Ingredion Inc
Form 10-Q
August 08, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark One)

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

FOR THE QUARTERLY PERIOD ENDED June 30, 2012

or

o 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 x No o

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 x No o

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 smaller reporting company in Rule 12b-2 of the Exchange Act.

(Check one):

Large accelerated filer x	Accelerated filer o

Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

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

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 July 31, 2012**
Common Stock, $.01 par value	76,184,605 shares

PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

INGREDION INCORPORATED (Ingredion)

Condensed Consolidated Statements of Income

(Unaudited)

(In millions, except per share amounts)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net sales before shipping and handling costs	$ 1,719.7	$ 1,667.3	$ 3,377.7	$ 3,202.9
Less: shipping and handling costs	84.7	82.7	168.5	158.9
Net sales	1,635.0	1,584.6	3,209.2	3,044.0
Cost of sales	1,339.8	1,312.8	2,618.1	2,474.0
Gross profit	295.2	271.8	591.1	570.0
Operating expenses	131.5	137.3	267.7	268.5
Other (income), net	(2.8)	(2.9)	(7.8)	(63.3)
Restructuring / impairment charges	13.6	2.5	17.4	2.5
Operating income	152.9	134.9	313.8	362.3
Financing costs, net	17.2	19.0	36.7	45.6
Income before income taxes	135.7	115.9	277.1	316.7
Provision for income taxes	25.0	34.9	70.8	80.2
Net income	110.7	81.0	206.3	236.5
Less: Net income attributable to non-controlling interests	1.6	1.7	3.0	3.6
Net income attributable to Ingredion	$ 109.1	$ 79.3	$ 203.3	$ 232.9
Weighted average common shares outstanding:				
Basic	76.6	76.8	76.5	76.6
Diluted	77.9	78.6	77.9	78.4
Earnings per common share of Ingredion:				
Basic	$ 1.42	$ 1.03	$ 2.66	$ 3.04
Diluted	$ 1.40	$ 1.01	$ 2.61	$ 2.97

See Notes to Condensed Consolidated Financial Statements

PART I FINANCIAL INFORMATION

ITEM 1

FINANCIAL STATEMENTS

INGREDION INCORPORATED (Ingredion)

Condensed Consolidated Statements of Comprehensive Income

(Unaudited)

(In millions)	Three Months Ended June 30, 2012	Three Months Ended June 30, 2011	Six Months Ended June 30, 2012	Six Months Ended June 30, 2011
Net income	$ 111	$ 81	$ 206	$ 237
Other comprehensive income:				
Gains on cash flow hedges, net of income tax effect of $19, $7, $3 and $31, respectively	34	11	5	51
Reclassification adjustment for losses (gains) on cash flow hedges included in net income, net of income tax effect of $5, $17, $8 and $29, respectively	10	(28)	14	(48)
Currency translation adjustment	(78)	45	(41)	70
Comprehensive income	77	109	184	310
Comprehensive income attributable to non-controlling interests	(2)	(2)	(3)	(4)
Comprehensive income attributable to Ingredion	$ 75	$ 107	$ 181	$ 306

See Notes to Condensed Consolidated Financial Statements

PART I FINANCIAL INFORMATION

ITEM I FINANCIAL STATEMENTS

INGREDION INCORPORATED (Ingredion)

