Ingredion Inc
Form 10-Q
April 29, 2016

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED March 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)

DELAWARE

(State or other jurisdiction of incorporation or organization)

22-3514823

(I.R.S. Employer Identification Number)

5 WESTBROOK CORPORATE CENTER

WESTCHESTER, ILLINOIS	60154
(Address of principal executive offices)	(Zip Code)

(708) 551-2600

(Registrant's telephone number, including area code)

(Former name, former address and former fiscal year, if changed since last report)

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

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer	Accelerated filer
Non-accelerated filer (Do not check if a smaller reporting company)	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

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

CLASS	OUTSTANDING AT APRIL 28, 2016
Common Stock, $.01 par value	71,987,000 shares

PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated (“Ingredion”)

Condensed Consolidated Statements of Income

(Unaudited)

	Three Months Ended March 31,	
(in millions, except per share amounts)	2016	2015
Net sales before shipping and handling costs	$ 1,434	$ 1,410
Less - shipping and handling costs	74	80
Net sales	1,360	1,330
Cost of sales	1,021	1,049
Gross profit	339	281
Operating expenses	138	132
Other (income) expense, net	1	(1)
Restructuring charge	—	10
Operating income	200	140
Financing costs-net	14	14
Income before income taxes	186	126
Provision for income taxes	56	40
Net income	130	86
Less - Net income attributable to non-controlling interests	3	2
Net income attributable to Ingredion	$ 127	$ 84
Weighted average common shares outstanding:		
Basic	72.0	71.6
Diluted	73.3	72.7

Earnings per common share of Ingredion:		
Basic	$ 1.77	$ 1.17
Diluted	$ 1.73	$ 1.15

See Notes to Condensed Consolidated Financial Statements

PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated (“Ingredion”)

Condensed Consolidated Statements of Comprehensive Income (Loss)

(Unaudited)

	Three Months Ended March 31,	
(in millions)	2016	2015
Net income	$ 130	$ 86
Other comprehensive income (loss):		
Losses on cash-flow hedges, net of income tax effect of $6 and $6, respectively	(11)	(14)
Amount of losses on cash-flow hedges reclassified to earnings, net of income tax effect of $3 and $4, respectively	7	10
Actuarial gain on pension and other postretirement obligations, settlements and plan amendments, net of income tax effect of $2 in 2015	—	7
Currency translation adjustment	39	(146)
Comprehensive income (loss)	$ 165	$ (57)
Comprehensive income attributable to non-controlling interests	(3)	(2)
Comprehensive income (loss) attributable to Ingredion	$ 162	$ (59)

See Notes to Condensed Consolidated Financial Statements

PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated ("Ingredion")

Condensed Consolidated Balance Sheets

(in millions, except share and per share amounts)	March 31, 2016 (Unaudited)	December 31, 2015
Assets		
Current assets:		
Cash and cash equivalents	$ 477	$ 434
Short-term investments	20	6
Accounts receivable — net	786	775
Inventories	756	715
Prepaid expenses	29	20
Total current assets	2,068	1,950
Property, plant and equipment - net of accumulated depreciation of $2,723 and $2,642, respectively	2,014	1,989
Goodwill	606	601
Other intangible assets (less accumulated amortization of $89 and $82, respectively)	404	410
Deferred income tax assets	5	7
Other assets	131	117
Total assets	$ 5,228	$ 5,074
Liabilities and equity		
Current liabilities:		
Short-term borrowings	$ 15	$ 19
Accounts payable and accrued liabilities	678	723
Total current liabilities	693	742
Non-current liabilities	178	170
Long-term debt	1,872	1,819
Deferred income tax liabilities	141	139

Share-based payments subject to redemption	17	24
Ingredion stockholders' equity		
Preferred stock — authorized 25,000,000 shares-$0.01 par value, none issued	—	—
Common stock — authorized 200,000,000 shares-$0.01 par value, 77,810,875 issued at March 31, 2016 and December 31,2015, respectively	1	1
Additional paid-in capital	1,154	1,160
Less - Treasury stock (common stock: 5,844,332 and 6,194,510 shares at March 31, 2016 and December 31,2015, respectively) at cost	(444)	(467)
Accumulated other comprehensive loss	(1,067)	(1,102)
Retained earnings	2,647	2,552
Total Ingredion stockholders' equity	2,291	2,144
Non-controlling interests	36	36
Total equity	2,327	2,180
Total liabilities and equity	$ 5,228	$ 5,074

See Notes to Condensed Consolidated Financial Statements

PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated ("Ingredion")

Condensed Consolidated Statements of Equity and Redeemable Equity

(Unaudited)

