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## INGR - Q3 2013 Ingredion Incorporated Earnings Conference Call

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**OVERVIEW:**

INGR reported 3Q13 net sales of $1.6b, reported operating income of $137m and reported EPS of $1.10. Co. expects 2013 EPS to be $5.00-5.15.

## CORPORATE PARTICIPANTS

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

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

**Cheryl Beebe** *Ingredion Incorporated - CFO*

## CONFERENCE CALL PARTICIPANTS

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

**Farha Aslam** *Stephens Inc. - Analyst*

**Ken Zaslow** *BMO Capital Markets - Analyst*

**Akshay Jagdale** *KeyBanc Capital Markets - Analyst*

**Tim Ramey** *D.A. Davidson & Co. - Analyst*

**David Driscoll** *Citigroup - Analyst*

## PRESENTATION

**Operator**

Welcome to Ingredion's third-quarter 2013 earnings conference call. At this time all participants are in a listen-only mode. Later we will conduct a question-and-answer session. Instructions will be given at that time.

As a reminder, this call is being recorded. I would now like to turn the conference over to our host, Aaron Hoffman, Vice President of Investor Relations and Corporate Communications. Please go ahead, sir.

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

Thanks, Marla. Good morning and welcome to Ingredion's third-quarter 2013 earnings call. Joining me on the call this morning are Ilene Gordon, our Chairman and CEO, and Cheryl Beebe, 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 risk 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 Form 10-Q and 8-K.

Now I am pleased to turn the call over to Ilene.

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

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

Clearly, our third-quarter results did not meet our expectations or yours. This is disappointing to me and to our management team. Ingredion has a long history of delivering against our commitment and the results that we have reported over the past two quarters are simply not acceptable.

With that said, the primary issue over both quarters can be very clearly isolated to South America and particularly Argentina. We continue to believe that these are short-term issues. We will still see significant long-term value in our South American franchise.

When these economies hit their stride again, we believe that there will be a truly meaningful impact for our Company. Suffice it to say that without the largely exogenous issues in Argentina, our business is performing well and in accord with our expectations for our business model. Look no farther than our North America region which delivered almost flat operating income in the third quarter and record operating income through nine months, in spite of historically challenging conditions.

Asia-Pacific and EMEA have largely delivered to our expectations. Positively in the quarter, we also saw cash from operations grow significantly as expected and we used some of our cash to repurchase almost 1 million shares. Cheryl will provide some further detail later.

Let's now spend a minute on each of the regions and our third-quarter business performance.

As I just pointed out, our North America business has faced tremendous headwinds in the form of a historically bad drought in 2012, extremely low sugar prices and a weak consumer environment. The third quarter was the worst of the impact from the drought as basis ran to all-time highs and corn availability was scarce.

I am pleased at the skillful execution of our team in that region. They built finished inventory in the second quarter, helping them smoothly deliver against customer commitments in the third quarter.

You'll notice that North America volumes were down again. We can trace this back to a few factors. First, as we've discussed all year, we are intentionally shedding some low value business. While this erodes volumes a bit, it has a positive impact on our margins and over time freeze capacity that can be better directed to higher value opportunities.

We also saw a bit of switching from HFCS to sugar in Mexico. This had a modest impact overall, but is worth noting. Mexico was also hit by two tropical storms that had a negative impact. None of these items individually are too large, but accumulatively created a volume headwind. The North America team has done an admirable job in managing all of the controllable costs and other factors in order to deliver a solid quarter and a record operating income for nine months.

Turning to South America, the quarter was really a tale of two countries in opposite directions. Brazil showed a number of positive signs, most notably sequentially better brewing volume. While they weren't up year over year, they were better than we have seen in a number of quarters, giving us optimism that demand is picking up.

In other end markets like food, confection and industrials, we continue to see positive volume trends. The primary negative factor in Brazil continues to be foreign exchange headwinds.

While we can largely look optimistically at Brazil, unfortunately we can't do the same with Argentina. Most of the severe economic and political forces we detailed in the second quarter continued and in some cases accelerated.

First, corn pay prices remain high and availability is limited. Farmers are holding the crops back and selling only what they need to pay their expenses. They fear further currency devaluation if they convert their crop to pesos. In fact, the government increased the export quota on corn by another 3 million metric tonnes in the quarter, but very little corn left the country.

Combine high corn prices with ongoing very low sugar prices and we face a marketplace where our customers are switching to sugar in lieu of HFCS.

Unlike some other markets, most beverage customers in Argentina have the assets to liquefy and blend sugar if they choose, making switching an easier choice. And even as we exited the Argentine winter, government restrictions imposed on natural gas for commercial users remained high. This led to a 12% increase in energy costs for our business.

We remain squeezed between these unfavorable market conditions and ongoing retail price controls also imposed by the government. This means, in the basic sense, that we have substantially a higher cost and little recourse to take pricing action with our customers as they can't pass pricing on to the consumer.

The lingering question we all have is where do we go from here. We have made some management changes in Argentina and are reducing controllable costs, wherever possible. We have been in Argentina for more than seven decades and remain bullish on our business there over the long term.

To round out the region, we had weak volumes in Colombia as a result of the national strike and some other social unrest in August and September.

Moving on to Asia-Pacific. That region continues to see solid economic activity other than South Korea where high price corn is at a disadvantage to sugar in the short term. We expect this to correct itself as lower-priced US corn becomes available.

In EMEA the Europe portion of the business is generally doing well, but it has been offset by bottom-line issues in Pakistan. Pakistani volumes were actually quite strong as consumer trends remained favorable. The challenge is the very high price of energy required to run our facility.

In summary, our total business is doing well and our model is holding up in these challenging economic times, which gives me confidence in the long-term strength of the business model. Argentina remains a significant drag on our results and we are proactively working to improve the situation there, but this will clearly take some time.

At the same time, we continue to generate strong cash flow and are deploying that with an attractive dividend and appropriate share repurchase.

There's obviously some other very significant news to discuss today. Cheryl's retirement and the resulting move to appoint Jack Fortnum as Cheryl's successor as Ingredion's CFO. And Jim Zallie will succeed Jack as President of our North America business.

First and foremost, let me say that we will deeply miss Cheryl. Many of our investors who have interacted with her over the years have seen her intellect, passion, commitment, and rock solid practical approach to strategy, business, and of course finance. As much as you have all appreciated those qualities, I think those of us who work with her everyday understand even more keenly her contributions.

She has played an absolutely key role in bringing our Company from about $1 billion in sales when we spun off from CPC to becoming a Fortune 500 company today. She built the balance sheet, educated many a manager and leader on value creation, and focused the Company on return metrics that stressed shareholder value. She tirelessly fought for what she believed would best serve our shareholders.

And those are very big shoes to fill. But I honestly believe we have the best possible successor in Jack Fortnum.

While Jack's most recent position has been the highly successful leadership of our North America business, going back farther, you will see that he held a wide range of financial positions. Most notably at the time of the spinoff, Jack was our Corporate Controller and his Treasury counterpart was none other than Cheryl.

You will find that Jack has deep financial knowledge, extensive operational experience and many of those same practical qualities that we all value so much in Cheryl. He also has the highest levels of integrity. Cheryl and Jack will conduct an orderly transition over the next several months.

