong position in Latin America. And that's defined as Mexico, where we have a jewel of a business in Mexico – we have three manufacturing facilities and a great business in Mexico. We have a #1 position in the market in Brazil and a #1 position in the Andean region, which consists of Colombia as well as in Peru.

To put it in perspective, again, 32% of our overall revenue comes from LatAm. That's because of a legacy of longstanding, more than a 100-year history of investments there as well. And the operating income margin – Ben called it out – it was 20.3% Quarter 2 of last year; Quarter 2 of this year, 19.3%. So, a 1% decline.

Those headwinds this year have been related to the Mexican peso, the strength of the Mexican peso, because our costs are denominated in Mexican pesos. And so, that's been a not immaterial impact to the business. And also, the Mexican economy has not been as robust, growing at about 1% GDP.

Our Brazilian business has been doing well this year.

But the one thing that's maybe newsworthy from today is on August 10, I believe you would all remember, it was a Monday, at 7:30 in the morning, there was a 7.4 earthquake in western Colombia. Our plant is located in Cali, Colombia. So, our plant did incur an outage, some outages. Natural gas was disrupted to the country. And so, we were down for maybe five, six days. So, in Quarter 3, there will be a small impact.

So, going forward, there will be an impact. I mean, it's not our largest business; Mexico is by far our largest business. But the fortunate thing is none of our employees were injured. About twenty of our employees' families were displaced. So, that was a pretty severe earthquake. We're going to need a little bit of extra capital – not anything great, maybe $10 million, $15 million – to invest in some things to make some of the infrastructure safe.

But the plant is back up and running, and we're up and running now at historical rates. But we were down for a good five, seven days, and everybody's been pretty shaken up down there because there's been aftershocks and all of that.

So, for the go-forward, the story has been the peso in Mexico. Brazil's fine. And now we've had this unfortunate, I think it's August 10, event in Colombia, but we're back up and running and running pretty well. And it won't be a material impact, but it'll be a handful of million dollars of impact, approximately.

Benjamin Theurer: Very good. Thanks for that.

Now, just two real quick ones at the end. So, one, obviously, corn cost is a very relevant piece of your COGS profile, and corn prices have gone up quite meaningful over the last couple of weeks. So, just tell us what your expectations are and how you kind of like think of, like, pass-through dynamics and potential impact to profitability just short term given where corn prices have moved.

Jim Zallie: So, for those of you that haven't tracked, again, Ingredion over the years, we've done, I think, a really good job over the last, say, five, six, seven years of reducing any volatility associated with any increase or decrease of corn prices and the then association of the impact of co-products – that's the sale of corn oil, germ, meal, feed – to our overall, what we call, net corn position. So, we've done a very good job because we've been selling forward more of the co-products. But our business model allows us to do back-to-back hedging with customer contracts. And really, it takes out a lot of the volatility.

So, as corn prices increase – and typically, they do – which is a hedge against inflation, which is exactly what you're seeing right now, that doesn't really affect us. Because our customers are keenly aware of it. They understand it. And it's not a heavy lift to communicate to them. The industry is very rational in that regard, and everybody understands that this just has to be passed through.

What the ultimate impact is on consumers is a different matter, right? Because again, it gets back to how much inflation can the consumer absorb coming at them from a variety of areas.

But for us, for contracting for next year, for pricing pass-through, our business model is developed, mature, and strong enough that it just happens that customers understand that element of the need to pass through price increases.

The other thing, though, that you didn't ask about, which I'll just mention, is there was a very severe drought in Europe, as you all know, this past year, and the corn crop is down quite significantly. The good news for us is we're covered. We've planted sufficiently. And on a delivery cost basis – and we've done this in the past – we can bring in product from the U.S. So, even for our specialty hybrids, we're feeling very good about our position for Europe. And so, if that was on your mind, "What about the European corn crop with the drought," for Ingredient, at least, we feel very good about our position there also.

So, we don't see corn being a factor for us as we head into '27 in any headwind way. We don't see that.

Benjamin Theurer: Perfect.

Well, just at time. Jim, thank you very much. And good luck with Tate & Lyle go-forward and closing that. And hopefully, September next year we can talk more details about this. Thank you very much. Heading over to the breakout.

Jim Zallie: Thank you.