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ADM - Q3 2014 Archer Daniels Midland Company Earnings Conference Call

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OVERVIEW:

Co. reported 3Q14 net earnings of $747m and reported EPS of $1.14.

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Tim Tiberio *Miller Tabak - Analyst*

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PRESENTATION

Operator

Good morning and welcome to the Archer Daniels Midland Company third-quarter 2014 earnings conference call. All lines have been placed on in listen-only mode to prevent background noise. As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's call, Christina Hahn, Vice President, Investor Relations for Archer Daniels Midland Company. Ms. Hahn, you may begin.

Christina Hahn *- Archer Daniels Midland Company - VP, IR*

Thanks, Stephanie. For those following the presentation, please turn to slide 2, the Company's Safe Harbor statement, which says that some of our comments constitute forward-looking statements that reflect management's current views and estimates of future economic circumstances, industry conditions, company performance, and financial results. These statements are based on many assumptions and factors that are subject to risk and uncertainties.

ADM has provided additional information in its report on file with the SEC concerning assumptions and factors that could cause actual results to differ materially from those in this presentation. You should carefully review the assumptions and factors in our SEC report. To the extent permitted under applicable law, ADM assumes no obligation to update any forward-looking statements as a result of new information or future events.

On today's call, our Chairman and Chief Executive Officer, Pat Woertz, will provide an overview of the quarter. Our Chief Financial Officer, Ray Young, will review financial highlights and corporate results. Our President and Chief Operating Officer, Juan Luciano, will review the drivers of our operation's performance in the quarter and provide an update on actions that are improving returns. Then they will take your questions.

Please turn to slide 3. I will now turn the call over to Pat.

Pat Woertz - *Archer Daniels Midland Company - Chairman & CEO*

Thank you, Christina, and welcome, everyone, to our third-quarter conference call. This morning we reported adjusted earnings per share of $0.81 and adjusted segment operating profit of $914 million. Our net earnings were $747 million or $1.14 per share. Segment operating profit was $1.07 billion.

The team delivered very strong results in the third quarter and made significant progress improving earnings and returns. Corn processing managed their product mix to serve good demand and optimize margins. Continued improvement in international merchandising results supported the ongoing recovery of ag services. And oilseed processing again delivered solid results overall, benefiting from good demand and its diverse footprint and product portfolio.

We also continued to advance our portfolio management. Since the beginning of the third quarter we signed a deal to sell our global chocolate business, we reached an agreement to acquire Specialty Commodities Inc., and we completed our acquisition of WILD Flavors. In mid-October we completed our previously announced buyback of 18 million shares, and that is ahead of our year-end target. Given the strength of our balance sheet and our strong cash flows, we expect to repurchase up to 10 million more shares by the end of 2014.

Now I will turn the call over to Ray.

Ray Young - *Archer Daniels Midland Company - SVP & CFO*

Thanks, Pat, and good morning, everyone. Slide 4 provides some financial highlights for the quarter.

Adjusted EPS for the quarter was $0.81 per share compared to $0.47 last year. Excluding specified items and also excluding net timing affects, adjusted segment operating profit was $914 million, up $282 million, or nearly 45%, from last year.

The effective tax rate for the third quarter was 28% compared to 32% in the third quarter of the prior year. We had some favorable tax adjustments, about $36 million in aggregate this third quarter, which helped lower the tax rate versus last year. Looking forward into the fourth quarter, we expect our effective tax rate to be about 30%.

Our trailing four quarter average adjusted ROIC of 8.5% improved from the 7.7% at the end of the second quarter and also significantly improved by 280 basis points from the 5.7% at the end of the third quarter last year. The 8.5% adjusted ROIC is above our 6.4% annual WACC for 2014 as well as our long-term WACC of 8% as reflected in the graph on slide 18 in the appendix. Our objective remains to earn 200 basis points over WACC.

In the third quarter, our trailing four-quarter average EVA was $553 million based upon adjusted earnings and the annual WACC.

On chart 17 in the appendix you can see the reconciliation of our recorded quarterly earnings of $1.14 per share to the adjusted earnings of $0.81 per share. For this quarter, LIFO represented a $315 million pretax credit, or $0.30 per share after tax, as commodity prices significantly decreased through the quarter. We also incurred a charge of $102 million pretax, or about $0.10 per share, related to the hedging of the anticipated euro cash outflows related to the equity purchase of WILD Flavors.

The euro depreciated significantly in September, thereby creating losses on these hedges. However, economically compared to when ADM signed the purchase agreement on July 5, ADM's total purchase price of the equity was $114 million lower, net of these hedging losses, benefiting from the overall depreciation of the euro.

In the quarter, we also booked a $156 million pretax gain, or about $0.15 per share, related to the expansion of the ADM Marubeni joint venture. Lastly, our income tax expense for the quarter includes a charge of $0.02 per share to bring year-to-date tax expense in line with the latest anticipated tax rate for the full year.

Slide 5 provides an operating profit summary and the components of our corporate line. I would like to highlight some unique or specified items in the operating results. [Juan's] discussions of the operating results will exclude the specified items and that timing affects so that you can understand the underlying trends in the business. In this third quarter, hedge timing effects were generally small in cocoa and in corn and did not have any significant impact on our results.

In ag services, I referenced earlier the $156 million book gain. We converted our 45% equity interest in the Kalama Export Company joint venture in the Pacific Northwest with Marubeni into a 30% equity interest into a new, larger Pacificor joint venture that succeeded the Kalama JV. The non-cash book gain is generated from the estimated value of the additional assets contributed by Marubeni into the larger Pacificor JV for additional shares, which resulted in the dilution of ADM's equity interest from 45% to 32%.