	Total Equity						Share-based
(in millions)	Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-Controlling Interests	Payments Subject Redemption
Balance, December 31, 2015	$ 1	$ 1,160	$ (467)	$ (1,102)	$ 2,552	$ 36	$ 24
Net income attributable to Ingredion					127		
Net income attributable to non-controlling interests						3	
Dividends declared					(32)	(3)	
Losses on cash-flow hedges, net of income tax effect of $6				(11)			
Amount of losses on cash-flow hedges reclassified to earnings, net of income tax effect of $3				7			
Repurchases of common stock		(7)					
Issuance of common stock on exercise of stock options		(6)	14				
Share-based compensation		7	9				(7)
Currency translation adjustment				39			
Balance, March 31, 2016	$ 1	$ 1,154	$ (444)	$ (1,067)	$ 2,647	$ 36	$ 17

(in millions)	Total Equity Common Stock	Additional Paid-In Capital	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-Controlling Interests	Share-based Payments Subject to Redemption
Balance, December 31, 2014	$ 1	$ 1,164	$ (481)	$ (782)	$ 2,275	$ 30	$ 22
Net income attributable to Ingredion					84		
Net income attributable to non-controlling interests						2	
Dividends declared					(30)	(2)	
Losses on cash-flow hedges, net of income tax effect of $6				(14)			
Amount of losses on cash-flow hedges reclassified to earnings, net of income tax effect of $4				10			
Repurchases of common stock		(6)	(18)				
Issuance of common stock on exercise of stock options			3				
Share-based compensation		5	11				(7)
Actuarial gains on pension and postretirement obligations, settlements and plan amendments, net of income tax effect of $2				7			
Currency translation adjustment				(146)			
Balance, March 31, 2015	$ 1	$ 1,163	$ (485)	$ (925)	$ 2,329	$ 30	$ 15

See Notes to Condensed Consolidated Financial Statements

PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

Ingredion Incorporated ("Ingredion")

Condensed Consolidated Statements of Cash Flows

(Unaudited)

(in millions)	Three Months Ended March 31, 2016	2015
Cash provided by operating activities:		
Net income	$ 130	$ 86
Non-cash charges to net income:		
Depreciation and amortization	47	47
Charge for fair value mark-up of acquired inventory	—	3
Other	24	18
Changes in working capital:		
Accounts receivable and prepaid expenses	(21)	(28)
Inventories	(32)	(14)
Accounts payable and accrued liabilities	(55)	(40)
Decrease (increase) in margin accounts	12	(8)
Other	(9)	5
Cash provided by operating activities	96	69
Cash used for investing activities:		
Payments for acquisitions, net of cash acquired of $16	—	(332)
Capital expenditures, net of proceeds on disposals	(59)	(58)
Short-term investments	(13)	(3)
Other	(1)	—
Cash used for investing activities	(73)	(393)
Cash provided by (used for) financing activities:		

Proceeds from borrowings	84	435
Payments on debt	(44)	(38)
Issuance (repurchase) of common stock, net	1	(21)
Dividends paid (including to non-controlling interests)	(35)	(32)
Excess tax benefit on share-based compensation	3	2
Cash provided by financing activities	9	346
Effects of foreign exchange rate changes on cash	11	(29)
Increase (decrease) in cash and cash equivalents	43	(7)
Cash and cash equivalents, beginning of period	434	580
Cash and cash equivalents, end of period	$ 477	$ 573

See Notes to Condensed Consolidated Financial Statements

INGREDION INCORPORATED ("Ingredion")

Notes to Condensed Consolidated Financial Statements

1.Interim Financial Statements

References to the "Company" are to Ingredion Incorporated ("Ingredion") and its consolidated subsidiaries. These statements should be read in conjunction with the consolidated financial statements and the related notes to those statements contained in the Company's Annual Report on Form 10-K for the year ended December 31, 2015.

The unaudited condensed consolidated interim financial statements included herein were prepared by management on the same basis as the Company's audited consolidated financial statements for the year ended December 31, 2015 and reflect all adjustments (consisting solely of normal recurring items unless otherwise noted) which are, in the opinion of management, necessary for the fair presentation of results of operations and cash flows for the interim periods ended March 31, 2016 and 2015, and the financial position of the Company as of March 31, 2016. The results for the interim periods are not necessarily indicative of the results expected for the full years.

2.New Accounting Standards

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09, Revenue from Contracts with Customers (Topic 606) that introduces a new five-step revenue recognition model in which an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. This Update also requires disclosures sufficient to enable users to understand the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers, including qualitative and quantitative disclosures about contracts with customers, significant judgments and changes in judgments, and assets recognized from the costs to obtain or fulfill a contract. This standard is effective for fiscal years beginning after December 15, 2017, including interim periods within that reporting period. The standard will allow various transition approaches upon adoption. We are assessing the impacts of this new standard; however, the adoption of the guidance in this Update is not expected to have a material impact on our Consolidated Financial Statements.