Condensed Consolidated Balance Sheets

(In millions, except share and per share amounts)		June 30, 2012 (Unaudited)		December 31, 2011
Assets				
Current assets				
Cash and cash equivalents	$	440	$	401
Accounts receivable net		843		837
Inventories		779		769
Prepaid expenses		20		24
Deferred income taxes		65		71
Total current assets		2,147		2,102
Property, plant and equipment net		2,129		2,156
Goodwill net		557		562
Other intangible assets net		338		347
Deferred income taxes		31		19
Investments		10		10
Other non-current assets		117		121
Total assets	$	5,329	$	5,317
Liabilities and equity				
Current liabilities				
Short-term borrowings and current portion of long-term debt	$	63	$	148
Deferred income taxes		11		
Accounts payable and accrued liabilities		734		778
Total current liabilities		808		926
Non-current liabilities		244		243
Long-term debt		1,776		1,801
Deferred income taxes		201		199
Share-based payments subject to redemption		13		15
Equity				
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 76,821,553 shares issued at June 30, 2012 and December 31, 2011		1		1
Additional paid-in capital		1,139		1,146
Less: Treasury stock (common stock; 649,457 and 938,666 shares at June 30, 2012 and December 31, 2011, respectively) at cost		(31)		(42)
Accumulated other comprehensive loss		(435)		(413)
Retained earnings		1,585		1,412

Total Ingredion stockholders equity		**2,259**		**2,104**
Non-controlling interests		**28**		**29**
Total equity		**2,287**		**2,133**
Total liabilities and equity	**$**	**5,329**	**$**	**5,317**

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						
(in millions)	**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, 2011	**$ 1**	**$ 1,146**	**$ (42)**	**$ (413)**	**$ 1,412**	**$ 29**	**$ 15**
Net income attributable to Ingredion					**203**		
Net income attributable to non-controlling interests						**3**	
Dividends declared					**(30)**	**(3)**	
Gains on cash flow hedges, net of income tax effect of $3				**5**			
Amount of losses on cash flow hedges reclassified to earnings, net of income tax effect of $8				**14**			
Repurchases of common stock			**(16)**				
Share-based compensation		**(7)**	**27**				**(2)**
Currency translation adjustment				**(41)**			
Other						**(1)**	
Balance, June 30, 2012	**$ 1**	**$ 1,139**	**$ (31)**	**$ (435)**	**$ 1,585**	**$ 28**	**$ 13**

(in millions)	Common Stock	Additional Paid-In Capital	Treasury Stock	Total Equity Accumulated Other Comprehensive Income (Loss)	Retained Earnings	Non-controlling Interests	Share-based Payments Subject to Redemption
Balance, December 31, 2010	**$ 1**	**$ 1,119**	**$ (1)**	**$ (190)**	**$ 1,046**	**$ 26**	**$ 9**
Net income attributable to Ingredion					**233**		
Net income attributable to non-controlling interests						**4**	
Dividends declared					**(23)**	**(3)**	
Gains on cash flow hedges, net of income tax effect of $31				**51**			
Amount of gains on cash flow hedges reclassified to earnings, net of income tax effect of $29				**(48)**			
Repurchases of common stock			**(3)**				
Share-based compensation		**22**					**1**
Currency translation adjustment				**70**			
Balance, June 30, 2011	**$ 1**	**$ 1,141**	**$ (4)**	**$ (117)**	**$ 1,256**	**$ 27**	**$ 10**

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)	Six Months Ended June 30, 2012	2011
Cash provided by operating activities:		
Net income	$ 206	$ 237
Non-cash charges (credits) to net income:		
Write-off of impaired assets	6	
Depreciation and amortization	107	103
Changes in working capital:		
Accounts receivable and prepaid items	(48)	(48)
Inventories	(17)	(169)
Accounts payable and accrued liabilities	(38)	(49)
Decrease in margin accounts	56	6
Other	46	22
Cash provided by operating activities	318	102
Cash used for investing activities:		
Capital expenditures, net of proceeds on disposals	(128)	(89)
Payment for acquisition		(15)
Cash used for investing activities	(128)	(104)
Cash used for financing activities:		
Proceeds from borrowings	20	28
Payments on debt	(131)	(44)
Repurchases of common stock	(16)	(3)
Issuances of common stock	13	13
Dividends paid (including to non-controlling interests)	(33)	(24)
Excess tax benefit on share-based compensation	1	2
Cash used for financing activities	(146)	(28)
Effect of foreign exchange rate changes on cash	(5)	1
Increase (decrease) in cash and cash equivalents	39	(29)
Cash and cash equivalents, beginning of period	401	302
Cash and cash equivalents, end of period	$ 440	$ 273

See Notes to Condensed Consolidated Financial Statements

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INGREDION INCORPORATED (Ingredion)

Notes to Condensed Consolidated Financial Statements

1. Interim Financial Statements

On May 15, 2012, the Company s stockholders approved of the Company s name change to Ingredion Incorporated from Corn Products International, Inc. 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, 2011.