Final valuations of the assets being contributed will occur in the fourth quarter. And to the extent there is any material changes in this final valuation from the preliminary valuation, there would be a true-up in the fourth-quarter results.

So the difference between our adjusted operating profit of $914 million and the segment operating profit of $1.07 billion is primarily this book gain. In the corporate lines, net interest expense was down due to significantly lower debt levels. Unallocated corporate costs were slightly higher due to various projects, including our ERP project that was initiated earlier this year.

Other charges were significantly higher, due primarily to the $102 million realized loss on foreign exchange hedges on the WILD equity purchase that I referred to earlier. As I indicated, our overall purchase price in US dollar terms was $114 million lower, net of these hedge losses.

A minority interest in other was significantly higher after absorbing $56 million of net losses, or about $0.09 per share after tax, booked in this quarter related to updated valuations of the portfolio investments at CIP, a joint venture which targets investments in food, feed ingredients, and bioproducts businesses in which ADM holds a 43.7% equity interest. Just for clarity, we did not add back this $0.09 per share charge to our adjusted EPS.

Turning to the cash flow statement on slide 6, we present here the cash flow statement for the nine months ending September 30, 2014, compared to the same period the prior year. We generated just over $1.9 billion from operations before working capital changes in the first nine months of 2014 compared to $1.4 billion last year. Working capital changes were a source of $2.5 billion so far this year compared to a source of $3.4 billion last year.

Total capital spending for the nine months was slightly above $600 million, which is lower than our 2013 spend of $694 million including small acquisitions. We indicated in early July with the announcement of the WILD transaction that we will be reducing the capital spending in 2014 to about $900 million before the ERP program expenditures, down from our original $1.4 billion plan.

After changes in working capital and investments, our free cash flow for the first nine months was about $3.8 billion. In February our $1.15 billion convertible debt matured and we paid down this debt, contributing to the overall debt reduction so far this year. In the first nine months of this year we spent about $700 million to repurchase about 16 million shares and we paid out $470 million in common dividends. So far in the first nine months we returned about $1.2 billion to shareholders.

We finished out the quarter with 653 million shares outstanding on a fully diluted basis and 650 million basic shares. In the month of October with the pullback in the equity markets we completed the repurchase of the 18 million shares we had originally targeted at the beginning of the year.

Slide seven shows the highlights of our balance sheet as of September 30 for both 2014 and 2013. Cash on hand was approximately $4.9 billion, up $1.4 billion from last year.

Our operating working capital of $8.2 billion was down $2.2 billion from the year-ago period. This decrease was comprised of about $1 billion related to lower inventory prices and about $0.2 billion related to lower inventory quantities and a decrease of about $1 billion in other working capital items.

Total debt was about $5.5 billion, resulting in net debt balance, that is debt less cash, of $0.7 billion, down significantly from the 2013 net debt level of $3.4 billion. Our shareholders' equity of $20.3 billion is $0.7 billion higher than the level last year.

We had $6.9 billion available global credit capacity at the end of September. If you add the available cash, we had access to almost $12 billion of liquidity. As you know, we closed on the WILD acquisition on October 1 with a total cash outflow, net of hedge losses, of about $2.9 billion. We were able to finance the acquisition using our existing liquidity and financing lines.

Earlier we indicated that we completed a purchase of our 18 million shares of ADM stock in the month of October. In view of this strong balance sheet position and cash flow generation, we intend to continue with our opportunistic stock repurchases in the months of November and December, buying back up to 10 million more shares. We are working through our four business plans at present and will have more to say about our future capital allocation philosophy and capital allocation plans at our upcoming investor day.

Next, Juan will take us through an operational review of the quarter. Juan?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

Thank you, Ray, and thank you all for joining us this morning. Please turn to slide 8. I will start with segment operating profit and then move on to discuss the three major segments.

Our underlying segment operating profit has improved sequentially each quarter this year. In the third quarter it increased 12% from the second quarter. On a year-over-year basis, significant improvements in corn and ag services drove an overall increase of 45%. In each quarter of this year, the team has delivered year-over-year improvements in segment operating profit.

I'll walk through our third-quarter results now. Starting on slide 9, the oilseeds team delivered another solid quarter. With ample crop availability and strong demand, European rapeseed crushing led a significant improvement in soft seed crushing globally.

In soybean crushing, South American and European operations ran hard amid improved margins. In North America, the tight oil crop being carried out led to record crush margins in the third quarter. Lower global commodity prices reduced third-quarter farmers' selling in South America, limiting origination volumes there.

In Europe, with vegetable oils low-cost relatively to other energy sources, we had good biodiesel capacity utilization and improved margins during the quarter. The cocoa team ran assets harder in the improved margin environment and our results from Asia reflect a weaker second quarter by Wilmar.

Please turn now to slide 10. The corn processing team delivered yet another strong quarter. Toward the end of the quarter, the seasonal decline in US gasoline demand drove ethanol inventories higher and industry margins lower. Our flex capacity gave us opportunities to run differing product mixes and to maximize overall margins.

Corn-based ethanol is still the lowest cost octane enhancer on the market and exports remain strong. The sweeteners and starches team continued to optimize their product plan and customer mix and leveraged swing capacity to optimize returns. While selling prices were lower, as expected, volumes remained steady.

Our focused supply chain and cost management actions and our flexible business model help us capture improved margins. Our work to diversify our grind into more stable and higher value earnings streams is delivering results.

Turn to slide in 11. In the third quarter ag services results improved as the team managed the transition between crops. In the US, we saw the normal decline in grain exports in July and August. With the start of the harvest, volumes picked up in September with near-record volumes on all commodities out of the Gulf.

