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INGR.N - Q1 2021 Ingredion Inc Earnings Call

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OVERVIEW:

Co. reported 1Q21 net sales of $1.614b, reported operating loss of $170m and reported loss per share of $3.66. Expects 2021 net sales to be up low-double digits. Expects 2Q21 net sales to be up 20-30%

CORPORATE PARTICIPANTS

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PRESENTATION

Operator

Good day, and thank you for standing by. Welcome to the First Quarter 2021 Ingredion, Inc. Earnings Conference Call. (Operator Instructions) Please be advised that today's conference is being recorded. (Operator Instructions)

I will now hand the conference over to your speaker today, Tiffany Willis, Vice President, Investor Relations and Corporate Communications Officer. Please go ahead.

Tiffany Willis - *Ingredion Incorporated - VP of IR & Corporate Communications Officer*

Thank you, Carmen. Good morning, and welcome to Ingredion's First Quarter 2021 Earnings Call. I'm Tiffany Willis, Vice President of Investor Relations and Corporate Communications Officer.

On today's call are Jim Zallie, our President and CEO; and Jim Gray, our Executive Vice President and Chief Financial Officer. We issued our results today in a press release that can be found on our website, ingredion.com, in the Investors section. The slides accompanying this presentation can also be found on the website and were posted today for your convenience.

As a reminder, our comments within this presentation may contain forward-looking statements. These statements are subject to various risks and uncertainties. These statements include expectations and assumptions regarding the company's future operations and financial performance, including the impact of the COVID-19 pandemic. Actual results could differ materially from those predicted in the forward-looking statements. And Ingredion assumes 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 Forms 10-Q and 8-K.

During this call, we also refer to certain non-GAAP financial measures, including adjusted earnings per share, adjusted operating income and adjusted effective tax rate, which are reconciled to U.S. GAAP measures in Note 2, non-GAAP information, included in our press release and in today's presentation appendix.

And with that, I'm pleased to turn the call over to Jim Zallie.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Thank you, Tiffany, and good morning, everyone. We started the year off very well, delivering excellent financial results in the quarter and positioning us for an exceptionally strong first half.

For the quarter, global net sales were up 5% compared to the year-ago period. The increase was driven by higher volumes in Asia Pacific and South America, as well as the inclusion of PureCircle. Adjusted operating income for the quarter was up in all four regions, led by exceptionally strong performance in South America, which was up 20% year-over-year.

Our execution in Asia Pacific was excellent as we began to lap the impacts of the pandemic from the prior year. North America also grew operating income by 7%, benefiting from lower net corn costs and the delivery of substantial Cost Smart savings. Notably, volumes in North America continue to recover from the impact of last year's COVID-19 restrictions.

Global net sales growth of 5% was led by Asia Pacific where a combination of the inclusion of PureCircle sales, organic growth and the lapping of prior year COVID-19 impacts contributed to 24% net sales growth.

South America had a fantastic quarter with year-over-year growth of 15%, followed by EMEA with 5% growth. North America closed the quarter with net sales down slightly, reflecting foodservice traffic that is picking up but has not yet recovered to pre-pandemic levels.

We continue to make progress against our strategic pillars and are pleased to share some highlights with you. Specialty ingredients remained a bright spot, with particularly strong net sales growth in both Asia Pacific and South America.

The PureCircle and Verdient acquisitions are enabling us to capitalize on growth opportunities in sugar reduction and plant-based foods with significant year-over-year net sales growth achieved in both platforms.

In the first quarter, we strengthened the strategic pillar of commercial excellence by introducing our customer-focused Be What's Next brand positioning. This reflects our passion and mission to innovate and co-create with our customers to bring them new and novel ideas and solutions. Jim will address our progress on Cost Smart in his remarks, and I will expand later on how our team is reimagining the future of work with customer centricity, speed and agility.

Now let me share with you some exciting highlights from our plant-based protein growth platform. In March, we virtually welcomed more than 700 attendees, including over 500 customers from 28 countries to our South Sioux City manufacturing facility, which produces pulse-based protein isolates. We were delighted with the breadth of ingredient interest, request for samples and new product development opportunities, which has come from the many discussions we have had with new and existing customers. These activities, along with the growing sales pipeline, are exciting leading indicators for future sales growth.

