

Ingredion Inc
Form 10-K
February 22, 2017
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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2016

or

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from to

Commission file number 1-13397

INGREDION INCORPORATED

(Exact Name of Registrant as Specified in Its Charter)

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Delaware (State or Other Jurisdiction of Incorporation or Organization)	22-3514823 (I.R.S. Employer Identification No.)
5 Westbrook Corporate Center, Westchester, Illinois (Address of Principal Executive Offices)	60154 (Zip Code)

Registrant's telephone number, including area code (708) 551-2600

Securities registered pursuant to Section 12(b) of the Act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock, \$.01 par value per share	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act: NONE

Indicate by check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
Yes No

Indicate by check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the Registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes No

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Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the Registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a small reporting company. See definitions of "large accelerated filer," "accelerated filer" and "small reporting company" in Rule 12b-2 of the Exchange Act. (Check one)

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

(Do not check if a smaller reporting company)

Indicate by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

The aggregate market value of the Registrant's voting stock held by non-affiliates of the Registrant (based upon the per share closing price of \$129.41 on June 30, 2016, and, for the purpose of this calculation only, the assumption that all of the Registrant's directors and executive officers are affiliates) was approximately \$9,305,000,000.

The number of shares outstanding of the Registrant's Common Stock, par value \$.01 per share, as of February 17, 2017, was 71,790,000.

Documents Incorporated by Reference:

Information required by Part III (Items 10, 11, 12, 13 and 14) of this document is incorporated by reference to certain portions of the Registrant's definitive Proxy Statement (the "Proxy Statement") to be distributed in connection with its 2016 Annual Meeting of Stockholders which will be filed with the Securities and Exchange Commission within 120 days after December 31, 2016.

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PART I.

ITEM 1. BUSINESS

The Company

Ingredion Incorporated (“Ingredion”) is a leading global ingredients solutions provider. We turn corn, tapioca, potatoes and other vegetables and fruits into value-added ingredients and biomaterials for the food, beverage, paper and corrugating, brewing and other industries. Ingredion was incorporated as a Delaware corporation in 1997 and its common stock is traded on the New York Stock Exchange.

On December 29, 2016, we completed our acquisition of TIC Gums Incorporated (“TIC Gums”), a privately held, U.S.-based company that provides advanced texture systems to the food and beverage industry for \$395 million, net of cash acquired. Consistent with our Strategic Blueprint for growth, this acquisition enhances our texture capabilities and formulation expertise and provides additional opportunities for us to provide solutions for natural, organic and clean-label demands of our customers. TIC Gums utilizes a variety of agriculturally derived ingredients, such as acacia gum and guar gum, to form the foundation for innovative texture systems and allow for clean-label reformulation. TIC Gums operates two production facilities, one in Belcamp, Maryland and one in Guangzhou, China. TIC Gums also maintains an R&D lab within these two production facilities.

On March 11, 2015, we completed our acquisition of Penford Corporation (“Penford”), a manufacturer of specialty starches that was headquartered in Centennial, Colorado. The total purchase consideration for Penford was \$332 million, which included the extinguishment of \$93 million in debt in conjunction with the acquisition. The acquisition of Penford provides us with, among other things, an expanded specialty ingredient product portfolio consisting of potato starch-based offerings. Penford had net sales of \$444 million for the fiscal year ended August 31, 2014 and operated six manufacturing facilities in the United States, all of which manufacture specialty starches.

On August 3, 2015, we completed our acquisition of Kerr Concentrates, Inc. (“Kerr”), a privately-held producer of natural fruit and vegetable concentrates for approximately \$102 million in cash. Kerr serves major food and beverage companies, flavor houses and ingredient producers from its manufacturing locations in Oregon and California. The acquisition of Kerr provides us with the opportunity to expand our product portfolio.

We are principally engaged in the production and sale of starches and sweeteners for a wide range of industries, and are managed geographically on a regional basis. Our operations are classified into four reportable business segments: North America, South America, Asia Pacific and Europe, Middle East and Africa (“EMEA”). Our North

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America segment includes businesses in the United States, Canada and Mexico. Our South America segment includes businesses in Brazil, Colombia, Ecuador and the Southern Cone of South America, which includes Argentina, Chile, Peru and Uruguay. Our Asia Pacific segment includes businesses in South Korea, Thailand, Malaysia, China, Japan, Indonesia, the Philippines, Singapore, India, Australia and New Zealand. Our EMEA segment includes businesses in the United Kingdom, Germany, South Africa, Pakistan and Kenya.