The international merchandising team delivered significant improvements in nearly all regions and products as we continue to see the benefits of the tougher integration. In transportation, as the US Midwest replenished salt and fertilizer inventories, our barge freight business saw about a 20% year-over-year increase in northbound loads and higher average freight rates. And our tracking team saw volumes and rates increase as they helped ADM operations and third-party customers manage through a challenging US logistics environment.

Billing results were down this quarter relative to a year ago due to a mix of factors resulting in lower margins.

Now on slide 12 we wanted to briefly update you on our actions that are driving improved returns. We focus, as you know, those efforts in a few areas: strengthening the business, managing our portfolio, and growing the business.

In the area of strengthening the business, we remain on track to achieve our total of $400 million in ongoing cost savings by the end of the year. In the area of managing our portfolio, we completed the acquisition of WILD Flavors, adding to our offering one of the world's leading suppliers of natural ingredients to the food and beverage industry. Our new business unit, WILD Flavors and Specialty Ingredients, will begin reporting on January 1.

We further expanded our specialty ingredients portfolio with an agreement to purchase Specialty Commodities Inc., a leading originator, processor, and distributor of healthy ingredients including nuts, fruits, seeds, legumes, and grains. We strengthened our export capabilities via the US Pacific Northwest, converting our ownership stake in a single export terminal in Kalama, Washington, into a stake in a new, larger joint venture called Pacificor that includes a second export terminal at Portland, Oregon.

We also reached an agreement to sell our global chocolate business to Cargill and we are on track to close that sale in the first half of 2015. The sale of our South American fertilizer business to Mosaic is set to close by the end of this year. And last week we changed the name of our Golden Peanut business to Golden Peanut and Tree Nuts as we announced the acquisition of Harrell Nut Company, one of the largest shellers and processors of pecans in the United States.

Now moving on to our efforts to improve returns by growing the business. Construction continues on our sweetener and fiber plant in Tianjin, China.; our feed pre-mix plant in Nanjin, China; and our specialty protein complex in Campo Grande, Brazil. The expansion of our Fibersol production capacity in Clinton, Iowa, is scheduled to be operational in mid-2015.

As part of the consolidation and efficiency plan, we opened an addition to our flour mill at Beech Grove, Indiana, making that facility the third-largest flour mill in the United States. This addition replaced less efficient capacity that we had shuttered. And our non-GMO lecithin project in Hamburg, Germany, and Latur, India, should be operational in April and July, respectively.

So as you can see, this was a very active quarter for the team. We continue making progress strengthening the business and that progress is reflected in our returns. Pat?

Pat Woertz - *Archer Daniels Midland Company - Chairman & CEO*

Turning to slide 13, before we start Q&A -- thank you, Juan. Listening to that long list of activities this quarter that Juan just outlined, I reflect that for the past many quarters how focused we have been on actions to improve earnings and returns. And in this quarter on many portfolio changes.

Also, we moved and opened a new global headquarters and customer center. The risk is during times like these that a team becomes distracted or results slip. I am so proud of this team. They didn't miss a beat, with focus and discipline delivering very strong results during a very busy quarter.

With that, operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Kenneth Zaslow, BMO Capital Markets.

Kenneth Zaslow - *BMO Capital Markets - Analyst*

Good morning, everyone. Just a couple questions. One is can you talk about your results in high fructose corn syrup? That kind of exceeded our expectations. I didn't know how much of that is repeatable; how you kind of think about it. It was just your intellectual capital to know how to price the corn side of it. Can you just give us a heads up on that?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

Sure, Ken. Good morning. This is Juan. As you said, very good results in sweeteners and starches. The volumes were steady, driven by pretty much stronger domestic shipments and volume also from other products. You heard us saying before that we had diversified to other products, so we saw corn syrup -- we saw dextrose volumes going up.

And the Mexican volume, as we have been reporting, has been down but better than expected. Demand there remained stronger than anticipated. So with our ability to flex capacity and optimize transportation and optimize product mix, we continue to see results in sweeteners and starches that are exceeding our own expectations, to be honest, our own forecasts.

Kenneth Zaslow - *BMO Capital Markets - Analyst*

Do you expect this to be repeatable? This is something that is an ongoing trend or is this something that was specific to the quarter?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

No, I think that this is driven by the improvements that our team is doing in managing this. So you know Q4 is seasonally a little bit lower from a demand perspective, but we expect these results to continue in the future.

Kenneth Zaslow - *BMO Capital Markets - Analyst*

Great. And I have to ask the same question I probably ask every single time, but I got to ask anyway. If I think about your earnings power back to those couple years, the three or four years that you earned $3 of earnings, can you -- and you've cut down costs by about $400 million, which is about $0.40. You're buying back stock, another $0.03. You are making acquisitions. You are deploying capital.

Is there a framework, besides the 200 basis points of return on invested capital, that kind of can get us closer to what you think will be earnings power over the next, again, year to three years and the progression of that?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

I think, as you described, we've done a battery of things trying to improve returns and I think that a lot of them are in the process of being executed, as you see some of the portfolio management are in the process of being closed, those transactions. Some of the operational improvements are already rolling into the bottom line and will continue to do so.

And then there are some things that are -- we are going to experience for the first time, probably like ag services and running our assets at full utilization based on this new record crop that we will have in the United States. So I think that we are gathering all that information to determine a little bit what is our next -- our new level of earnings power. But you know we are as encouraged as your comments are in terms of all the things that we are doing to get the Company better and the return split.

Kenneth Zaslow - *BMO Capital Markets - Analyst*

Will we hear from you on a little bit more specifics at the analyst day?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

You will hear from me at the analyst day, that's for sure. Yes, we will provide little bit more granularity on that.