Replacing Jack will be Jim Zallie, who has been running our Asia-Pacific and EMEA region. He was the Chief Executive Officer of National Starch when we acquired that company and has done an excellent job in the past three years.

Moving Jim into our North American business will give him an opportunity to run our largest region. I am excited about the energy and vision that he has brought to Ingredion and have no doubt he will continue to be very successful in his new role. In fact, our investors met both Jack and Jim at our Analyst Day last November. As you saw, they are highly engaged and have developed articulate strategies for their businesses.

So now, let's turn the time over to Cheryl, and again, Cheryl, thank you for everything. It has been a pleasure having you as my partner.

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**Cheryl Beebe** - *Ingredion Incorporated - CFO*

Thank you, Ilene. This is a difficult moment, but I want to say thanks to my many colleagues and friends. I have been so blessed to work with such an outstanding group of people over my 33 years with the Company. I have learned so much over the years and am so proud of what we have built together.

This is truly a great Company with a sound and executable strategy and the people to take it to the next level. I have every confidence in Jack and Jim as they take their new positions.

I will be using my passion and focus for getting my true love and friend Jim to victory in his battle with cancer. Many, many thanks for all of the prayers coming our way. And thank you, Ilene, it has been a great partnership.

Now let me move to the numbers. We will do our best to explain why we have revised the guidance. As Ilene said, this is disappointing to say the least.

As we said in the second-quarter call, South America with particular emphasis on Argentina was under pressure and that, year over year, we expected a 50% decline in the operating income.

The third quarter began with a slow July, which nicely improved in August. Argentina swung from slightly negative operating income in July to positive in August. In fact August looked like May, providing some level of confidence that our 50% haircut [wasn't] appropriate. September took a backwards turn.

Brazil is improving slowly. In fact, Brazil has more than doubled its performance from the second quarter. The brewing segment is picking up, October volume is almost back to the level of a year ago. The strike and social unrest in Columbia impacted volume and cost causing the local team to fall short of their performance by several million dollars. The guidance reflects the third-quarter performance and we have lowered the fourth quarter as well, to account for the slower recovery in South America.

As I pointed out on the first- and second-quarter earnings call, there are a few items from last year that impact comparability in our third-quarter and nine-month results. The 2012 financials include the now exited industrial starch joint venture in China and the closure of our Kenyan plant. The net sales impact for the third quarter was $6 million and $3 million for the Asia-Pacific and the EMEA regions respectively. Year to date, the net sales impact to these regions was $19 million and $11 million respectively. At the operating income level for both the third quarter and year to date, the impacts for each region are minimal.

As we look at the third-quarter income statement highlights, net sales were down 4% to $1.6 billion. Gross profit dollars were $259 million, down $54 million and gross profit margins declined by 260 basis points.

While price/mix was positive, gross profit was down, reflecting softer volume and increases in raw material, energy, and labor costs, particularly in South America which continues to be a very difficult operating environment as Ilene detailed.

Reported operating income in the third quarter of $137 million for the Company was down $32 million or 19%. Last year's operating income number included $10 million of restructuring impairment and integration charges. Adjusting last year's number up $5 million to $10 million, the operating income decline would be $42 million or down 24%. The reduction in operating income is driven primarily by South America, which was down $28 million in the quarter.

Reported earnings per share were $1.10. This compares to reported earnings per share of $1.45 in the third quarter last year and adjusted earnings per share of $1.52.

We are very disappointed with the South American performance this quarter. We had anticipated better performance from Brazil, Colombia, and Argentina. Colombia experienced a national strike and civil unrest while Brazil and Peru, sequentially, it didn't hit our expectations. And Argentina worsened. However, from a long-term standpoint we remain confident in our South American franchise.

Turning to the third-quarter net sales bridge, sales were down $67 million for the Company. Foreign exchange was a negative $54 million and lower volumes were negative $59 million. This was offset by positive price/mix of $46 million.

As we look at the sales variance by region in the quarter, North America is down 3% or $28 million, largely due to a 4% negative impact from lower volume and a 1% negative impact from foreign exchange, partially offset by a positive price/mix of 2%. South America is down 11% or $40 million, due mainly to weaker foreign exchange of negative 11%, positive price/mix of 3%, offsetting weaker volume of negative 3%.

Asia-Pacific net sales were down 5% or $11 million, reflecting a 3% decline in volume and negative foreign exchange of 2%. Excluding the discontinued Chinese joint venture, sales would have been down 2% versus last year on a comparable basis. For EMEA, net sales rose 9% or $11 million on positive price/mix of 10% and volume growth at 2%. These contributions were more than enough to compensate for the weaker currency of negative 3%.

Excluding the impact from the plant closure in Kenya, sales would have been up 11% over last year on a comparable basis.

For the total Company, net sales were down 4%, reflecting the negative impact of lower volume of 4%. Positive price/mix of 3% was offset by unfavorable foreign exchange of 3%.

Moving to the operating income bridge, total Company-adjusted operating income was down $42 million. North America delivered $97 million in operating income which was down 6% against a strong comparable quarter last year. The decline is largely due to unabsorbed fixed cost resulting from lower volumes in the quarter.

South America's operating income declined $28 million as positive price/mix could not offset the headwinds from higher raw material, energy, and labor costs as well as negative currency and lower volume. Argentina accounted for about two thirds of the operating income decline in the region as a result of the challenging operating environment in that country.

Asia-Pacific's operating income was down $5 million in the quarter as we saw softer sweetener sales to the beverage industry in South Korea. EMEA's operating income was down $2 million, primarily due to continued higher raw material cost and energy availability in Pakistan.

Moving on to the earnings-per-share bridge, we estimate a $0.39 decline in the quarter from operations with a $0.27 negative impact from lower margins, particularly in South America; a negative $0.08 impact from lower volume; and weaker currencies impact of $0.05. Other operating income contributed $0.01. Nonoperational items were a negative $0.03 reflecting $0.01 each from higher financing costs, noncontrollable interest and a higher share count versus last year.

Turning to the nine months ended September 30, net sales are down slightly or about 1%, $59 million to $4.8 billion. Gross profit dollars year to date were $841 million, down $63 million versus the comparable period a year ago with gross profit margin declining 110 basis points to 17.4%.

Reported operating income of $452 million is down $31 million versus last year. The year-ago operating income number included $31 million of restructuring impairment and integration charges. Adjusting last year's number up by the $31 million, operating income in the first nine months of 2013 declined by $62 million or 12%.

The year-to-date decline in operating income in South America where we face significant operating challenges is $60 million or nearly all of the total Company's decline in adjusted operating income of $62 million. Reported earnings per share were $3.71 in the first nine months, down $0.35 or 9% versus last year and down $0.40 or 10% on an adjusted basis.

From a net sales variance view price/mix contributed $211 million, which was more than offset by the combined negative impacts from volume of $150 million and foreign exchange of $120 million. By region, the negative currency impact to net sales in the first nine months of 2013 was primarily in South America, representing $100 million of the total Company impact of $120 million.