For purposes of this report, unless the context otherwise requires, all references herein to the “Company,” “Ingredion,” “we,” “us,” and “our” shall mean Ingredion Incorporated and its subsidiaries.

Ingredion supplies a broad range of customers in many diverse industries around the world, including the food, beverage, paper and corrugating, brewing, pharmaceutical, textile and personal care industries, as well as the global animal feed and corn oil markets.

Our product line includes starches and sweeteners, animal feed products and edible corn oil. Our starch-based products include both food-grade and industrial starches, and biomaterials. Our sweetener products include glucose syrups, high maltose syrups, high fructose corn syrup (“HFCS”), caramel color, dextrose, polyols, maltodextrins and glucose and syrup solids.

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Our products are derived primarily from the processing of corn and other starch-based materials, such as tapioca, potato and rice.

Our manufacturing process is based on a capital-intensive, two-step process that involves the wet milling and processing of starch-based materials, primarily corn. During the front-end process, corn is steeped in a water-based solution and separated into starch and co-products such as animal feed and corn oil. The starch is then either dried for sale or further processed to make sweeteners, starches and other ingredients that serve the particular needs of various industries.

We believe our approach to production and service, which focuses on local management and production improvements of our worldwide operations, provides us with a unique understanding of the cultures and product requirements in each of the geographic markets in which we operate, bringing added value to our customers through innovative solutions. At the same time, we believe that our corporate functions allow us to identify synergies and maximize the benefits of our global presence.

Geographic Scope and Operations

We are principally engaged in the production and sale of starches and sweeteners for a wide range of industries, and we manage our business on a geographic regional basis. Our consolidated net sales were \$5.70 billion in 2016. Our operations are classified into four reportable business segments: North America, South America, Asia Pacific and EMEA (Europe, Middle East and Africa). In 2016, approximately 60 percent of our net sales were derived from operations in North America, while net sales from operations in South America represented 18 percent. Net sales from operations in Asia Pacific and EMEA represented approximately 12 percent and 10 percent, respectively, of our 2016 net sales. See Note 13 of the notes to the consolidated financial statements entitled “Segment Information” for additional financial information with respect to our reportable business segments.

In general, demand for our products is balanced throughout the year. However, demand for sweeteners in South America is greater in the first and fourth quarters (its summer season) while demand for sweeteners in North America is greater in the second and third quarters. Due to the offsetting impact of these demand trends, we do not experience material seasonal fluctuations in our net sales on a consolidated basis.

Our North America segment consists of operations in the US, Canada and Mexico. The region’s facilities include 21 plants producing a wide range of sweeteners, starches and fruit and vegetable concentrates.

We are the largest manufacturer of corn-based starches and sweeteners in South America, with sales in Brazil, Colombia and Ecuador and the Southern Cone of South America, which includes Argentina, Chile, Peru and Uruguay. Our South America segment includes 9 plants that produce regular, modified, waxy and tapioca starches, high fructose and high maltose syrups and syrup solids, dextrins and maltodextrins, dextrose, specialty starches, caramel color, sorbitol and vegetable adhesives.

Our Asia Pacific segment manufactures corn-based products in South Korea, Australia and China. Also, we manufacture tapioca-based products in Thailand, from which we supply not only our Asia Pacific segment but the rest of our global network. The region's facilities include 9 plants that produce modified, specialty, regular, waxy, tapioca and rice starches, dextrins, glucose, high maltose syrup, dextrose, HFCS and caramel color.

Our EMEA segment includes 5 plants that produce modified and specialty starches, glucose and dextrose in England, Germany and Pakistan.

Additionally, we utilize a network of tolling manufacturers in various regions in the production cycle of certain specialty starches. In general, these tolling manufacturers produce certain basic starches for us, and we in turn complete the manufacturing process of the specialty starches through our finishing channels.

We utilize our global network of manufacturing facilities to support key global product lines.