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, 2011 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 June 30, 2012 and 2011, and the financial position of the Company as of June 30, 2012. The results for the interim periods are not necessarily indicative of the results expected for the full years.

Certain prior year amounts in the Condensed Consolidated Statement of Equity and Redeemable Equity have been reclassified to conform to the current year s presentation. These reclassifications had no effect on previously recorded net income or cash flows.

2. New Accounting Standards

In June 2011, the FASB issued Accounting Standards Update (ASU) No. 2011-05, *Presentation* of *Comprehensive Income*. The objective of this Update is to improve the comparability, consistency, and transparency of financial reporting with respect to comprehensive income. This Update requires an entity to present the total of comprehensive income, the components of net income, and the components of other comprehensive income either in a single continuous statement of comprehensive income or in two separate but consecutive statements. Additionally, this Update requires an entity to present, on the face of the financial statements, reclassification adjustments for items that are reclassified from accumulated other comprehensive income to net income in the statement(s) where the components of net income and the components of other comprehensive income are presented. In December 2011, the FASB deferred the effective date for those changes required in this Update relating to the presentation of reclassification adjustments. Except for the presentation of reclassification adjustments, this Update is effective for interim and annual periods beginning after December 15, 2011. The Company has changed its presentation of Comprehensive Income to immediately follow the Condensed Consolidated Statement of Income. The implementation of the guidance contained in this Update did not have a material impact on the Company s Condensed Consolidated Financial Statements.

In December 2011, the FASB issued ASU No. 2011-11, *Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities.* This Update requires an entity to disclose both gross information and net information about instruments and transactions eligible for offset in the statement of financial position and instruments and transactions subject to an agreement similar to a master netting arrangement. The guidance in this Update is effective for annual

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periods beginning January 1, 2013, and interim periods within those annual periods. We are assessing the requirements of this Update and expect to comply with the guidance it contains in the first quarter of 2013.

3. Restructuring and Asset Impairment Charges

In the second quarter of 2012, the Company decided to restructure its business operations in Kenya and close its manufacturing plant in the country. As part of that decision, the Company recorded a $10 million restructuring charge to its Statement of Income consisting of a $6 million fixed asset impairment charge, a $2 million charge to reduce certain working capital balances to fair value based on the announced closure, and $2 million of costs primarily consisting of severance pay related to the termination of the majority of its employees in Kenya. The Company estimates that it will incur approximately $12 million in additional charges in the second half of 2012 associated with this restructuring. These anticipated charges include the recognition of the cumulative translation adjustment associated with its Kenyan operations of approximately $7 million and other period costs to wind down the operations, such as dismantling the factory. The Company anticipates completing this disposal activity by the end of 2012.

Additionally, as part of a manufacturing optimization program developed in conjunction with the acquisition of National Starch to improve profitability, in the second quarter of 2011 the Company committed to a plan that will optimize its production capabilities at certain of its North American facilities. The Company anticipates that its plan will be completed in the second half of 2012 at which time certain equipment will cease to be used. As a result, the Company is recording restructuring charges to write the equipment off by September 30, 2012. For the second quarter and first-half of 2012, the Company recorded charges of $4 million and $7 million, respectively, of which $3 million and $6 million represent accelerated depreciation on the equipment. The Company anticipates recording further restructuring charges of approximately $4 million in the second half of 2012 until the completion of the plan when the equipment will be fully depreciated.