As noted previously, weakness in the Argentine peso and Brazilian real accounted for the vast majority of the negative currency impact in the region and for the total Company. North America volume was down 3% year to date while South America volume was down 4%, reflecting weak economic conditions in Argentina and Brazil. Asia-Pacific volume was down 3%, reflecting the Chinese joint venture exit. Excluding this action, volume would have been flat. Europe, Middle East, Africa volume was up 2% in the first nine months. Excluding the impact of the Kenya plant closure, volume would have been up 5%. Price/mix was positive in the first nine months of the year as we continue to appropriately pass through higher input costs with the exception of Argentina.

Operating income year-to-date reflects modest income growth in North America despite the challenges of the worst drought in the last half-century. In fact, North America's year-to-date operating income of $308 million is the highest ever for the region through nine months.

As previously mentioned, the challenges in South America resulted in an operating income decline of $60 million through nine months, comprising nearly the entire decline in operating income for the Company in the period.

Asia-Pacific's operating income declined $2 million or 2% and EMEA declined $4 million or 6%. Corporate expenses were up $5 million through the nine months. The year-to-date reported earnings per share of $3.71 is down $0.35 from 2012 EPS of $4.06. Excluding significant items, EPS of $3.71 is down $0.40 from 2012 on an adjusted basis. We estimate a $0.56 decline from operations primarily from lower volume and higher costs. Non-operational items partially offset this amount by $0.16, due primarily to the impact of a lower effective tax rate which contributed $0.19.

On a year-to-date basis, the 2013 tax rate was 25.9% compared to 29.7% for the same period in 2012 on an adjusted basis. Lower financing costs contributed $0.02. These favorable impacts were partially offset by higher shares outstanding and noncontrolling interest, which negatively impacted EPS by $0.04 and $0.01 respectively.

Cash flow generated from operations was $362 million. Net income contributed $297 million, and depreciation and amortization added $145 million. Changes in working capital used $151 million, primarily due to lower accounts payable and an increase in accounts receivable driven by higher selling prices. These impacts were partially offset by lower inventories, particularly in North America which reflected the unwinding of the second-quarter inventory build and action taken to protect physical supply in advance of the new corn harvest which is now coming in.

We invested $202 million in capital expenditures and paid dividends of $82 million. In addition, we repurchased 880,000 shares for a cost of $56 million.

Turning to the outlook for the full year 2013, we are now narrowing our earnings-per-share guidance to be in the range of $5.00 to $5.15, which is lower than our previous guidance of $5.10 to $5.40. This reflects the disappointing third-quarter results in South America. At the low end of the range, $5.00 would be about a 10% decline from last year's $5.57 and at the upper end of the range, $5.15, the decline is about 8%.

Financing costs are anticipated to be in line with last year and the full-year effective tax rate is expected to be approximately 27%. We expect to generate strong cash flow from operations of approximately $600 million to $700 million. This is slightly lower than our previous guidance reflecting the impact of lower net income and our decision to fund certain pension obligations in the US and Canada. This guidance assumes minimal impact from margin accounts and reflects reductions in working capital from current levels, primarily receivables.

Capital expenditures are forecasted to be between $300 million and $325 million at the lower end of our previous range of $300 million to $350 million as we moderate our spending to reflect the performance of our business and the current operating environment.

From a regional perspective, we expect net sales in North America to decline between 3% and 4% on continued volume softness and the impact of lower corn cost on grain-related customer contracts. Given what has transpired in the past several quarters, I would like to be a little more explicit in terms of what to expect in each region.

We wouldn't expect to continue to provide this level of detail in the future. Operating income is anticipated to be between $103 million to $106 million compared to a record $108 million in the fourth quarter last year for North America.

Net sales in South America are expected to decline as a result of this continued currency devaluation. However, we do expect this impact to be partially offset by modest volume growth.

Operating income is anticipated to be in a range of $37 million to $43 million for the fourth quarter, a significant sequential improvement over the second and third quarters of this year.

For Asia-Pacific in the fourth quarter, excluding the impact of the exited Chinese joint venture, we expect net sales to be up slightly driven by volume growth. Operating income in Asia-Pacific in the fourth quarter is expected to increase $1 million to $2 million over the prior year.

In EMEA, we expect positive price/mix and volume growth to drive net sales growth in the quarter, consistent with the first nine months of this year. Operating income is anticipated to decline $1 million to $2 million due to higher costs related to specialty grains.

As we turn to next year, we continue to see several encouraging factors that leads us to be optimistic about 2014. Volume softness should abate as the economy in North America shows signs of recovery which should drive overall consumer demand. In addition, the price relationship between corn and sugar in Argentina should begin to normalize, which will make our sweetener prices more attractive going forward. We are already starting to see modest volume growth in Brazil across many consumer end markets. And the economy there is expected to pick up further as the country prepares to host the 2014 World Cup and the 2016 Summer Olympics.

Finally, expected increased volume will drive better fixed cost absorption across our manufacturing network.

In the US, the current crop is proving out the market's expectation for record levels of production which has brought price relief in the marketplace and should result in improved volumes for our business. As we have outlined in our second-quarter earnings call, we expect that our capital investment will provide incremental revenue and operating income, specifically our investments in additional specialty starch capacity in Europe and improved utilization of our newest facility in Pakistan.

In summary, the third quarter of 2013 has been very challenging primarily in Argentina. However, for the most part, these challenges have been driven by short-term, temporary circumstances that we believe will begin to improve in the near future.

I will now turn it back over to Ilene.

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

Thanks, Cheryl. As I said a few times this morning, our business model which is reflected in our 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 and in the meantime we are proactively making changes to control cost.

Elsewhere in spite of challenges our business is doing well. As Cheryl indicated, the early look at 2014 suggests that we have a much better environment in front of us and that should position Ingredion for a return to our historic strong earnings growth rates.

We have also demonstrated a track record of good stewardship of shareholder capital. Dividend increases and smart M&A point to a management team working toward shareholder value creation.

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 benefit our shareholders in the years to come.

Taken together, we believe in our prospects and our ability to deliver over the long term.

Let me conclude by thanking Cheryl again personally and on behalf of our executive leadership team, our 11,000 employees and our Board of Directors. Again, you have been a great partner and we all wish you and your family the best. Thank you for everything.

And now, we are glad to take your questions.

## QUESTIONS AND ANSWERS

**Operator**

(Operator Instructions). Brett with BB&T Capital Markets.

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

Good morning, everyone. Cheryl, of course you will be missed and it has been a pleasure working with you over the years.

Very quickly, Ilene, you just mentioned the long-term CAGR target. Is it still your belief that 10% to 12% over time but that 2014 should be above that level?

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

You know, Brett, what I have always said and I know I said it last quarter, we still believe in the long-term compounded annual growth of 10% to 12% off the 2012 base. And we still believe in that, but it is too early to give 2014, but I do reiterate that we are confident in the long term 10% to 12% per year. And I know some years have been higher than that. This is a year that is lower, but again long term off the 2012 base, we are still committed to those targets.

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

Okay, so of course, broadly speaking if you are committed to that target and you have a softer year one year, you should have another year that is going to make up for that.

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

Hopefully.