We are also pleased to report that we are in the final stages of completing mechanical and operations testing and obtaining food-grade certification at our Vanscoy plant for our new range of pulse-based protein flowers and concentrates. Our ability to formulate with and supply a complete range of protein-based flowers, concentrates and isolates makes us an attractive development partner to fast-growing, plant-based foods companies.

On April 1st, we completed the acquisition of KaTech headquartered in Lübeck, Germany, which is very close to our European headquarters in Hamburg. We are pleased to welcome this innovative team of creative application specialists, who develop customized ingredient blends that enhance texture and provide stabilization, particularly in dairy, dairy alternatives, bakery and savory applications.

KaTech is a great acquisition that complements our existing specialty ingredient portfolio. It expands our food systems platform with a comprehensive suite of innovative capabilities that assist food and beverage manufacturers with product formulation, ingredient functionality and technical assistance. It also adds a European hub to complement our existing U.S. and Asia food systems operations.

Yesterday, we announced an exciting, exclusive manufacturing, marketing and sales partnership with a leading synthetic biotechnology company, Amyris, to produce and market a great-tasting sugar reduction ingredient, Reb M, which is derived from fermentation. The Amyris relationship makes for a powerful combination with their leading technology and ability to develop, scale and produce fermentation-based products, combined with Ingredion's global customer reach and formulation capabilities.

Adding a fermented Reb M product to our existing PureCircle sugar reduction portfolio now provides Ingredion with the most comprehensive trifecta of leaf extract and bioconverted stevia and fermented Reb M in the world. This enables us to meet the growing needs of a global customer base that is looking now for ways to reduce sugar without compromising taste. Our relationship with Amyris may include, over time, other R&D collaborations to manufacture and market additional fermentation-based food ingredients.

As we are reimagining the future of work, we are doing so with a customer-centric mindset and a focus on speed and agility. The pandemic has enabled us to reposition how we engage with our customers. Because all of us are relying more on digital tools and digital connections, this opens a window for us to become more efficient and intimate with our customers.

We've recently relaunched our global website and are expanding our customer portals. We are actively working toward providing greater availability of on-demand technical service, live chat and virtual co-creation. This reinvention of the way we work affords us a great opportunity to improve productivity and do so in a manner that supports customer satisfaction and high employee engagement.

Now let me hand it off to Jim Gray, who will provide a financial review.

James Derek Gray - *Ingredion Incorporated - Principal Accounting Officer, Executive VP & CFO*

Thank you, Jim. North America net sales were down slightly for the quarter when compared to the prior year. This was partially driven by the cessation of ethanol production at our Cedar Rapids plant as well as continuing volume recovery as our customers demand returns from the effects of the pandemic on consumer mobility.

North America operating income was $134 million dollars, up 7% versus the prior year. The increase was driven by lower net corn costs due to higher co-product values realized during the quarter, favorable price/mix and lower operating expenses.

South America net sales were up 15% versus prior year. Absent foreign exchange, sales were up 25% driven by favorable price/mix including the pass-through of higher corn costs and higher volumes. South America operating income was $40 million dollars, up 54% versus prior year as favorable price/mix more than offset higher net corn costs and foreign exchange impacts. Excluding foreign exchange impacts, adjusted operating income was up 65% in the quarter.

Moving to Asia Pacific, net sales were up 24% in the quarter driven by the inclusion of PureCircle. Excluding PureCircle, Asia Pacific net sales were up 13%, benefiting from higher volumes as the region was lapping reduced demand from COVID-19 lockdowns in the first quarter of last year. Asia Pacific operating income was $25 million dollars, up 25% versus prior year, which includes a $2 million dollars operating loss for PureCircle. Excluding PureCircle, first quarter operating income was $27 million dollars, up $7 million dollars from the year ago period driven by the recovery of the South Korea and China businesses.

In EMEA, net sales increased 5% for the quarter. The increase was due to favorable foreign exchange in Europe and price/mix gains in Pakistan, which included the pass-through of higher corn costs. EMEA operating income was $31 million dollars, up 15% for the quarter. The increase was driven by better price/mix and lower net corn costs in Pakistan.

Net sales of $1.614 billion dollars were up 5% for the quarter versus prior year. Gross profit margin was 21.7%, up 80 basis points. Reported operating income was a loss of $170 million, and adjusted operating income was a positive $201 million dollars. Reported operating income was lower than adjusted operating income due to the held-for-sale impairment charge related to the Arcor joint venture in Argentina, which is anticipated to close in the third quarter of this year.