4. Segment Information

The Company is principally engaged in the production and sale of starches and sweeteners for a wide range of industries, and is managed geographically on a regional basis. The Company s operations are classified into four reportable business segments: North America, South America, Asia Pacific and Europe, Middle East and Africa (EMEA). Its North America segment includes businesses in the United States, Canada and Mexico. The Company s South America segment includes businesses in Brazil, Colombia, Ecuador, Peru and the Southern Cone of South America, which includes Argentina, Chile and Uruguay. Its Asia Pacific segment includes businesses in Korea, Malaysia, China, Japan, Indonesia, the Philippines, Singapore, India, Australia and New Zealand and tapioca root processing operations in Thailand. The Company s EMEA segment includes businesses in the United Kingdom, Germany, South Africa, Pakistan, Kenya and Nigeria.

(in millions)	Three Months Ended June 30, 2012	2011	Six Months Ended June 30, 2012	2011
Net Sales				
North America	$ 949.7	$ 852.6	$ 1,841.5	$ 1,632.4
South America	349.1	390.3	716.6	758.0
Asia Pacific	208.1	201.4	397.2	383.3
EMEA	128.1	140.3	253.9	270.3
Total	$ 1,635.0	$ 1,584.6	$ 3,209.2	$ 3,044.0
Operating Income				
North America	$ 96.9	$ 70.2	$ 196.9	$ 170.7
South America	47.3	47.6	92.9	96.9
Asia Pacific	22.9	22.4	43.2	41.1
EMEA	18.8	21.7	37.6	43.7
Corporate	(18.1)	(16.5)	(35.7)	(31.0)
Sub-total	167.8	145.4	334.9	321.4
Restructuring/impairment charges	(13.6)	(2.5)	(17.4)	(2.5)
Integration costs	(1.3)	(8.0)	(3.7)	(15.0)
NAFTA award				58.4
Total	$ 152.9	$ 134.9	$ 313.8	$ 362.3

(in millions)	At June 30, 2012	At December 31, 2011
Total Assets		
North America	$ 2,845	$ 2,879
South America	1,166	1,218
Asia Pacific	811	757
EMEA	507	463
Total	$ 5,329	$ 5,317

5. Financial Instruments, Derivatives and Hedging Activities

The Company has manufacturing operations in North America, South America, Asia Pacific and EMEA. The Company s products are made primarily from corn.

The Company is exposed to market risk stemming from changes in commodity prices (corn and natural gas), foreign currency exchange rates and interest rates. In the normal course of business, the Company actively manages its exposure to these market risks by entering into various hedging transactions, authorized under established policies that place clear controls on these activities. These transactions utilize exchange-traded derivatives or over-the-counter derivatives with investment grade counterparties. Derivative financial instruments currently used by the Company consist of commodity futures, options and swap contracts, forward currency contracts and options, and interest rate swaps.

Commodity price hedging: The Company s principal use of derivative financial instruments is to manage commodity price risk in North America relating to anticipated purchases of corn and natural gas to be used in the manufacturing process, generally over the next twelve to eighteen months. To manage price risk related to corn purchases in North America, the Company uses corn futures and options contracts that trade on regulated commodity exchanges to lock in its corn costs associated with firm-priced customer sales contracts. The Company uses over-the-counter gas swaps to hedge a portion of its natural gas usage in North America. These derivative financial instruments limit the impact that volatility resulting from fluctuations in market prices will have on corn and natural gas purchases and have been designated as cash flow hedges. Unrealized gains and losses associated with marking the commodity hedging contracts to market are recorded as a component of other comprehensive income (OCI) and included in the equity section of the Condensed Consolidated Balance Sheets as part of accumulated other comprehensive income/loss (AOCI). These amounts are subsequently reclassified into earnings in the month in which the related corn or natural gas is used or in the month a hedge is determined to be ineffective. The Company assesses the effectiveness of a commodity hedge contract based on changes in the contract s fair value. The changes in the market value of such contracts have historically been, and are expected to continue to be, highly effective at offsetting changes in the price of the hedged items. The amounts representing the ineffectiveness of these cash flow hedges are not significant.