In July 2015, the FASB issued ASU No. 2015-11, Inventory (Topic 330): Simplifying the Measurement of Inventory. This Update requires an entity to measure inventory at the lower of cost and net realizable value, removing the consideration of current replacement cost. It is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. We do not expect that the adoption of the guidance in this Update will have a material impact on our Consolidated Financial Statements.

In January 2016, the FASB issued ASU No. 2016-01, Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities. This Update requires, among other things, that equity investments having readily determinable fair values be measured at fair value with changes recognized in net income rather than other comprehensive income. Equity investments that are accounted for under the equity method of accounting or result in consolidation of an investee are not included within the scope of this Update. The amendments in this Update are effective for fiscal years beginning after December 15, 2017, including interim periods within those fiscal years. The amendments in this Update are to be applied using a cumulative-effect adjustment to the balance sheet as of the beginning of the year of adoption. We do not expect that the adoption of the guidance in this Update will have a material impact on our Consolidated Financial Statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842), which supersedes Topic 840, Leases. This Update increases the transparency and comparability of organizations by recognizing lease assets and lease liabilities on the balance sheet for leases longer than 12 months and disclosing key information about leasing arrangements. The recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee have not significantly changed. This Update is effective for annual periods beginning after December 15, 2018, with early adoption permitted. Adoption will require a modified retrospective transition. We are currently assessing the method of adoption and the impact of this Update on our Consolidated Financial Statements.

In March 2016, the FASB issued ASU No. 2016-09, Compensation – Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting. This update simplifies several aspects of the accounting for employee share-based payment transactions, including the accounting for income taxes, forfeitures, and statutory tax withholding requirements, as well as classification in the statement of cash flows. This update is effective for fiscal years (and interim reporting periods within those years) beginning after December 15, 2016, with early adoption permitted. We are assessing the impacts of this new standard; however, the adoption of the guidance in this Update is not expected to have a material impact on our Consolidated Financial Statements.

3.Acquisitions

On August 3, 2015, the Company completed its acquisition of Kerr Concentrates, Inc. (“Kerr”), a privately held producer of natural fruit and vegetable concentrates for $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 the Company with the opportunity to expand its product portfolio. The Company funded the acquisition with proceeds from borrowings under its revolving credit agreement. The results of Kerr are included in the Company’s consolidated results from August 3, 2015 forward within the North America business segment. The Company has finalized the purchase price allocation. The finalization of purchase accounting during the first quarter of 2016 did not have a significant impact on previously estimated amounts.

Goodwill represents the amount by which the purchase price exceeds the estimated fair value of the net assets acquired. The goodwill related to Kerr is tax deductible due to the structure of this acquisition. The goodwill of $27 million for Kerr results from synergies and other operational benefits expected to be derived from the acquisitions.

The following table summarizes the final purchase price allocation for Kerr:

(in millions)		
Working capital (excluding cash)	$	37
Property, plant and equipment		8
Other assets		1
Identifiable intangible assets		29
Goodwill		27
Total final purchase price	$	102

The identifiable intangible assets for the Kerr acquisition include items such as customer relationships, trade names, and noncompetition agreements. The fair values of these intangible assets were determined to be Level 3 under the fair value hierarchy. Level 3 inputs are unobservable inputs for an asset or liability. Unobservable inputs are used to measure fair value to the extent that observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for an asset or liability at the measurement date. The following table presents the fair values, valuation techniques, and estimated remaining useful life for these Level 3 measurements (dollars in millions):

	Fair Value		Valuation Technique	Estimated Useful Life
Customer Relationships	$	24	Multi-period excess earnings method	15 years
Trade Names	$	4	Relief-from-royalty method	11 years
Noncompetition Agreements	$	1	Income Approach	3 years

The fair value of customer relationships, trade names and noncompetition agreements were determined through the valuation techniques described above using various judgmental assumptions such as discount rates, royalty rates, and customer attrition rates, as applicable. The fair values of property, plant and equipment associated with the Kerr acquisition were determined to be Level 3 under the fair value hierarchy. Property, plant and equipment values were estimated using either the cost or market approach.

The Company also incurred $1 million and $4 million of pre-tax acquisition and integration costs for the three months ended March 31, 2016 and March 31, 2015, respectively, associated with the Kerr acquisition and the prior year acquisition of Penford Corporation.

4.