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

Okay. And then, Cheryl, I say this, of course, respectfully, I would love to get as candid a response as possible from you. On capital allocation you have generated $250 million in CFO during the quarter. You have reduced CapEx, you have added $50 million to the cash ledger sequentially. Your share repurchase it was nice to see, but it was really inconsequential during Q3 and late last year you guys made the comment that look, 2014 -- or, excuse me, 2013 could be difficult and if it is, we can step in and protect shareholders somewhat. So for me it is not necessarily a disappointment that we are having a weak environment materializing this year, it is more of perceived inaction by management related to capital allocation, et cetera.

So what can you say to investors somewhat candidly as far as how you think about it and what you are looking at going forward? I mean, is there something in the M&A environment that is attractive to you or is it something related to potentially the dividend? Can you answer that for me?

**Cheryl Beebe** - *Ingredion Incorporated - CFO*

Absolutely. And let me be direct and candid. We bought back the equivalent of $56 million in the third quarter. We have a share reauthorization that was about [3.4 million] (corrected by company after the call) so let's -- it was 880,000 in the quarter. Let's call it -- let's do easy math, but [2.5 million] (corrected by company after the call). We are committed to spending another $200 million to repurchase shares and to clean out that authorization. And if necessary we will go for another authorization if the Board were to approve it.

The capital allocation hasn't changed. We are consistent over the short-term and long-term that our belief is the best value for the shareholder long term is to find assets that will produce future cash flow. And so, acquisitions are a priority.

Obviously, we are dialing back the capital expenditure in concert with the operating performance and the economic outlook. We expect that to be more of a short-term issue than a long-term issue. So again, we are absolutely committed to the long-term value creation, which over time we have demonstrated with acquisitions and organic growth that we can create that shareholder value.

With that said, when we are sitting with cash on the balance sheet and the performance is not as strong as we would anticipate or like, then we'll do the right capital allocation decisions. We have raised the dividend three times and we will continue to buy back our shares.

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

Cheryl, thank you for that. I just have two other quick questions. In South America and specifically Brazil, you noted a sequential improvement in volumes specifically in the brewing sector. You think -- can you talk about that on a seasonally adjusted basis? Do you think you are seeing real improvement above and beyond or do you just think that you are seeing that normal sequential seasonal improvement?

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

I will just start out. It is Ilene and then, I will turn it to Cheryl. There is clearly some seasonal improvement, but again when we look year over year because the seasons are in general the same, we are seeing a lessening of the gap between being down last year over this year. And so even as we look at October, we are actually seeing coming close to last year.

So, again, by definition it is seasonally adjusted. So I think that there has been -- there has certainly been overcapacity in Brazil. We are not seeing strength yet from the Olympics and from the World Cup. And I think in our comments what we talked about, that we believe in 2014, we will start to see that. But I think the good news is that in the third quarter and even now, we are starting to see an improvement in the brewing industry in Brazil.

Cheryl, I don't know if you have any (multiple speakers)

**Cheryl Beebe** - *Ingredion Incorporated - CFO*

It is sequential improvement. So when I think about the guidance that we put together back in July, we assumed that the year-over-year decline in brewing segment sales driven by volume would be 10% to 12%, which was an improvement versus what we saw in the second quarter which was, I believe, around 27% and were actually -- we saw better performance than that in the third quarter.

But again, year over year, that comparison is still down. So with the October -- and we spoke to the team yesterday, the October volume numbers looked -- are very positive. And so that gives us the confidence relative to that fourth-quarter projections.

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

Very helpful. My last one, very quickly, there are some concerns out there that corn processors could compete away the entire inherent margin gain from the lower corn as you guys contract this year. I am just curious if you could give a view on that thought. Thank you very much.

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

Yes. My view is this. When you look at the operating rates of our industry in North America, they have been in the high 80s and while maybe this year there was a little bit of noise [in some spot] sugar prices that competed with high fructose, in general, the industry is still operating at those high levels in the high 80s. So the reality is is that nobody has announced any new capacity. That takes many years to happen. We talked on different calls about the potential of people converting and we don't see that, people converting their wet mill ethanol capacity to the corn sweetener side.

So, again, we feel very good about the operating environment and couple that with, now that corn prices are down, I mean nobody debates that from a year ago given the better crop, we do believe that the food companies will pass some of that if not all of that on to consumers and that volume demand will be up. Because after three years of a higher prices, the consumer will have some relief and that will create higher demand and that will tighten up capacity utilization even further. So we see a good environment.

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**Operator**

Farah with Stephens.

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**Farha Aslam** - *Stephens Inc. - Analyst*

Good morning. Cheryl, good luck on retirement. You will be dearly missed.

And then focusing on Argentina for a moment, right now you are translating your Argentine earnings at the official rate, correct?

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**Cheryl Beebe** - *Ingredion Incorporated - CFO*

That's correct.

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**Farha Aslam** - *Stephens Inc. - Analyst*

And so now, what happens in its devaluation? Will earnings take another hit if we translated to this or is that going to be a net positive because corn prices will then go down because the farmer might be more willing to sell? Can you just share with us how we should think about devaluation?

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**Cheryl Beebe** - *Ingredion Incorporated - CFO*

As we think about the devaluation in the third quarter, it is around 21%. And if we look at as you go into the fourth quarter assuming it continues on the 2% to 3% downward revisions, let's call it 25% in the fourth quarter. So when we translate the financial statement, our revenue line will come down as will our cost. So on a purely apples to apples basis, you will have a decline all the way to the operating income line, not at the level of the 25% because obviously your costs are coming down as well.

From a business perspective, as the currency devalues, the longer-term costs should come down which makes that country more competitive. And I would expect that the farmers, both for corn and for sugar, would start to release some of their supplies into the international market which would give us some cost relief in that country as well.

**Farha Aslam** - *Stephens Inc. - Analyst*

And so you would view a devaluation as a positive event?

**Cheryl Beebe** - *Ingredion Incorporated - CFO*

Yes I would. Yes, it is the short-term hit. So let me be clear. There is a short-term hit for that devaluation, but then the long-term benefit is that Argentina becomes much more cost-competitive and you improve the profitability.

**Farha Aslam** - *Stephens Inc. - Analyst*

And just between the short-term hit and long-term cost-benefit kind of the time horizon that is normally seen in that business?

**Cheryl Beebe** - *Ingredion Incorporated - CFO*

Based on past experience it has been six to 12 months.

**Farha Aslam** - *Stephens Inc. - Analyst*

And when you look at Mexico, they -- I believe the Senate yesterday passed that sugar tax on beverages and (multiple speakers)

**Cheryl Beebe** - *Ingredion Incorporated - CFO*

Right. One (inaudible) per liter.

**Farha Aslam** - *Stephens Inc. - Analyst*

Right. And so I think that the expectation is that Mexican high fructose corn syrup use will be down somewhere around 10% to 15% next year.

First, is that in line with your team's expectations? And second, how do you anticipate -- what would that do to North American utilization and how do you think that is going to affect the pricing environment going into the contracting season?

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

Well, this tax passing is very new and so we are still looking at that. But, again, when I go back to what I said before, of course it will have an impact in the beverage side of Mexico. But the heightened awareness of some of the issues that that tax is addressing on obesity actually creates a positive environment for some of our starches and specialty starches that are targeted at healthy food products in Mexico, and we are a local producer there.