Kenneth Zaslow - *BMO Capital Markets - Analyst*

Great, thank you.

Operator

Tim Tiberio, Miller Tabak.

Tim Tiberio - *Miller Tabak - Analyst*

Good morning and thanks for taking my question. One, looking at the large size of the crop, I know the harvesting progress has been a bit behind schedule. But at this point is there any reason why we should not think that ag services could be back to normalized levels, or if not even greater at this point?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

Tim, as you said, the harvest is progressing normally. I would say normally for soybeans, a little bit maybe behind for corn, so we are very optimistic about the first pass of the harvest. We are very optimistic about the results we are seeing right now in ag services and we expect very good results for ag services going forward, yes.

Tim Tiberio - *Miller Tabak - Analyst*

And would you expect that maybe the mix shifts a little bit more towards ADM making more money on storage versus transportation and logistics?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

I think the grain business will pick up versus this quarter. This quarter was basically -- the performance was driven very much by a strong international merchandising and transportation, but grain obviously July and August we didn't have much movement. So, yes, we expect grain results to pick up in Q4.

Tim Tiberio - *Miller Tabak - Analyst*

Then just lastly we have seen quite a spike in soy meal. There's been some speculation around logistics being difficult for livestock producers. There's also been some questions around quality of the actual protein in the soy meal.

Can you kind of give us your thoughts of how -- what ADM's seeing in the market, how you are positioned logistically, and whether you expect this to be both an opportunity or a challenge for the business in Q4?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

Sure. So we always refer, Tim, to the footprint that we have in both our businesses, in the processing businesses in corn and soybeans. And this is another example in which the soybean footprint that we have gives us great access to soybeans.

So from an inbound freight perspective, we don't rely that much on rail and this has been most of the problem in the US, so we rely a lot on trucking. So we haven't had a lot of problems on getting beans into our plants. Obviously we knew that logistics problems could happen in Q3 and Q4, so we have prepared for that.

I will say no problems coming in. Coming out we also, as I said, we prepare so we haven't seen any problems. We have been able to deliver to our customers as per schedule, and this is where some of our previous investments in transportation in all modes of transportations are paying off.

I think the pipeline was empty and we knew it was going to be a transition to refill that pipeline. It was a little bit of maybe panic selling from some of the customers at one point in time. We think that that has subsided now and so we think we are transitioning into the new crop.

But all-in-all I will say the transportation team and the oilseed teams have performed very well, have kept plants running at high capacity and actually customers very well supplied. So all-in-all I think we navigated it pretty well, Tim.

Operator

Michael Piken, Cleveland Research.

Michael Piken - *Cleveland Research Company - Analyst*

Good morning, a couple questions on ethanol. The margins had been quite volatile and there's been obviously a pretty big seasonal sell-off kind of post-Labor Day. But as you kind of look out into 2015, what do you think is the effective operating capacity for US or total US production?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

Michael, as you said, margins were very good during the quarter and then they grow as driving miles came reduced after the summer. So what we see for 2015 is pretty much something in -- relatively similar to what we saw in 2014 because we've seen actually about the same amount of export capacity, so in the range of 800 million gallons to maybe 1 billion gallons. And then about the same domestic demand, so maybe 13.5, something in that range.

So we expect 14.3, something in that range for total production on an estimated capacity out there something in the range of 14.5 to 14.7 depending on how much that capacity is actually running.

Michael Piken - *Cleveland Research Company - Analyst*

Okay. Can you give us any sense for kind of how far you are hedged along in 4Q at this point?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

In any particular quarter we go sometimes between 25% and 75%, so I would say a little bit under 50%.

Michael Piken - *Cleveland Research Company - Analyst*

Okay, great. What are your thoughts on specifically the exports to Brazil the next couple of months?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

Listen, Brazil is having a lot of movements at this point in time. You see they approved an increase in the blending rate at 27.5%. We have been able, as an industry, to diversify very much the sources of our exports so it's going to Canada, Mexico, Middle East, Asia, and sometimes to Brazil, so we are not very dependent on Brazil. So we feel pretty good about the sustainability of our exports.

Our own export program is very strong from Q4 and extends well into 2015, so we feel good about it.

Michael Piken - *Cleveland Research Company - Analyst*

Okay, thank you very much.

Operator

Ann Duignan, JPMorgan.

Ann Duignan - *JPMorgan - Analyst*

Good morning. Can you talk a little bit about -- you noted that you expect meal demand to pick up domestically in the quarter? What's going to drive that pickup in demand? And then what are you seeing out there from DDGs in terms of competition with meal?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

Yes, I think we saw, as I said before, the pipeline was a little bit empty. We still see strong demand domestically and for exports for meal in the United States. DDGs are finding their way into the market, pricing themselves into the market.

We haven't seen a lot of impact yet into soybean meal, to be honest. Our book continues to be very solid for the few coming months. So we expect crushing margins to be strong this quarter and way into late Q1 as we see Brazil maybe having a little bit of a late planting we might have a little bit more of a tail US exporting late into Q1 next year.

Ann Duignan - *JPMorgan - Analyst*

Okay, thank you. Then just on the modeling perspective, how should we model WILD Flavors for this upcoming quarter? I know it will be a separate segment, I think you said from the start of next year. But just from a modeling perspective, how should we think about it this quarter?

Ray Young - *Archer Daniels Midland Company - SVP & CFO*

Ann, it's Ray here. You will find we will report WILD as part of the other segment as we kind of go through the transition this fourth quarter in setting up the fourth business unit. And so I expect that we are going to have a lot of transaction costs, transaction closing costs related to WILD, and so those types of transaction costs will kind of offset some of the operating profits that WILD will generate.