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Products

Starch Products. Our starch products represented approximately 46 percent, 44 percent and 43 percent of our net sales for 2016, 2015 and 2014, respectively. Starches are an important component in a wide range of processed foods, where they are used for adhesion, clouding, dusting, expansion, fat replacement, freshness, gelling, glazing, mouth feel, stabilization and texture. Cornstarch is sold to cornstarch packers for sale to consumers. Starches are also used in paper production to create a smooth surface for printed communications and to improve strength in recycled papers. Specialty starches are used for enhanced drainage, fiber retention, oil and grease resistance, improved printability and biochemical oxygen demand control. In the corrugating industry, starches and specialty starches are used to produce high quality adhesives for the production of shipping containers, display board and other corrugated applications. The textile industry uses starches and specialty starches for sizing (abrasion resistance) to provide size and finishes for manufactured products. Industrial starches are used in the production of construction materials, textiles, adhesives, pharmaceuticals and cosmetics, as well as in mining, water filtration and oil and gas drilling. Specialty starches are used for biomaterial applications including biodegradable plastics, fabric softeners and detergents, hair and skin care applications, dusting powders for surgical gloves and in the production of glass fiber and insulation.

Sweetener Products. Our sweetener products represented approximately 37 percent, 40 percent and 39 percent of our net sales for 2016, 2015 and 2014, respectively.

Glucose Syrups: Glucose syrups are fundamental ingredients widely used in food products, such as baked goods, snack foods, beverages, canned fruits, condiments, candy and other sweets, dairy products, ice cream, jams and jellies, prepared mixes and table syrups. Glucose syrups offer functionality in addition to sweetness to processed foods. They add body and viscosity; help control freezing points, crystallization and browning; add humectancy (ability to add moisture) and flavor; and act as binders.

High Maltose Syrup: This special type of glucose syrup is primarily used as a fermentable sugar in brewing beers. High maltose syrups are also used in the production of confections, canning and some other food processing applications. Our high maltose syrups speed the fermentation process, allowing brewers to increase capacity without adding capital.

High Fructose Corn Syrup: High fructose corn syrup is used in a variety of consumer products including soft drinks, fruit-flavored beverages, baked goods, dairy products, confections and other food and beverage products. In addition to sweetness and ease of use, high fructose corn syrup provides body; humectancy; and aids in browning, freezing point and crystallization control.

Dextrose: Dextrose has a wide range of applications in the food and confection industries, in solutions for intravenous and other pharmaceutical applications, and numerous industrial applications like wallboard, biodegradable surface

agents and moisture control agents. Dextrose functionality in foods, beverages and confectionary includes sweetness control; body and viscosity; acting as a bulking, drying and anti-caking agent; serving as a carrier; providing freezing point and crystallization control; and aiding in fermentation. Dextrose is also a fermentation agent in the production of light beer. In pharmaceutical applications dextrose is used in IV solutions as well as an excipient suitable for direct compression in tableting.

Polyols: These products are sugar-free, reduced calorie sweeteners primarily derived from starch or sugar for the food, beverage, confectionery, industrial, personal and oral care, and nutritional supplement markets. In addition to sweetness, polyols inhibit crystallization; provide binding, humectancy and plasticity; add texture; extend shelf life; prevent moisture migration; and are an excipient suitable for tableting.

Maltodextrins and Glucose Syrup Solids: These products have a multitude of food applications, including formulations where liquid syrups cannot be used. Maltodextrins are resistant to browning, provide excellent solubility, have a low hygroscopicity (do not retain moisture), and are ideal for their carrier/bulking properties. Glucose syrup solids have a bland flavor, remain clear in solution, are easy to handle and provide bulking properties.

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Specialty Ingredients. We consider certain of our starch and sweetener products to be specialty ingredients. Specialty ingredients comprised approximately 26 percent of our net sales for 2016, up from 25 percent and 24 percent in 2015 and 2014, respectively. Our specialty ingredients are aligned with growing market and consumer trends such as health and wellness, clean-label, affordability, indulgence and sustainability. We plan to drive growth for our specialty ingredients portfolio by leveraging the following five growth platforms: Wholesome, Texture, Nutrition, Sweetness, and Biomaterial Solutions.