So that is kind of the positive side for us. But you are right, there will be some hit to the demand for high fructose in Mexico.

But again, going back to the total system as I said before, we do believe that the lower priced corn environment in all of North America will be very positive for demand for food products and demand overall. And so, there is an opportunity there to fill in any gaps that might be created from that tax, both in the local Mexico market as well as total North America in both the beverage side and food side for our products.

**Farha Aslam** - *Stephens Inc. - Analyst*

Great. And my last question relates to capital allocation. In terms of M&A, could you share with us the most attractive market and areas of particular interest for you?

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

Yes. I am happy to repeat that. It always gets published, what I say, so maybe sometimes not exactly what I say, but look, we are a global ingredient company and we have 1,000 ingredients. And really when I look at our strategy, while I talk a lot about geographics, which certainly are some opportunities that we are looking at, and again, I have said Asia, Eastern Europe, we are looking at some opportunities there. But you have got to find the right opportunity that will create value for shareholders. I am always very big on shareholder value.

And so while we want to capture some of that geographic growth, we certainly want to do it in a way that has long-term value creation for our Company. So that is one avenue. It is the geographic side.

But equally as important is what I call broadening the portfolio. And, again, we started to talk about this last November in our Analyst Day where we are texturizing and sweetener specialists. So opportunities in the texture space -- and there are a lot of non-starch texturizers that would build on our portfolio and make us more important to our customers and are very focused on the health and wellness trends that consumers want and need and new products that are being developed for them.

That is obviously a high priority and we are looking at those texturizing opportunities around the world. I mean they are in Europe, there are global companies that are based around the world. Again we are looking for those that create shareholder value.

And then, as I say, the other adjacency are other ingredients that, again, would help make us more important to our customers as we formulate the new products and those are that go beyond texturizing and maybe there are natural colors. And there's natural flavors and there's all sorts of ways to enhance food ingredients to, again, make these food products a very much targeted health and wellness trend.

So, those are the ones we are looking at. We have a portfolio of opportunities. We have narrowed those to ones that really will create shareholder value and we believe that, with our strong balance sheet and our right focus on shareholder value, we ought to be able to do that.

**Farha Aslam** - *Stephens Inc. - Analyst*

Thank you very much.

**Operator**

Ken, BMO Capital Markets.

**Ken Zaslow** - *BMO Capital Markets - Analyst*

Good morning, everyone. Cheryl, I wish you and Jim the very best for a speedy recovery and you will be greatly missed. So we are sorry to see you leave, for sure. Just wanted to let you know that.

**Cheryl Beebe** - *Ingredion Incorporated - CFO*

Thank you, Ken.

**Ken Zaslow** - *BMO Capital Markets - Analyst*

In terms of thinking about the Company, can we -- how much profit would you, would Ingredion generate if you had 1% revenue -- 1% growth in volume holding dollar margins steady? Can you give us a context to that?

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

Is your question about North America or US (multiple speakers)?

**Ken Zaslow** - *BMO Capital Markets - Analyst*

No. Let's say generally speaking you are able to have 1% volume growth across the portfolio. What would your dollar margin -- holding your dollar margin steady, what type of profit would you assume would go up? Is it $60 million, $70 million? Is that a fair number?

**Cheryl Beebe** - *Ingredion Incorporated - CFO*

If you think about 1 -- so, let's do some math. Let's call $6.4 billion in revenues, right? At 1% and so it is strictly on a volume basis. That is $64 million of incremental revenue. If you are looking at an 18% on average gross profit, then you are talking about $11.5 million to $12 million on volume.

So if I then say, given last year's performance in addition to just the straight value from a 1% volume, I also have to add in improvement from fixed cost absorption. I would double that number on the fixed cost absorption, depending upon what region of the world we were talking about.

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

So you are talking about throughput through the facility.

**Cheryl Beebe** - *Ingredion Incorporated - CFO*

Absolutely, yes. so then you are talking probably, Ken, let's do $12 million to $24 million. A 1% improvement in volume.

**Ken Zaslow** - *BMO Capital Markets - Analyst*

Okay, great. And then if I take a step back, would there be any reason not to believe that there would be any region around the world that you would not get at least a 1% volume increase?

**Cheryl Beebe** - *Ingredion Incorporated - CFO*

If I look at South America, which has been as we said, the year-to-date number, we are off $62 million. $60 million of that is coming out of South America.

Let's start with Brazil. I have every confidence, every reason to believe in the confidence of the local team that their volumes will sequentially improve as we go through 2014 based upon the World Cup and the economics improvement in Brazil. And so if I look at the potential you could have at least another $10 million plus benefit on volume.

In Argentina -- and Argentina is the wildcard. If I look at this quarter, as both Ilene and I have said, extremely disappointing. September took a turn for the worse versus what we saw in July and August. And so it is a bit of a wildcard.

But if I look at it righting itself as we go through 2014, there is a significant opportunity. Do I think we are going to get back to the level that we were in [2012] (corrected by company after the call)? The answer would be an absolute no. But improvement up from the levels that we are at both from a volume and a cost perspective, yes.

So I think there is a tremendous amount of opportunity from a volume and cost absorption standpoint in South America.

If I look at Europe, Middle East and Africa, I see benefits coming from the expanded operations in Germany, and that is volume. And then Pakistan, our third plant is, let's call it running, at 30% as we get into the second year of production. One expects that to ramp up so that would give me positive volume.

In EMEA, Asia-Pacific, the challenge has been the high corn cost and the low sugar which is the South Korean issue. And South Korea can swing with that loss of sales to the beverage industry by I am going to call it $4 million to $5 million. So I would expect a positive response in 2014 as we get the benefit of a lower corn cost.

And then it brings us to North America. So the combination of lower pricing and having a positive impact on volume in North America would be beneficial.

Then the Mexican with the sugar prices -- if we look at where corn has dropped by over 40%, yes, there could be some switching, relative to sugar. But I believe [FEMSA] in their third quarter call gave a range of sugar and HFCS. Sugar at about 40%, HFCS maximum blend 60%. And so if I look at how we performed against sugar in the third quarter of 2013, we did fairly well. Our volume is down, as Ilene mentioned, but the impact to the financial results is minimal.

So why [miss up]? I would say that I expect growth in volume, cost savings and better cost absorption across the board.

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

And what I would also add is -- and I agree with Cheryl, what Cheryl had said. But at the same time, while we talked about some challenges and volume this year, we have been working on cost reduction with our continuous improvement process. Again, looking at ways to improve quality, improve throughput even on a lower volume basis. So it is very important to control what you can at all times and especially at times like this. And it is not just people cost, but it is process cost and again ensuring best practices. So that should also help us next year as we ramp up the volume.

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**Ken Zaslow** - *BMO Capital Markets - Analyst*

Okay. And -- that is very complete. I appreciate that. More than I actually expected. So when I look at Argentina, once the devaluation happens, you said that would take six to 12 months. My question and I guess two things is, one is the profitability in the fourth quarter seems much higher than I would have thought which is obviously good news, but also, what about -- if your corn comes available, why wouldn't your utilization rates go -- I am assuming your utilization rates are very suboptimal at this point. Why would they go from 60%, 70% utilization rate if they are even that, all the way up very quickly and why wouldn't your profitability come back quicker than the historical levels just because there seems to be more of a corn relationship issue?