So I'd say that for the fourth quarter, for our modeling purposes, you should view it as fairly immaterial. Frankly, we are going to have a good start come January 1 with the fourth core segment and I just encourage you to start modeling the fourth segment, modeling the WILD effective January 1.

Ann Duignan - *JPMorgan - Analyst*

Okay, thanks. Then just finally a quick follow-up on ethanol. What's your outlook for margins going forward, given oil prices and where they are trending?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

Ethanol margins basically were very healthy in Q3 and then they drop significantly as inventories climb. But you see that the industry is behaving a little bit different now, maybe better supply/demand fundamentals, and the inventory is starting to correct. We've seen that correction and that reduction in October.

Our margins have since the end of September actually improved a little bit. So we expect some of this volatility that we described before to continue, but the industry is behaving in a much better way this year than we saw, for example, last year.

Ann Duignan - *JPMorgan - Analyst*

So margins steady to down maybe just lower oil prices, is that the right way to think about it?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

I think if you think versus Q3, margins will be softer than Q3.

Ann Duignan - *JPMorgan - Analyst*

Right. Okay, thank you, I will get back in queue.

Operator

Farha Aslam, Stephens Inc.

Farha Aslam - *Stephens Inc. - Analyst*

Good morning. Just kind of a big picture question. We've seen a lot of FX movements around the world recently. I was just wondering how does ADM manage through that. Are the positives or negatives with your expanded international footprint?

Ray Young - *Archer Daniels Midland Company - SVP & CFO*

Farha, it's Ray here. What is interesting is in the third quarter with all the movements of FX, the actual translation impact for this company was less than $5 million unfavorable so it can tell that. We actually have a fairly balanced footprint.

As you know, we hedge generally transactional exposures, but we also have a fairly balanced cost and revenue footprint as well. So generally speaking, whenever you see the volatility of the FX occur, you don't usually see us reporting FX as being a major driver of our profitability.

Farha Aslam - *Stephens Inc. - Analyst*

Okay, so little impact. Then when we look at the timing of crops and the opportunities of crop availability, the US harvest is coming in a little late. Does that affect and push out earnings from the fourth quarter into the March quarter? Just to start with the US. Is that how we should think about it or are you seeing just great basis opportunities in the US in ag services?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

Farha, this is Juan. We still see very good opportunities for Q4 for ag services, still probably too early to call that some will overspill into Q1.

Farha Aslam - *Stephens Inc. - Analyst*

Okay. Then just going down to Brazil and Argentina. Have the farmers in Argentina started to sell any movements on that? And then in Brazil, if you could just provide us an update on sort of crush opportunities in Brazil and export opportunities there.

Juan Luciano - *Archer Daniels Midland Company - President & COO*

Yes, I will say in Argentina the farmers sold a little bit with all this rally in soybeans, but they still hold maybe 18 million tons of soybeans over there, of crops. So nothing materially have changed, although we have seen a little bit more movement.

A little bit the same in Brazil. You know in our remarks we highlighted the lack of farmers selling in Brazil. We saw recently over the last few days, up to the elections, a little bit of a better selling but still reluctant seller. Still way behind last year in terms of selling.

In terms of export from Brazil, Brazil due to the big inverse, exported very early on into the season so there's not much to export now. So we are watching the planting and the growing next.

Farha Aslam - *Stephens Inc. - Analyst*

Great. And my final question relates to ethanol and Mexico. You highlighted, one, the octane value of ethanol. Are you seeing Mexico potentially increase the amount of ethanol it takes from the US simply as an octane-infused ethanol replacing MTBE in Mexico over the long term?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

Yes, as you described, we have seen market after market changing away from MTBE. Obviously Mexico is one of those markets that are still in MTBE, so we see that as a potential opportunity ahead of us, sure.

Farha Aslam - *Stephens Inc. - Analyst*

Okay, great. Thank you.

Operator

David Driscoll, Citi Research.

David Driscoll - *Citigroup - Analyst*

Thank you and good morning. I wanted to follow on some of these ethanol questions. In the fourth-quarter one you mentioned that you had about 50% of the business hedged. Is it fair to say that they were hedged at rates similar to the third quarter and that that other 50% is just exposed to kind of the current trends?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

David, David, yes, when we hedge -- and I said under 50%. So when we hedge obviously it's because we thought that those margins were appropriate to and were attractive to be hedged. And we expect the rest of the Q4 to be, as I said before, a little bit lower than Q3. Margins have recovered some, but they are not of the same quality of early in Q3.

David Driscoll - *Citigroup - Analyst*

A question here on oil prices and ethanol. The volatility on oil has been significant; I mean it has changed the complexion of ethanol.

Is there anything that you can do to hedge the risk of a significant oil price decline? I mean there's a number of banks that are calling for a potentially significant decline in oil mid part of 2015. I'm just wondering if this is a risk that it could at least -- can you guys hedge that to some degree to prevent any really bad scenarios from transpiring within ethanol?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

Obviously the team is working very hard in scenario management and devising of options going forward. [Inaudible], which is the big driver for our exports if you will, is still at $82, at $82 ethanol. It still does very well, so we are still not at that point, but certainly we always do scenario management for much lower oil prices.

So too early to tell what we can do, but we are developing options, yes.

David Driscoll - *Citigroup - Analyst*

All right, two final follow-ups on this one. If ethanol is doing so well in its comparison to gasoline, why don't you have a more optimistic forecast on 2015 ethanol exports? And I don't mean this too critically. Quite frankly, I puzzle over this myself.