Our reported loss per share was a negative $3.66, and adjusted earnings per share was a positive $1.85.

Turning to our Q1 net sales bridge, a sales volume decrease of $16 million dollars was driven by the continuing recovery of demand, impacted by the pandemic in North America and Europe as well as the cessation of ethanol production at our Cedar Rapids plant. These decreases were partially offset by higher volumes in Asia Pacific and South America and the inclusion of PureCircle results.

Favorable price/mix of $86 million dollars was largely attributable to pricing actions in South America and North America, including the pass-through of higher corn costs. Notably, our South American team has been able to achieve better price/mix versus the foreign exchange losses in Q1.

Turning to net sales variance by region. In North America, net sales were down slightly versus prior year as lower volumes were partially offset by favorable price/mix. South America net sales were up 15% driven by a price/mix increase of 21%, which more than offset foreign exchange weakness.

In Asia Pacific, net sales were up 24% driven by the inclusion of PureCircle volumes and higher specialty volumes across the region. EMEA net sales were up 5% driven by favorable foreign exchange in Europe and favorable price/mix in Pakistan.

For the quarter, reported operating income decreased $323 million dollars, while adjusted operating income increased $34 million dollars. The decrease in reported operating income versus adjusted operating income is primarily due to the held-for-sale impairment charge related to the Arcor joint venture in Argentina. As Jim has highlighted, operating income was up in all four regions.

Corporate costs and total operating expense for the company were down for the quarter when compared to prior year driven by our Cost Smart savings program.

Turning to our earnings bridge, on the left side of the page, you can see the reconciliation from reported to adjusted. On the right side, operationally, we saw an increase of $0.36 per share for the quarter. The increase was driven by margin improvement of $0.33, other income of $0.04 and foreign exchange of $0.01, which were partially offset by negative $0.02 of lower volumes.

Moving to our nonoperational items, we saw a decrease of $0.10 per share for the quarter primarily driven by a higher tax rate of $0.07 per share.

Moving to cash flow, year-to-date cash provided by operations was $22 million dollars. Cash provided by operations decreased versus prior year driven by the impact of higher net sales on inventories and accounts receivables in working capital. Capital expenditures were $63 million dollars, down $35 million dollars from the prior year period due to the timing of payments for investments in our growth projects. We repurchased $14 million shares of outstanding common stock during the quarter.

At quarter end, cash and cash equivalents were $576 million dollars.

For the second quarter, the company anticipates net sales to be up between 20% and 30% and adjusted operating income to be up more than net sales growth as we begin to lap prior year impacts of COVID-19 in North America, South America and EMEA. We expect net sales volume will continue to recover with increases in consumer activity and the pace and effectiveness of vaccine distribution.

For our regional outlook, we expect the following for second quarter when compared to the prior year: North America net sales to be up 15% to 25%; operating income expected to be up slightly more than net sales growth.

In South America, we expect net sales to be up 35% to 45% and operating income to be up significantly more than net sales growth.

In Asia Pacific, we anticipate net sales to be up more than 30% versus the prior year driven by the inclusion of PureCircle and the pass-through of higher corn costs.

We expect operating income to be down. Finally, for EMEA, we expect net sales to be up 20% to 30% and operating income to be up in line with net sales growth.

For the full year, the company anticipates net sales to be up low double digits driven by strong price/mix and the pass-through of higher corn costs.

We expect adjusted operating income to be up mid-single digits driven by specialty ingredients growth, other volume recovery and Cost Smart savings, which will be partially offset by higher net corn costs in the second half of the year.

Assumed in our full year perspective, we have accounted for the rise in the cost of corn to the $6 per bushel range and are largely hedged. As a result, for the remainder of the year, we have limited margin exposure to higher corn costs for our U.S. and Canada fixed-price contracts for customers.

Full year corporate costs are expected to be flat. We anticipate our reported tax rate to be 70% to 75% and adjusted effective tax rate to be 28% to 29%.

For the full year, capital investment commitments are expected to be between $330 million and $350 million, of which more than $100 million is being invested to drive Specialty growth. Due to the uncertain environment, the Company is not currently providing guidance for the full year 2021 EPS nor cash flow from operations.

With that, let me turn the call back to Jim Zallie.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Thanks, Jim. Our strong financial performance is validation of our road map for value creation. Our road map serves as our compass and has us centered on driving value for our stakeholders.