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**Cheryl Beebe** - *Ingredion Incorporated - CFO*

Let me answer that. The reason I don't believe that Argentina will come back to the profitability in 2014, vis-a-vis where it was in 2012 is that we had some benefits from lower corn costs which, I think, structurally have changed. And so I am going to say that probably $10 million to $20 million may have been structurally destroyed in 2013, 2014.

But then if I look at what the business is capable of doing, that would say that we get back on track if we follow the historical pattern as corn costs come down from where they are, sugar prices come back to normal levels and we price against the sugar. So if I look at the haircut that we have taken again for Argentina and, frankly, I don't think anybody is more disappointed than I am when I look at what the team provided, I put a $20 million haircut, as I said, on the second-quarter call on what the operating team's numbers were.

And I normally, you know, as I -- we -- discussed this, I thought I was being conservative. When we saw the September numbers again, it was just, it is absolutely frustrating. Because you think you are turning the corner and the cost just skyrocketed again as now it is not that the quota just went up, as Ilene said, but now the farmers are holding -- the corn farmers -- because they don't want the devaluation. So it is a bit of a wildcard here as to when this rights itself.

Again, historically, we have seen it six to 12 months, the fourth quarter based upon October's performance, we are getting back on track. It would take us back to closer to where we were in April.

I can't tell you how disappointed I was that we went from a negative number in July to a very sound positive number in August and then it dropped again. It was still positive, but we are talking $3 million to $4 million swings in the numbers, which do make a difference.

And we have been -- the South America numbers were revised down from what the fourth quarter -- in the fourth quarter from what we had in the second-quarter outlook of the 525 to 540 if you will.

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**Ken Zaslow** - *BMO Capital Markets - Analyst*

And my very final question is, can you give us the impact in 2013 of -- if you want to do it aggregately, however you want to do it, is Colombia, the two storms in Mexico, the supply issues in Europe, the fungus and the basis. Because all this seems to be one-time and I want to be able to add it back to next year. I think that is the fair way of doing it. If you could just give us that and I will be done with my questions.

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**Cheryl Beebe** - *Ingredion Incorporated - CFO*

Okay, let's see if I can remember the list. There's --

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**Ken Zaslow** - *BMO Capital Markets - Analyst*

I think I covered it though. Colombia, two startups in Mexico, supply issues and Europe, fungus, and basis. I don't know if I am missing anything, but those are the ones I have. And if you wanted to tell me it is $100 million I am good too. I am just curious.

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**Cheryl Beebe** - *Ingredion Incorporated - CFO*

I think that we are probably talking in South America, all right, somewhere between $7 million to $10 million. When I think about the previous situation, the strikes, some of the social unrest, $7 million to $10 million, relative to the supply-chain disruption which is actually between two regions, it is in Europe or EMEA, because basically in order to provide the specialty grains, so these are the specialty starches with non-GMO waxy and high amylose, we had to utilize the global supply chain.

So my estimate is we probably have somewhere between $5 million to $15 million in additional supply-chain costs associated with that. And I would say I would split it one third in EMEA and two thirds in North America.

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**Ken Zaslow** - *BMO Capital Markets - Analyst*

And basis.

**Cheryl Beebe** - *Ingredion Incorporated - CFO*

The basis. All right, we (multiple speakers)

**Ken Zaslow** - *BMO Capital Markets - Analyst*

That's this quarter, this is just this quarter, I think.

**Cheryl Beebe** - *Ingredion Incorporated - CFO*

If I look at the basis for the third quarter and, again, the way some of our contracts work, this would have been embedded in the next corn cost. So I can't say that next year when the basis is down that we get a benefit from it. But I would say the supply-chain logistics for the third quarter is probably another $5 million.

**Ken Zaslow** - *BMO Capital Markets - Analyst*

Great. I appreciate it. Thank you.

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

Thank you for that list, Ken.

**Operator**

Akshay, KeyBanc.

**Akshay Jagdale** - *KeyBanc Capital Markets - Analyst*

Good morning and, Cheryl, again, congratulations on the retirement and you will be missed.

I just want to ask one quarter question on CapEx. It is two parts. One is the level of spending and then what -- how you view the returns on it.

So first, even with your reduced guidance on CapEx this year, you are spending close to around 4.6% of sales on CapEx. A lot of that would be [gross]. Non-maintenance CapEx is a big chunk of that. And you have been doing that for several years. So first question is what is the level of spending that longer-term is a good rate for this Company? And the question is related to the second part which is based on what we see in the numbers you report on volumes you have had very little volume growth in aggregate over the last five or six years while you have been spending this growth CapEx.

Now I know maybe it is not the right way to look at the return on your spending, maybe a better way to look at it is on mix and margins. So if you can help us understand how you look at the returns you are getting on the growth CapEx that you spent over the last few years, that would certainly help.

And then, secondly, I guess based on that answer we will be able to figure out why -- what is the right rate of spending for this Company going forward, given all the sort of issues we are having on volumes?

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

I will start out and, then, I will turn it to Cheryl. When I think about the capital spending, since I have been here four and a half years, we have been spending ahead of demand in several different areas. Because as I said before, new greenfield capacity can take four to five years. So if you take an example our third plant in Pakistan that just came on about a little less than a year ago. Again, we have been spending and putting in capacity ahead of demand and so again, you are forecasting that and you may be off a year. But, again, I am very happy with where we spent that money in Pakistan for both that market and potential export.

If you look at South America, again we talked about -- I remember talking about two years ago about spending $75 million to $100 million and that is in a way why we are confident that any growth in volume that happens due to GDP in a place like Brazil, due to whatever reason, growth of the middle class, that we will be able to be there as a leader with that additional capacity.

And then, you are right, it is not just trying to capture the volume, it is a margin play. So, again, if you look at the capacity that we have just brought on in Germany for Europe for our patented NOVATION product, again, we are addressing the clean label and specialty starches there.

So as we look at that growth capital, we are certainly looking for returns that are in the high teens because we have maintenance capital that, obviously, we need to spend that doesn't always have a return. And we talk about our cost of capital, I don't know, 8.5%, 9% higher in some other higher risk areas. But we are expecting our growth investment as well as our quality and cost reductions improvements to also have an appropriate return.

So, Cheryl, anything to add?

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**Cheryl Beebe** - *Ingredion Incorporated - CFO*

No. Ilene hit it right on the head. It's -- these are long-term investments. They are not short term. It is a function of the mix and organic growth.

If I look at the levels of spending, it is probably $300 million on average that we would look to spend going forward, barring any major expansions in the specialty starches and that would attend to the cost savings as well as to the organic growth.

And if I look at the performance, so, let's take North America where some of this capital has been spent as well. And I look at the performance on a nine-month year-to-date basis, and factoring in the fourth quarter guidance, it says we are looking to have an up year, a slightly up year versus last year in an environment that -- record-high corn costs, record high supply-chain costs and we still performed -- and low sugar prices in Mexico.

So it is not apparent because there are other things offsetting it, but we would not have had that performance unless we had made the investments in the cost savings and manufacturing optimization. So that $300 million over time delivers as it starts to kick in. If you use a 10% average return it should kick in $30 million.