Why isn't the export forecast stronger given ethanol's comparison to gasoline? Why isn't the ethanol industry at large, not just ADM, why aren't we seeing just like significant expansion so we get to kind of max capacity in play with the residual being exported?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

I think developing export markets take time. Sometimes people also -- customers want to make sure that they have security of supply before incorporating or changing their formulas. So we see the growth, David, and if you heard in my comments I refer to 800 million to 1 billion. This year we are going to be 800 million, so I'm thinking about maybe a 25% increase for next year, which is not unsignificant.

Obviously I would like to see it 1.5 billion and we will drive to try to do that. But we think that it continues to climb as the US becomes a more regular and reliable supplier of global markets. So at these oil prices we continue to see exports growing, let's put it that way.

David Driscoll - *Citigroup - Analyst*

If I could sneak a final question in on the transport side, because you have the barge network and you own so much rail, can you guys just answer directly, is rail -- are rail bottlenecks fundamentally positive or negative for ADM? I feel like, depending on which part of your business I look at, I can almost come out to any answer.

So I think we need some guidance from you on saying, if this winter it's just a mess, does ADM come out a winner? Because you guys just have this amazing transportation network in the United States and that net-net turns out positive for you. Is that reasonable or is that just the wrong way to think about it?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

I think the way we like to think about it is a net positive for our customers because they will always get supplied and I think that overall it's a competitive advantage of ADM. So I will say relatively to others I think it's a positive.

David Driscoll - *Citigroup - Analyst*

Thank you, I will pass it along.

Operator

Robert Moskow, Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

I wanted to ask about your analyst day. And I think the last time we met, Pat, I think you were talking more optimistically, or at least looking ahead, at possibly giving a bottom range of earnings guidance, kind of like some way of looking at 2015 earnings in new terms. Maybe at least $3 or at least some number.

I want to know if you are still thinking about that as a way of giving guidance going forward. Also, I think you were really thinking about the ethanol business as being a much more predictable type of business, more stable now that capacity has kind of leveled off and corn is cheap. So has what has happened in the oil markets changed your thinking at all on the predictability of corn processing and then how you would communicate to the Street? Thanks.

Pat Woertz - *Archer Daniels Midland Company - Chairman & CEO*

Maybe starting with the latter, Rob, and then to your first question. On ethanol business, I think we still believe and do believe that there is more stability, albeit some volatility, expected in the future.

The stability comes from the strength of the behavior in the market, where producers are, sort of a balance of supply and demand, and that exports continue. As Juan described a moment ago, exports do continue to grow. And the competitiveness of ethanol with Alkylate, [inaudible], and MTBE, the whole laundry list of oxygen components, that ethanol truly is the most economically competitive.

So while one of the scenarios that people push of what are the puts and takes here or what are the bear case or bull case, oil prices, crude oil prices have been somewhat stable in that $100 range for four years. So kind of the scenario of generally more stable oil prices was a much more stable ethanol environment. I think the fact that oil prices are more volatile maybe than anyone predicted just several months ago does mean there's more scenario planning here, but I think the -- or the option for ethanol business to be more stable this year than last, next year than this, etc., still stands because of the supply/demand situation.

Your question about our opportunity to describe a little more in detail on investor day some of our outlooks, we are very encouraged about 2015 relative to recent years. We will look probably at that time on some of the drivers on 2014 -- or 2015 and the strength and sort of again the puts and takes. The improvements we are making in the business and the categories that Juan talked about, whether it be improvement in the business, the portfolio changes, and the investments to grow. So I think stay tuned for our investor day to have more outlook on that.

Capital allocation and resource allocation will be another thing. We will try to put a little more meat on the bones, because we are just in the process of looking forward for our business plans as we speak.

Robert Moskow - *Credit Suisse - Analyst*

That's very helpful, thanks. A follow-up. I'm still a little unclear on sweeteners and starches and how it reported such a good quarter based on mix. What part of the mix are you emphasizing? Is it the starches specifically?

And I think Ken already asked this question, but can we point again to another -- a strong fourth quarter as this mix effort continues?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

Yes, Rob, I think it's more on the alternative sweeteners, other sweeteners, like corn syrups or dextrose or things like that. And, listen, it doesn't take much, because we have swing capacity with ethanol and we have swing capacity with other twenty-something products. So what we do is that we manage all that and also our customer base to optimize the whole business.

But I think fundamentally what is probably happening is that demand was a little bit stronger than probably everybody anticipated in this quarter, both domestically and on export. So when we see at Q4, although the strength of sweeteners and starches of the business will continue, we see a little bit lower volumes from a normal seasonality perspective as we go into the winter.

Robert Moskow - *Credit Suisse - Analyst*

Okay, thank you so much.

Operator

Adam Samuelsson, Goldman Sachs.

Adam Samuelson - *Goldman Sachs - Analyst*

Thanks. Good morning, everyone. A little bit of a longer-term question, given the performance in 3Q, the outlook for a pretty strong kind of market environment in 4Q and entering 2015, trying to think about the areas of the business where the returns have really not recovered yet. And I would imagine ag services would be in that bucket, but some good confidence that that inflects in 2015. Clearly ethanol has gotten better this year.

Asia has probably been challenged with Wilmar, with the oil seeds crushed in China. But maybe walk us through the parts of the portfolio where you see the most opportunity for returns improvement going forward, maybe outside of kind of the core US merchandising piece to think about opportunities for earnings growth in 2015 and beyond.

Juan Luciano - *Archer Daniels Midland Company - President & COO*

Adam, Juan here. Listen, if I have to rank what is the biggest opportunity for improvement in returns, it's probably related to our participation in South America through oilseeds.

This year has been very poor in terms of farmers selling and our earnings have been subdued there because of that. So we don't expect that to repeat every year and we think that that is an opportunity ahead of us for improvement.