In the quarter, we held our second virtual global growth summit with our top leaders to align on the ways Ingredion will continue to identify, execute and capture growth opportunities. Despite the continued challenges from an uneven economic recovery around the world, we have been, and will remain, directed by our road map as we deliver on our goals and against shareholder expectations.

In line with our values and our purpose, we continue to elevate our commitment to sustainability, as we see it as the way of doing business the right way for the long term. Having a comprehensive approach to ESG is vital to Ingredion, and this is why it was featured prominently in our Vision 2025 goals, which we shared earlier this year at CAGNY.

We are committed to sustainably source 100% of our Tier 1 priority crops by 2025. These crops are corn, rice, tapioca, potatoes, stevia and pulses. And collectively, they represent about 99% of our global crop sourcing by volume. In addition, we are scaling regenerative agricultural practices with customers in a farmer-centric and outcomes-driven manner. Achieving these goals will position us as a preferred supplier that brings strategic value to customers and will ultimately drive value for our shareholders.

Next week, we will release our annual update to our 2030 All Life plan, which will highlight our sustainability progress and accomplishments.

Now let's open the call for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question is from the line of Robert Moskow with Crédit Suisse.

Robert Bain Moskow - *Crédit Suisse AG, Research Division - Research Analyst*

Just about the outlook, Jim and Jim, it indicates a slower pace of operating income growth in the next 3 quarters than I think what consensus had in mind. And I just -- and you also mentioned that you're now taking into account $6 corn in your outlook. Thanks.

I imagine that that's higher than what you had expected originally. And now that you're fully hedged, does your outlook now incorporate a slightly lower expectation for profit growth because of the hedges you had to put in to lock things up? Or is it something different?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Jim, do you want to take that?

James Derek Gray - *Ingredion Incorporated - Principal Accounting Officer, Executive VP & CFO*

Yes. Rob, maybe just to begin. So for the first quarter and anticipated in the second quarter, our North America gross corn costs were held in line with our business plan when we started in the fall. And we've benefited from higher co-product values. In addition, I mean the team really executed well in the first quarter.

As it relates to the second half, we would remind you that we saw volume recovery in the third and fourth quarters of 2020, and we benefited from very favorable net corn costs in the second half of last year. So our full year perspective this year considers the more challenging comparison to the second half of 2020.

And then as I said, assumed in our full year perspective, we have accounted for that rise in the corn costs and the corn futures to around that $6 per bushel range, right. Obviously, we lay out our hedges in Q3 and Q4, but we're largely hedged. And that was higher than what we anticipated, I think, in the beginning of the year. And so that's what is -- that's what's putting some of the pressure against our second half of operating income in our perspective.

Operator

Our next question comes from Ben Bienvenu with Stephens.

Benjamin Shelton Bienvenu - *Stephens Inc., Research Division - MD & Analyst*

I want to follow up on Rob's question about corn. You noted that you hedged your corn at around $6. Does that include having secured or locked in basis as well for the back half of the year?

And then what does your renewed outlook reflects relative to coproduct values? Will that just be reflective of comparable veg oil or corn or soybean meal futures curves as well? I'm curious to understand what you're seeing there.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Sure. Ben, I'll -- maybe I'll take the lead, and Jim can add color. As we look forward in our hedging practices, we look at the gross cost of corn and the basis, depending upon which plant the corn is coming into. So yes, we are considering basis as one of those risks that we have to hedge against and are covered against that.

I think when we look at co-product values, as I've said from the beginning of the year, co-product values were quite elevated as corn has risen. We're seeing the benefits of that clearly in Q1. We anticipate the continued benefits of co-product values into Q2.

I think what we're cautious about is we're going to get a harvest here in the U.S. and towards the end of Q3. And depending upon that harvest, there will be resultant impacts to both corn co-product values as well as potentially soy.

And so I think within our full year perspective, I think we're reasonably cautious on co-product values as we would expect the harvest as well as what the corn futures market reflects as a slight decrease in values. And I think that that's what we're reasonably cautious about with regard to co-product values.

Benjamin Shelton Bienvenu - *Stephens Inc., Research Division - MD & Analyst*

Okay. That's great. That's helpful. My second question is, you noted, I think the word you used was cessation of ethanol production at Cedar Rapids facility. Is that a permanent cessation or temporary?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

That's a permanent cessation of ethanol production at Cedar Rapids. We would prefer to use the grind more towards starches and more value-added products.