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**Akshay Jagdale** - *KeyBanc Capital Markets - Analyst*

That's helpful. So, in other words, looking from the outside where we said it is more in the earnings numbers. I mean, it is evident in the earnings and the margin, less evident in the volume where there is a lot of noise and you don't break out mix so harder to parse out. Is that a fair way to think about it as earnings is really where it is showing up already and will continue to show going forward visibly?

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**Cheryl Beebe** - *Ingredion Incorporated - CFO*

Correct.

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

And that supports the strategy of being a global ingredient company and having many different ingredients focused on the consumer trends.

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**Akshay Jagdale** - *KeyBanc Capital Markets - Analyst*

That is very helpful. A follow-up to that then is, so if that is the case over time your spread of ROIC to [WAC] should go up. Should we expect over time for you to increase that guidance? I mean always you have said something like 200 -- if I remember correctly, 200 basis to 300 basis point --?

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**Cheryl Beebe** - *Ingredion Incorporated - CFO*

(multiple speakers) basis points over our average cost of capital at 8%, 8.5%. And the answer would be yes. Because if you think about what we have said strategically, part of this capital is not only organic growth and cost savings, but then the other piece is the mix improvement relative to the specialty starches and from an M&A standpoint, that cash flow goes towards trying to acquire specialty products which have a higher value which, over time, will improve that mix.

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**Akshay Jagdale** - *KeyBanc Capital Markets - Analyst*

This is very helpful. Then, if you look at where your ROIC is today, it is well over 200 basis points above that 8.5% cost of cap. I know those numbers move around year-to-year, but you are well over that. And what you're saying is you have spent a lot of growth capital and you expect this spread to improve over time, right? So how do I reconcile your ROIC being already over this 200 basis point goal and the fact that you have spent growth capital, which should improve that spread?

Should that spread be improving from where it is now or how should I think about that?

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**Cheryl Beebe** - *Ingredion Incorporated - CFO*

I am not quite sure that I understand the question. So if I think about based upon the mix that we have today, and let's call it 12% roughly give or take as the return on invested capital. So if I think about $300 million, our depreciation is $200 million. So that adds $100 million of capital to the base. Year in and year out.

And so if we got a 10% return on the invested capital of $100 million all the time, it basically keeps our return on invested capital within that range.

Now to the extent that we acquire and we do the same type of execution, negotiation and execution that we did with national starch, then you would see an expansion in that ROIC. Is that a little clearer?

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**Akshay Jagdale** - *KeyBanc Capital Markets - Analyst*

Yes, that's definitely clearer. I apologize for not being clear, but the 12% roughly ROIC compared to 8.5% weighted average cost capital is, that spread is larger than 200 bps. So what -- the fear I guess on some investors' minds has always been that this Company is somewhat commoditized and return, they may be overearning. And so, your guidance on ROIC leaves some room for interpretation to that extent, right?

That is all I'm saying is that right now your spread is above 200 bps and if anything, longer term, I would expect that that would increase at least slightly.

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**Cheryl Beebe** - *Ingredion Incorporated - CFO*

I understand exactly where you are going. If I think about the fact that a portion of our strategy relates to M&A, de facto when you do M&A you normally -- it takes you a couple of years to get the benefit. So if I do straight math and say the 12 -- let's use 8% as the weighted average cost of capital and we are at 12%. So that is 400 basis points over. And you are saying given the capital expenditures, there's too much noise in that spread. It is really the fact that is the strategy indicates that we want to do M&A, we are just being somewhat conservative and not trying to hinder ourselves in that M&A as we move forward. But over time we are not expecting that that 12% -- let's call it 11% to 12% over time to not materially change.

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**Akshay Jagdale** - *KeyBanc Capital Markets - Analyst*

Perfect.

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**Cheryl Beebe** - *Ingredion Incorporated - CFO*

And that goes back to the focus and, again, if I go back over the 15 years that this has been a public company from where we started, we had a return on invested capital that was less than 3% and so we have driven it through solid capital allocation, capital discipline, and business performance discipline to that 12%.

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

And we demonstrated with the national starch acquisition in terms of the price paid and the shareholder value creation that we were able to build the Company and still have, in the short term, a very attractive return.

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**Akshay Jagdale** - *KeyBanc Capital Markets - Analyst*

Really appreciate it. One last one on North America. It seems from what ADM said that the contract season from a timing perspective is getting extended a little bit later. I know there is a window. It is three to four months that these things happen over time, but it seems like it is getting delayed a little bit relative to the average. Is that accurate?

And just so that I understand, if utilization rates do tighten from already high levels like you are expecting them rough numbers, gross net corn cost is expected to be down about 25%. For margins to expand which is what happened in that environment your pricing would have to be down less than 12.5%, right? So am I thinking of that equation correctly?

And secondly, what is -- can you help us understand the timing of these contracts this year and does that tell us anything about the environment, positive or negative?

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

Yes. We really don't comment on contract negotiations while they are ongoing and so our plan is to update you in early 2014 when we release the year-end 2013 results and provide the outlook for 2014. But as I said before when I talked about North America, I think the environment utilization rates looks good with lower corn prices and demand growing. And I really think that is all we want to comment on at this moment, but I appreciate your comments.

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**Operator**

Tim, with Davidson.

**Tim Ramey** - *D.A. Davidson & Co. - Analyst*

Hi, thanks. Cheryl, let me add my good wishes for the future as well.

We spoke after the third quarter and I was disappointed that you at least hadn't stemmed the $0.03 of EPS dilution coming from share count creep in the first half of the year. And now we have another $0.01 of that and of course that is totally discretionary. I thought I understand you at the time to say we won't -- we will try not to let that happen. But also speaking about your 30-year tenure and you were there and I followed the Company during the period of time that Carl Icahn greenmailed the Company.

**Cheryl Beebe** - *Ingredion Incorporated - CFO*

You are going back to the CPC.

**Tim Ramey** - *D.A. Davidson & Co. - Analyst*

Yes. And --

**Cheryl Beebe** - *Ingredion Incorporated - CFO*

Late 1980s.

**Tim Ramey** - *D.A. Davidson & Co. - Analyst*

It was, it was 1987 or 1988 as I recall. And having a high cash balance, a low multiple, is sort of a perfect scenario for an activist investor.

**Cheryl Beebe** - *Ingredion Incorporated - CFO*

Can I interject here? First of all, let me address your issue with regards to the share repurchase and the several pennies of dilution being caused in the year-to-date numbers.

Number one, we did buy back shares. There is a weighted average that occurs here. It is not that you can go in and buy back the full amount and say, okay, I have taken care of that dilution.

So the benefit comes, not only it dribbles in in the third and the fourth quarter, but you get the largest benefit in 2014.

Number two, given the fact that we are beginning to see the cash flow come back from the working capital which was not apparent in the second quarter, it was a fairly significant drag. We spent the $56 million.

The third is that I think I made a fairly clear that we would go and execute the remaining shares and we would also, if appropriately, reauthorize once we cleaned that up in 2013.