As you describe ag services, I think we see that, given the high operating environment they are going to face. And I will say the other business that we are -- we have publicly said that we are trying to recover is the cocoa business, which is a business that we are working very hard to improve returns after the divestiture of chocolate. So those are probably the two areas that could see a more significant improvement next year or in years to come.

Adam Samuelson - *Goldman Sachs - Analyst*

And on the point on South America on the farmer selling, is that something where you see the opportunities really beginning in 4Q, or do you think this is really going to be not until the next crop comes in before the opportunities re-emerge?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

Personally, I think it's more a Q1 phenomenon than a Q4.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay, that's helpful. And then maybe a question for Ray on some of the growth investments. I know you've started -- you kind of listed through them quickly on the slide 12. But help us think about the amount of capital that's getting employed on some of these growth projects that starts to come into -- that starts earning a return in 2015, and how much of it is left to earn in 2016?

Ray Young - *Archer Daniels Midland Company - SVP & CFO*

Yes, a lot of the -- when we talk about the $0.9 billion in CapEx for this calendar year, a lot of it actually incorporates many of these investments. For example, our China investments, we are close to completion of that. That's built into our capital budget. Some of the premix investments. And the Brazil investments are going to spread out over a couple of years.

So generally, the way you can look at it is through really good capital discipline and reducing the amount of, let's say, capital being spent on, say, maintenance activity, we've been able to redeploy a lot of the stuff into growth.

So going forward, in order to finance this stuff, there was probably going to be an increase in terms of the amount of CapEx that we would have, but it's not going to be material relative to our depreciation and amortization rates.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay, that's helpful. Maybe just a last quick one from me. The 4Q thoughts on working capital, obviously, you have very large harvests. I would imagine the volume opportunities in the US are sizable. How should we think about the cash used for working capital in the fourth quarter? Thanks.

Ray Young - *Archer Daniels Midland Company - SVP & CFO*

You should expect an increase in terms of the use of working capital. But again, prices have come down generally compared to last year and hence, therefore, the net increase in terms of dollar value terms is not going to be that dramatic. And based upon the balance sheet that we have, it will be easily financeable.

Adam Samuelson - *Goldman Sachs - Analyst*

All right, great. Thanks very much.

Operator

Diane Geissler, CLSA.

Diane Geissler - *CLSA Limited - Analyst*

Good morning. So I wanted to ask about basis opportunities. I think you touched on it with regard to some of the freight issues that we have seen. I guess I look at corn prices today and they are a little bit higher than I would've thought they should be, given the size of the crop and I think, obviously, the lateness of the crop, and maybe some of the freight issues are baked into that price.

So I guess my question is really not speaking directly to your rail hedges or whatever, but just your ability to sort of source material in the upper Midwest in maybe a market environment where the flow of the product isn't as seamless as some of the end-users would like it to be. Can you talk a little bit about how you would be positioned in that kind of market, given your asset base?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

Yes, Diane. Listen, obviously, we've been looking at that for a long time, and we've been preparing for this tight rail environment. So I think the guys have been doing an incredible work of sourcing product from all the locations. We feel very good going into this harvest. We feel we are executing very well at this point in time.

Transportation is working very, very closely with the businesses, both the grain business and the corn and soybean business. So that's what we do and that's where the team excels at when there are these difficulties. So I think that you could be assured that we will, in that sense, maximize the basis opportunities and we will continue to keep our customers and our plants supplied.

So we have not had -- we were reflecting yesterday that these transportation questions started to feel a little bit like the Ukraine questions that everybody is expecting something to happen and for us has been normal so far. For us, we cannot report any issues that has impacted our earnings because of transportation issues so far.

Are they going to become worse coming on? Yes, probably. The weather is going to become worse as we get into the winter and things are going to become more complicated. But it's hard to point out at this point in time in Q3 and maybe so far of Q4 any issues that we have had related to that.

Diane Geissler - *CLSA Limited - Analyst*

Well, I guess what was behind my question was really it could potentially be a big benefit for you, if you are able to source the material and store it in light of bottlenecks within the transportation system, depending on how desperate farmers are to sell at today's price. I haven't noted a level of desperation for farmers to sell with corn below $4, but obviously you are speaking to them more frequently than I am. So if you could maybe talk about the mood amongst the farmers to market in this kind of environment?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

I think, as you described, there hasn't been desperation selling at this point in time, so we continue to be very close to them and continue to have our assets ready to take advantage of this location. That is what we do at this point in time. Obviously, there is a big accumulation of grain in the interior and there is a big need for grain sometimes at the export terminals and the ability to transport that is what we possess.

I think there are many opportunities ahead of us in Q4. That is what we are positive about.

Diane Geissler - *CLSA Limited - Analyst*

Okay. Then I just also wanted to ask about the expanded JV in the Northwest. Could you talk a little bit about what is included now in your asset network there and what you have in terms of capacity for exports out of the Pacific Northwest with the expanded JV?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

I don't remember the actual capacities, Diane. You know we used to have 50% of the Kalama and now [K5] has been incorporated into that. And now with that we have a share of about 32%, although still the same management rights that we had before.

So with that we basically have expanded our ability to source from two different ports, if you will. I just don't remember top of my head the capacities and we can get you that if you are interested.

Diane Geissler - *CLSA Limited - Analyst*

Okay. Well, I guess the question is with the expansion in your (technical difficulty) there is that a signal to us that you are going to be adding assets in that area?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

Not at this point, no. This was more an optimization play if you will, Diane, than we decided to expand.

Diane Geissler - *CLSA Limited - Analyst*

Okay, terrific. Thank you.

Operator

Eric Larson, Janney Capital Markets.