Benjamin Shelton Bienvenu - *Stephens Inc., Research Division - MD & Analyst*

Okay. And then one quick one, if I could. On PureCircle, can you remind us -- I guess it's still dragging operating profit. Can you remind us of what you think EBIT contribution will be in this year? And then would it be next year that we'd start to see some positive EBIT contribution? And then I'll leave it there.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Yes. Let me just start with the technical, and then Jim can add color. What we're really seeing is we largely got after the integration in terms of taking out some of the SG&A costs and successfully completed that in the last half of 2020. Now we're working towards gross profit margin improvement. As we bring in the next-generation of stevia leaf, we're seeing continued improvement in margins. And as we get towards the end of this year, we really believe that PureCircle will be breakeven to positive.

James Derek Gray - *Ingredion Incorporated - Principal Accounting Officer, Executive VP & CFO*

Yes. And I would just add that PureCircle for us right now is performing at or above our expectations since the acquisition in July. And as a reminder, we've owned the business for 5 years -- for 5 months. And we're seeing sequential improvement month-on-month right now based on how the team has managed the integration as well as the commercial receptivity of customers and commercial engagement.

Operator

Our next question comes from Ken Zaslow with Bank of Montreal.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

Good morning everyone. Just wanted to touch base on Brazil. Your results in South America were above our expectations. As you look forward, what are you seeing in Brazil? And are you still able to keep this momentum going through the year? Or will there be some subtle changes? Can you talk about that?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Yes. Let me take that. And Jim, I'll let you add any color or commentary. As we've been saying for the last few quarters, we've been very proud of the South America team's performance and how they've managed through some really difficult economic -- macroeconomic challenges but then equally, obviously, with what's going on in South America with the pandemic as well.

The net sales increase in South America has really been driven primarily by the pass-through of higher corn costs. And it's also benefited from higher volumes in Argentina and Brazil. There's actually been very strong volume recovery that's continued in Brazil and in South America.

The first quarter operating income also benefited from well-executed contract management and corn hedging as well as higher co-product recoveries. And it's worth to note that this is the third consecutive quarter of year-on-year operating income growth in South America. It's the highest quarter 1 performance in nearly a decade in South America.

So we just think the team is operating exceptionally well. Our operations are performing very well under difficult circumstances. And it's a combination of volume uptick, great contract management, operational execution is what we're seeing. And the question is can the consumers continue to feel robust in their purchasing behaviors going forward. That's the question.

James Derek Gray - *Ingredion Incorporated - Principal Accounting Officer, Executive VP & CFO*

Yes. And Ken, I'll highlight that we've talked about, in Brazil in particular, that just given the longer period of recession that was -- we saw ourselves coming out of, I don't know if it's at the end of 2019 and partially into 2020, but the utilizations of our facilities were always lower. And now what we're seeing is that volume pickup gives us that incremental utilization to the low 80s, mid-80s at times. And all of that is just really incremental to the business. And so you're seeing that benefit.

And then just to highlight, Jim said the team is executing really well. I mean I would call out that the South America team is doing two things and particularly well, which is they're really thinking about pricing and the timeliness of the pricing and where value exists as well as they're really looking at corn procurement and hedging differently. And they just really tightened the execution on that, which is benefiting the business.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

And I think it's worth noting -- because we have talked about this in the past in relationship to the pricing pass-through of foreign exchange devaluation. This is the first quarter in recent memory, if you were to go back, where price/mix actually exceeds foreign exchange devaluation. It's the first quarter we can remember when that's the case. And that just is a further validation of what Jim just said.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

Great. And then big picture question. As you think about higher input costs across the chain from corn into other parts of the chain, how much demand do you need as a recovery to be able to cover that? And I don't mean for this year or next year, just in general. How do you think about the volume demand that you need to get to be able to get the pricing to offset the higher input cost? And how do you work that through? Just again, more longer-term question.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Yes. It's an interesting question, Ken. I mean what I would say is right now, we're encouraged by some of the signs we're seeing in increased economic activity, and that's translating into increased industry capacity utilization. So -- and that comment would apply certainly to North America as well as South America.

We're, of course, carefully monitoring the inflationary increases in freight, packaging, chemicals. And what we're witnessing right now are our customers are announcing price increases to retail and consumers. And there's no doubt that's all going to be factored into our pricing negotiations with customers ultimately in 2022.