Relative to the cash balance, this is a multinational corporation and it is disclosed in the Q as to how much of the cash sits outside the United States. So even though there is over a $600 million cash balance, that doesn't mean that it is all accessible and that the cost of breakage to bring it back to the United States is not shareholder-friendly.

The situation with CPC International with the greenmail was the fact they were sitting on a, if I remember correctly, a AA if not a AAA balance sheet.

That is not the case with this Company. We are sitting with a BBB rating with a desire to create long-term cash flow for the shareholders. And so the capital allocation decision, I think, is appropriately balanced towards long-term growth and short-term return to the shareholders.

We have also increased the dividend three times in the last 12 -- two months, two quarters, if you will -- two years, sorry. And so I think we have got all the right components driving for the value for the shareholders.

The third quarter is disappointing, relative to Argentina. We are focused on the things that we can manage in terms of control. Labor costs are very difficult in Argentina. The corn costs are out of our control, we are not corn farmers. We buy it in the local market. As Ilene said we are focused on energy savings, we are focused on process savings.

So I think we have the right balance and we have the cash flow to do it.

From an activist standpoint, you can never say never, but again given the fact that over 60%, closer to 70% of the Company's assets are outside the United States, the breakage cost of bringing back cash into the United States as well as leveraging up all of the foreign affiliates is not a winning strategy. It could be done, but it is not a winning strategy.

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**Tim Ramey** - *D.A. Davidson & Co. - Analyst*

Okay, thank you.

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**Operator**

David, Citi Research.

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**David Driscoll** - *Citigroup - Analyst*

I'd like to say, Cheryl, it has been 15 years that I have had the pleasure to work with you and honestly have really never thought this day would come. So I am bummed out about that. But I definitely wish you the best and certainly in your situation. So, definitely, we are thinking about you.

I want to do this 2014 conversation slightly differently than I think maybe five other questions on this call have been done. Consensus right now is $6.00. There is no conversation in the consensus expectation that you are not going to see improvements over the 2013 numbers. So my first kind of just funny observation is that in all these conversations it seems like everyone is taking this thing about is it going to get better.

From my point of view it is hard to imagine that it can get worse, so it is certainly that we all expect it to get better.

Now with that said though, conditions deteriorated in the third quarter and you have had to reduce guidance. And so this does matter to me because it then leads into some questions about momentum and pacing into 2014.

Ilene, I know you said of course you guys are not providing 2014 guidance right now and somebody else I forget who said it, but somebody said something about your 10% to 12% and I think you neatly avoided the 2014, is that going to be exactly in line off of the 2012 base.

But, I want to boil it down to just two issues. First off. South American profit recovery and secondly Mexican volumes. In the South America business, it seems to me like this situation is still a very, very tough one. To say that 2014 full year profitability is equivalent to 2012 profitability, give or take a few -- a little bit of leeway, that seems to be a very tough goal right now. And as I stare at these numbers that makes me nervous.

So I would love to hear your response to 2014 not just the run rate. Sometimes I think people get mixed up on this run rate comment versus just 2014. Because I think we need to manage these 2014 expectations.

Second point is on Mexican volumes. Volumes really surged in 2010 to Mexico when Mexican sugar prices surged over $0.40 a pound. Sugar prices are now down to $0.27 latest USDA data. So to me the question here is really what is your confidence that you actually see -- I mean, that you can hold the line at all on these Mexican volumes? This situation feels pretty nervous to me about what happens in 2014.

Sorry for the long-winded question by the way and thank you for the response.

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

I'll start out and then I will turn it over to Cheryl. When somebody was asking me about 2014, I wanted to be clear that in terms of, as you said, looking at the improvement over 2013, absolutely. I didn't want to define a number until we had gone through all the forecasting for next year and I also, when I talked about our expectations that over the long term we ought to be able to do the 10% to 12%, that is absolutely true.

Now if you go back to last quarter somebody pointed out that we have actually exceeded that number and in many years done 18% to 19%. And I didn't want to mislead anybody on that number. So not really giving a number, but saying absolute improvement next year; we absolutely believe it. And I think if you listen to the comments that I have made on North America as a total system that with the lower corn prices, I mean it was unprecedented what happened with this drought, that we would expect the demand for North America to offset any kind of noise in Mexico, and that the demand for food products in US Canada and food products in Mexico would help tighten up those operating rates to the extent that they did in the past.

And so it is true there's a little bit of noise going on in Mexico, but if you look at the total system, I think we feel very good about North America. And when you listen to Cheryl's comments on the way that we have improved a lot of our capacity, and the good news is it's there and we will be able to run more and meet the needs of our customers and have done a great job of satisfying those days this year.

So, North America we feel good about. South America, as Cheryl has said, the Brazilian numbers all look like they are going in the right direction with GDP growing. The IMF forecast for next year is 2.5%. We do have the World Cup, we do have the capacity there that looks good. The brewing numbers are better. We feel good about that.

The number that we are not ready to commit on is the Argentina number and, again, while things look better in the fourth quarter, we did say we didn't see going back to 2012. So I know there is a lot of arithmetic that you want to do with those comments and of course we will be more definitive when we get to February.

I do think you can feel confident that 2014 will be better than 2013. We are just not saying what number. And but I will leave it to Cheryl, maybe she wants to go further. Then she will leave it to me. (laughter)

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**Cheryl Beebe** - *Ingredion Incorporated - CFO*

If I go back and I look at the previous comments so you get 1% volume, you get some leverage, you are talking call it $24 million. You think about the supply-chain issues between Europe and North America. We said $10 million to $15 million. You think about some of the basis. You think about some of the investments coming out of Europe and Pakistan and so, clearly, that would give us growth off of the 2013 numbers.

The wildcard is Argentina, as Ilene said. It is not our belief that it will get worse in 2014. We think we will have a slow recovery and so that is a positive, and then it is the issue around how strong is the recovery in the US on the volume side.

Clearly with corn costs being down over 40% and utilization rates still being strong, that should bode well for holding onto the North American margins as the corn prices come down. FEMSA, in their comments on the third quarter, said that the tax could impact volume 5% to 7%. So we do have some what I call uncertainties around a bit of the volume.

But I do believe with that lower corn cost, significantly lower corn cost, that we will be in a better position with the sugar even though sugar prices are down vis-a-vis 2012, 2013. I hope that gives you a little bit more color.

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**David Driscoll** - *Citigroup - Analyst*

It does. I know it is a tough equation and that we need to get into 2014. So I will leave it here and we will certainly come back to it in January and again, Cheryl, good luck with everything. Thank you so much for all the help over all of the years.

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

And I understand that there are still some people in the Q and I apologize that we are not going to get to your questions today. I am certainly happy to spend some time and catch up with anybody who we didn't get to or if there are any follow-up questions. Just given the time we do need to cut it and cut the call.

I am going to turn it back to Ilene for just a second to wrap up.

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

Thanks, Aaron. Before we sign off, I just want to reiterate our confidence in our long-term outlook and our business model. We have made comments about that today. We remain keenly focused on shareholder value creation and are committed to deliver the best possible results and actions for our shareholders. And again, thank you, Cheryl, for everything and I look forward to our future.

That brings our third-quarter 2013 earnings call to a close and we would like to thank you again for your time today.

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**Operator**

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

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