Wholesome — Clean and simple ingredients that consumers can identify and trust

Nutrition - Nutritional carbohydrates with benefits of digestive health and energy management

Texture - Precise texture solutions designed to optimize the consumer experience and build back texture when other components of food are replaced (e.g. fat, salt, etc).

Sweetness - Sweetening systems that provide affordable, natural, reduced calorie, and sugar-free solutions

Biomaterial Solutions - Nature-based materials for selected industrial segments and customers that answer demand for sustainable, non-synthetic ingredients

Wholesome: Clean and simple specialty ingredients that consumers can identify and trust. Products include Novation clean label functional starches, value added pulse-based ingredients and gluten free offerings. Texture: Specialty ingredients that provide precise food texture solutions designed to optimize the consumer experience and build back texture. Include starch systems that replace more expensive ingredients and are designed to optimize customer formulation costs, texturizers that are designed to create rich, creamy mouth feel, and products that enhance texture in healthier offerings. Nutrition: Specialty ingredients that provide nutritional carbohydrates with benefits of digestive health and energy management. Our fibers and complementary nutritional ingredients address the leading health and wellness concerns of consumers, including digestive health, infant nutrition, weight control and energy management. Sweetness: Specialty ingredients that provide affordable, natural, reduced calorie and sugar-free solutions for our customers. We have a broad portfolio of nutritive and non-nutritive sweeteners, including high potency sweeteners and naturally based stevia sweeteners. Biomaterial Solutions: Nature-based materials that help manufacturers become more sustainable by replacing synthetic materials in personal care, home care and other industrial segments.

Each growth platform addresses multiple consumer trends. To demonstrate how Ingredion is positioned to address market trends and customer needs, we present our internal growth platforms externally as “Benefit Platforms.” Connecting our capabilities to key trends and customer challenges, these Benefit Platforms include products designed to provide:

- Affordability: reduce formulating and production costs without compromising quality or consumer experience
- Clean & Simple: replace undesirable ingredients and simplify ingredient labels to give consumers the clean, simple and authentic products they want
- Health & Nutrition: enhance nutrition benefits by fortifying or eliminating ingredients to address broad consumer health and wellness needs globally with specific solutions for all ages

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- Sensory Experience: deliver a fresh, distinctive multi-sensory experience in the dimensions of texture, sweetness and taste for food, beverage and personal care products
- Convenience & Performance: help create products for today's on-the-go lifestyles and that meet user expectations the first time and every time, from start to finish

Co-Products and others. Co-products and others accounted for 17 percent, 16 percent and 18 percent of our net sales for 2016, 2015 and 2014, respectively. Refined corn oil (from germ) is sold to packers of cooking oil and to producers of margarine, salad dressings, shortening, mayonnaise and other foods. Corn gluten feed is sold as animal feed. Corn gluten meal is sold as high-protein feed for chickens, pet food and aquaculture.

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Competition

The starch and sweetener industry is highly competitive. Many of our products are viewed as basic ingredients that compete with virtually identical products and derivatives manufactured by other companies in the industry. The US is a highly competitive market where there are other starch processors, several of which are divisions of larger enterprises. Some of these competitors, unlike us, have vertically integrated their starch processing and other operations. Competitors include ADM Corn Processing Division (“ADM”) (a division of Archer-Daniels-Midland Company), Cargill, Inc., Tate & Lyle Ingredients Americas, Inc., and several others. Our operations in Mexico and Canada face competition from US imports and local producers including ALMEX, a Mexican joint venture between ADM and Tate & Lyle Ingredients Americas, Inc. In South America, Cargill has starch processing operations in Brazil and Argentina.

Many smaller local corn and tapioca refiners also operate in many of our markets. Competition within our markets is largely based on price, quality and product availability.

Several of our products also compete with products made from raw materials other than corn. HFCS and monohydrate dextrose compete principally with cane and beet sugar products. Co-products such as corn oil and gluten meal compete with products of the corn dry milling industry and with soybean oil, soybean meal and other products. Fluctuations in prices of these competing products may affect prices of, and profits derived from, our products.

Customers

We supply a broad range of customers in over 60 industries worldwide. The following table provides the percentage of total net sales by industry for each of our segments for 2016:

Industries Served	Total Company		North America		South America		APAC		EMEA	
Food	52	%	50	%	46	%	65	%	58	%
Beverage										