But right now, I think we're encouraged by the volume pickup. And we're seeing increased economic activity, which is increasing capacity utilization. So we're very encouraged by that.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

Great, I appreciate it.

Operator

(Operator Instructions) Our next question is from Adam Samuelson with Goldman Sachs.

Adam L. Samuelson - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

Good morning everyone. Yes. So maybe if I could take Ken's last question and maybe frame it a little bit differently, a little bit more near term. And I know the volume kind of comparisons on a year-on-year basis start getting very noisy as we go through the second quarter, really March onwards. And I'm wondering if you can give any kind of perspective by region, by key kind of category or product line about volumes versus 2019 levels, and how we should think about that versus the balance of the year.

James Derek Gray - *Ingredion Incorporated - Principal Accounting Officer, Executive VP & CFO*

Yes. Sure. Why don't you take a shot it and...

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Adam, I'll take a quick survey of the world with regard to volume. As a reminder, for all listening, I think when we went through 2020, where we actually saw greater exposure was in what I'll call some of our core ingredients, right. So some of our sweetener syrups which might go into beverages, some of the adjuncts that might go into brewing industry, some of the sweeteners that might go into confectionery or more food products that were -- really benefit from impulse buy and a lot of consumer mobility.

And our specialty ingredients primarily in those modified food starches and clean-label products really continue to kind of show up quite steadily. We noted that we had a little bit of foodservice interruption in May, when I think the restrictions were so specific. But generally, we noted that specialty's ingredient growth in 2020 has been pretty steady.

So when you look to 2021 and you go kind of around the world real quick, where do we see those sweetener syrups and some of those more core ingredients bouncing back? So you'll see that strong in North America, where we had quite a bit of foodservice shutdown. It impacted beverage soda sales, and it also impacted some of your morning and your other occasions within foodservice. And so as you see that steadily come back in the second half and even through the Q1 of 2021, we're seeing just that steady foodservice improvement, and that pulls demand.

South America really saw a pretty dramatic drop-off in core ingredient sales in Q2 of last year and a pretty sharp rebound in Q3, at least in brewing, and then kind of up and down through Q3 and Q4. So we'll see that, that lap is actually still, I think, going to contribute quite positively. Particularly Colombia and at the Andean region, we have pretty easy laps through the balance of the year.

When you turn to EMEA with regard to Europe, Europe has been really kind of up and down on foodservice and takeaway foods, which is a particularly strong market area for us. And we're still actually seeing that slow as we even turn the year -- you know, the end of 2020. And so I do think that Europe has an opportunity for pretty strong laps, and most of Europe business is specialty.

Pakistan only had a blip really in Q2. And it was really driven by more kind of economic slowdown within the country and really the impact of exports of textiles. So I think we'll see Pakistan be able to -- it will have slightly tougher laps. But I think that, that business and that economy are still -- have the potential to continue to recover as the GDP rates continue to strengthen.

And then finally in Asia Pac, we noted that, really, the impact from COVID restrictions really impacted South Korea and China in Q1 of last year. We're seeing that lap here in Q1 of 2021. And then as we go through the balance of the year, we had some impacts in Q2 and Q3 in ASEANI, in kind of Southeast Asia. And we'll see the ability to lap that for both Q2 and a bit of Q3. That's kind of a survey of the world.

James Derek Gray - *Ingredion Incorporated - Principal Accounting Officer, Executive VP & CFO*

Yes. And I'd say -- yes, I would say that we are particularly encouraged by the fact that despite some regional lockdowns as the virus has surged in, whether it be Europe or whether it be in parts of South America, despite that, the second and third wave lockdowns are not leading to anywhere near any kind of a volume drop-off. And in fact, things are very even keeled and steady.

Asia Pac overall, I think, is actually trending upward in 2021 vis-à-vis 2019. Foodservice is almost back and hopefully will be back in North America in the second half. And that's been reapportioned between QSRs, fast casual as well as fine dining. But robust pickup and a brighter outlook for the second half here in North America.

And so overall, I think the worst is certainly behind us, we believe, based on how everyone's learned to live with the virus and how consumer eating habits have changed in relationship to there will be a higher proportion of food consumed at home than was the case in 2019. And that bodes well for the products that we supply.

Adam L. Samuelson - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

That's some really helpful color. And I guess my follow-up is just -- as I think about 2022, I think about kind of the increase in corn. You kind of gave some very helpful color around the impacts of corn on this year's results.