Eric Larson - *Janney Capital Markets - Analyst*

Thank you, I snuck in just before the bell here. A couple questions; first one is for Juan.

Juan, you have certainly made some improvement in the international merchandising business like you said you were going to when you ran into the ADM-specific problems several quarters ago. In your terms, how far have you recovered on that? Have you gotten back 50% to the goal line there, or how would you characterize the recovery in that business from a timing point of view?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

Yes, you will recall correctly we highlighted that at one point in time and I'm very proud of the team. The team took ownership of the problems and we made significant changes in the cost position, in the way we operate, in the way we commercialize to be honest as well. I will say, if I have to say it from zero to 100%, we are probably 70% of what we wanted to achieve.

Eric Larson - *Janney Capital Markets - Analyst*

Okay. And so when you look at the third-quarter merchandising profits of $64 million, your EBIT, can you give us a flavor for kind of the domestic/international component of that number?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

I don't have it top of my head, but I think what we highlighted was the improvement was significant versus same quarter last year in international merchandising. Domestic grain continues to be a very large business for us when you compare to international merchandising, but we can give you the breakdown. I just don't remember top of my head for you.

Eric Larson - *Janney Capital Markets - Analyst*

Okay. And would places like the Ukraine structurally be having difficulties? Despite the individual -- the specific ADM issues, are there regions like the Ukraine that would have a negative delta year-over-year in the most recent quarter or two?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

Actually, we were thinking that in Eastern Europe with the good crops we will see a big opportunity for us to utilize our even recent investments even more. So we are actually very bullish about international merchandising opportunities in Eastern Europe.

Eric Larson - *Janney Capital Markets - Analyst*

Okay, okay. Then, quickly, my next question is for Ray. Ray, I really want to drill down on the return on invested capital components. You are now 210 basis points above your current WACC, a good 50 basis points above kind of your long-term goals.

When I look at that number, if you look at the last four quarters you have obviously made good, sequential quarterly improvement, but arguably you are not where -- those last four quarters on average certainly aren't anywhere near what you think you can probably do. And then your laundry list of moving assets and buying assets and selling -- I mean your focus on ROIC has been phenomenal.

And then you've got your $400 million SG&A savings and I don't think that that is an absolute number that will be in your 2014. I think that $400 million is a run rate number, correct? So when I look at your -- at the snap up in ROIC potentially in 2015, if markets continue to improve, etc., etc., why couldn't you be above -- at or close to or above your 10%, 200 basis points above your long-term average in a relatively short period of time?

Ray Young - *Archer Daniels Midland Company - SVP & CFO*

First of all, Eric, I think we are very encouraged in terms of the trends that we are showing in terms of ROIC. And you're right, the $400 million in cost savings, which by the way that's more of a cost of goods sold type of savings and that's relative to the cost base as of January 1, 2013, so we have been working that over a two-year period. But, yes, that is going to help us in terms of improving returns in the future as well.

We are adjusting our portfolio and so, therefore, we are divesting businesses which have low returns and investing in businesses that eventually will generate good returns. And just to remind you, WILD Flavors, it's going to take us some time in order to get up to the returns that we talked about.

And so, therefore, I think we are encouraged. There's no doubt that we are in a positive trend in terms of returns. Our objective clearly is to earn long-term WACC of [8 plus 200] basis points. Whether we get there next year, to be determined.

There are headwinds, as many of you folks on the phone call have also pointed out, regarding crude oil prices and that impact on ethanol. There's some headwinds there, but we are also very encouraged about the tailwinds that were also getting in our business. Namely the fact that we're going to have a very good US harvest that's going to help ag services particularly next year.

Eric Larson - *Janney Capital Markets - Analyst*

Okay. Then finally, and then I will go back in queue or you will end the call. But the month of October with grain prices, it's very rare to see that kind of a bull rally into the harvest cycle. We have seen it.

Christmas came early for the producers here. And when I look at last week, just penciling in rough numbers, I think last week was the single-largest grain production week ever in the United States just by running some numbers here. Does that potentially still give you, going forward now, month of November -- I think the next two weeks in November are going to be pretty interesting. Does that give you potentially more basis opportunity for the fourth quarter?

Well, not necessarily -- just the fourth quarter, but it would carryover and go maybe, spread out through the quarters in 2015 as well. But is there a near-term opportunity here that is encouraging to you?

Juan Luciano - *Archer Daniels Midland Company - President & COO*

Yes, it is. Yes, we see it.

Eric Larson - *Janney Capital Markets - Analyst*

Okay, that's about all expected for an answer. Thank you, everyone.

Operator

Vincent Andrews, Morgan Stanley.

Vincent Andrews - *Morgan Stanley - Analyst*

Thanks very much for taking my question. Pat, I just wondered if you had an update on sort of higher ethanol blend rates. It really hasn't come up very much in a while, either sort of on these calls or in the press. And I recall EPA was supposed to be working on cars older than 2001 for approval and I'm just curious if that's still a focus or where that is.

Pat Woertz - *Archer Daniels Midland Company - Chairman & CEO*

Right. There's no update that I have for you today or that we have. With the elections, too, there's not many topics that are on the minds in Washington other than these current elections, so we have nothing today.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay, thanks very much.

Operator

I am showing that there are no further questions at this time. I'll turn the call back over to Patricia Woertz.

Pat Woertz - *Archer Daniels Midland Company - Chairman & CEO*

Great. Thank you, everyone, for joining us today. We do note on slide 14 the date of our investor day, which is December 3 in Chicago. Of course, if any of you have any follow-up questions, please be in touch with Christina. And thanks, all, for your interest and time. Bye-bye now.

Operator

This concludes today's conference call. You may now disconnect.