At June 30, 2012, the Company s AOCI account included $6 million of losses, net of tax of $3 million, related to its commodity-hedging derivative instruments.

Interest rate hedging: Derivative financial instruments that have been used by the Company to manage its interest rate risk consist of Treasury Lock agreements (T-Locks) and interest rate swaps. The Company did not have any Treasury Lock agreements outstanding at June 30, 2012.

On March 25, 2011, the Company entered into interest rate swap agreements that effectively convert the interest rate on the Company s 3.2 percent $350 million senior notes due November 1, 2015 to a variable rate. These swap agreements call for the Company to receive interest at a fixed rate (3.2 percent) and to pay interest at a variable rate based on the six-month US dollar LIBOR rate plus a spread. The Company has designated these interest rate swap agreements as hedges of the changes in fair value of the underlying debt obligation attributable to changes in interest rates and accounts for them as fair value hedges. Changes in the fair value of interest rate swaps designated as hedging instruments that effectively offset the variability in the fair value of outstanding debt obligations are reported in earnings. These amounts offset the gain or loss (that is, the change in fair value) of the hedged debt instrument that is attributable to changes in interest rates (that is, the hedged risk) which is also recognized currently in earnings. The fair value of these interest rate swap agreements approximated $21 million at June 30, 2012 and is reflected in the Condensed Consolidated Balance Sheet within non-current assets, with an offsetting amount recorded in long-term debt to adjust the carrying amount of the hedged debt obligation.

At June 30, 2012, the Company s AOCI account included $11 million of losses (net of tax of $7 million) related to settled Treasury Lock agreements. These deferred losses are being amortized to financing costs over the terms of the senior notes with which they are associated.

Foreign currency hedging: Due to the Company s global operations, it is exposed to fluctuations in foreign currency exchange rates. As a result, the Company has exposure to translational foreign exchange risk when its foreign operation results are translated to US dollars (USD) and to transactional foreign exchange risk when transactions not denominated in the functional currency of the operating unit are revalued. The Company primarily uses derivative financial instruments such as foreign currency forward contracts, swaps and options to manage its transactional foreign exchange risk. These derivative financial instruments are primarily accounted for as fair value hedges. As of June 30, 2012, the Company had $134 million of net notional foreign currency forward contracts that hedged net asset transactional exposures. The fair value of these derivative instruments was approximately $2 million at June 30, 2012.

The Company also uses derivative instruments that are designated as cash flow hedges relating to certain US dollar obligations of a foreign subsidiary. At June 30, 2012, the Company s AOCI account included gains of $1 million, net of tax, related to its currency-hedging derivative instruments.

The fair value and balance sheet location of the Company s derivative instruments accounted for as cash flow hedges are presented below:

		Fair Value of Derivative Instruments				
		Fair Value			**Fair Value**	
Derivatives designated as hedging instruments: (in millions)	**Balance Sheet Location**	**At June 30, 2012**	**At December 31, 2011**	**Balance Sheet Location**	**At June 30, 2012**	**At December 31, 2011**
Commodity and foreign currency contracts	*Accounts receivable-net*	$ 35	$ 14	*Accounts payable and accrued liabilities*	$ 16	$ 34
Commodity contracts	*Other non-current assets*	2		*Non-current liabilities*	9	11
Total		$ 37	$ 14		$ 25	$ 45

At June 30, 2012, the Company had outstanding futures and option contracts that hedge approximately 101 million bushels of forecasted corn and soy bean oil purchases. Also at June 30, 2012, the Company had outstanding swap and option contracts that hedge approximately 18 million mmbtu s of forecasted natural gas purchases.

Additional information relating to the Company s derivative instruments is presented below (in millions):

Derivatives in	Amount of Gains Recognized in OCI on Derivatives