I'm just trying to think about the setup into contracting in North America next year. And any kind of early kind of thoughts, just -- it seems like contracting happened in a very different corn price environment than the one we're in now. And I'm just thinking about the ability to push on that -- through that much kind of cost inflation, just how you're approaching that.

James Derek Gray - *Ingredion Incorporated - Principal Accounting Officer, Executive VP & CFO*

Yes. Obviously, it's a little early to be commenting on pricing and contracting season. But I think it's very relevant. As a reminder, over half of our revenue in North America is with larger customers that have a contract that is fee-based. So that corn cost increase right now is being passed through. So it's -- I think it's unusual that some of your largest customers are actually seeing kind of higher costs for their syrups as it's being passed through right now.

I'll remind you, though, for the other half, our customers are benefiting from prices that were set in their contracts when corn was below $4 a bushel, right. And these are many customers, medium and small customers. So through our procurement and our hedging, we're managing the higher cost of corn in the second half of this year.

For 2022, the company will be able to rebalance the pricing with the corn costs wherever the corn market settles out sometime after this year's harvest and we have a better view towards 2022 pricing. I'll just remind you of that difference in our customer concentration.

Adam L. Samuelson - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

I appreciate the color. I will pass it on. Thanks.

Operator

Our next question is from Robert Moskow with Crédit Suisse.

Robert Bain Moskow - *Crédit Suisse AG, Research Division - Research Analyst*

I had a question about your sweetener strategy, the most recent acquisition or, I guess, partnership in South America. I think Cargill is the leader in using fermentation to create Reb M. How do you think what you've purchased here compares to what Cargill is doing in terms of volume and expertise?

And then also as you build out this strategy, now you have assets in China, you have assets in South America, is that typical for servicing the North America demand market to be -- to be sourcing from those regions? Or are you competing against local North American players?

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

Okay. Well, I'm going to answer the question specifically in relationship to sugar reduction, which I believe is what you're asking about. And what we are very excited by is the fact that when we bought PureCircle, we bought the leader in stevia leaf extract and also in what is called bioconverted stevia, which takes leaf and then optimizes it through enzymatic conversion to give you different fractions of stevia that have different taste profiles or better taste profiles. And so we bought that company with great technology, great intellectual property and the broadest and deepest portfolio of product technology in that space.

With the Amyris joint venture, what we have done is add on the access to fermented Reb M, which has the prospects for the lowest cost production of a great-tasting sugar reduction ingredient. And all of these tools in a sugar reduction toolbox are needed because when you replace sugar in a food application, you're working in a customized way with customers where overall sensory and mouth feel characteristics have to be built back and customized. And understanding how each one of these ingredients affects both the sweetness profile as well as mouth feel and flavor is very, very important.

So we think this is a tremendous combination. In addition, there are different labeling requirements in different parts of the world that, we think, these three variations of, say, stevia will provide the world to us really from a standpoint of the global customer base and all of the different regulatory requests and requirements that we will have to meet.

As far as the geographic location, we're sourcing from China, from Malaysia with PureCircle. In the case of Amyris, we're sourcing from Brazil ultimately. But we're talking about ingredients that are specialty ingredients that, like our starch ingredients, can be transported around the world like we do today. And in those particular cases, the freight costs are not a significant part of the overall delivered cost to the customer.

So actually, in the case of Amyris, locating it in Brazil and using non-GMO sugarcane gives us a sustainable sourcing option. And that is part of the strategy also that Amyris has to use that as a feedstock.

So we just are very, very excited by this, what I call, trifecta of ingredient portfolio that this now gives us tools in our toolbox for sugar reduction. And we think it also enables us to be very cost competitive, which is also an important requirement of customers when you replace sugar in a formulation.

Robert Bain Moskow - *Crédit Suisse AG, Research Division - Research Analyst*

Thank you

Operator

And this concludes our Q&A session for today. I will turn the call back to our President and CEO, Jim Zallie, for final remarks.

James P. Zallie - *Ingredion Incorporated - President, CEO & Director*

All right. Well, we thank everyone who has joined us today and really appreciate your time. I also want to thank our employees who stayed focused and committed to serving our customers. And to all of you, until we speak again, please continue to stay safe. Thanks very much, everyone.

Operator

Thank you. And this concludes today's conference call. Thank you for your participation, and you may now disconnect. Good day.
