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ADM - Q4 2014 Archer Daniels Midland Co Earnings Call

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OVERVIEW:

ADM reported 4Q14 net earnings of $701m or $1.08 per share.

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PRESENTATION

Operator

Good morning and welcome to the Archer Daniels Midland Company fourth-quarter 2014 earnings conference call. (Operator Instructions). 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 of IR*

Thank you, Stephanie. Good morning and welcome to ADM's fourth-quarter earnings call. Starting tomorrow a replay of today's call will be available at ADM.com.

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 uncertainty.

ADM has provided additional information in its reports on file with the SEC concerning assumptions and factors that could cause actual results to differ materially from those in this presentation and 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 statement as a result of new information or future events.

On today's call our Chief Executive Officer, Juan Luciano, will provide an overview of the quarter. Our Chief Financial Officer, Ray Young, will review financial highlights and corporate results. Then Juan will review the drivers of our operations performance in the quarter and provide an update on actions that are improving returns. And then they will take your questions. Please turn to slide 3 and I will now turn the call over to Juan.

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

Thank you, Christina. Good morning, everyone, thank you all for joining us today. This morning we reported adjusted earnings per share of $1.00 and adjusted segment operating profit of $1.1 billion. Our net earnings for the fourth quarter were $701 million or $1.08 per share. Segment operating profit was $1.3 billion.

For the calendar year we achieved adjusted earnings of $3.20 per share, up 37% from last year's $2.33. And importantly, adjusted ROIC of 9% was 260 basis points above our cost of capital.

In the fourth quarter the Agricultural Services team executed well to capitalize on strong conditions, while international merchandising continued to show year-over-year recovery. In North America and Europe oilseeds showed strong year-over-year growth offset by weaker results in South America.

Looking ahead in North America and Europe, solid crush margins and export opportunities have carried into the first quarter. Market conditions in South America oilseeds should improve with the large harvest, and we are working towards higher returns throughout 2015 in this key geography.

While US ethanol demand was seasonally strong, boosted by the domestic response to lower gasoline prices, high industry production has built excess inventories. Margins in this industry should remain challenged until supplies are better aligned with demand. We will continue our work to optimize cost and product mix and the Corn business to maximize profitability.

Also during the fourth quarter we were busy preparing for the January 1 launch of the WILD Flavors and the Specialty Ingredients business unit. Working on synergies, preparing to move [to new] businesses and aligning teams.

In view of our continued strong performance and our positive outlook, our Board of Directors has voted to increase our quarterly dividend from $0.24 to $0.28. Now I will turn the call over to Ray.

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

Thanks, Juan, and good morning, everyone. Slide 4 provides some financial highlights for the quarter. Adjusted EPS for the quarter was $1.00 a share, up 5% from the $0.95 last year. Excluding specified items and also excluding net timing effects, adjusted segment operating profit was $1.1 billion, up $88 million or more than 8% from last year.

The effective tax rate for the fourth quarter was 29% compared to 39% in the fourth quarter of the prior year. For the calendar year our effective tax rate was 28%, lower than last year's 33% tax rate, which was negatively impacted by valuation allowances taken on certain significant deferred tax assets. Looking into calendar year 2015, we expect our effective tax rate to be in the 28% to 30% range.

Our trailing four quarter average adjusted ROIC of 9% improved from the 8.5% at the end of the third quarter and also significantly improved by 2 -- 40 basis points from the 6.6% at the end of the fourth quarter last year. The 9% adjusted ROIC is above our 6.4% annual WACC for 2014 as well as our long-term WACC of 8.0% as reflected in the graph on slide 19 in the appendix. Our objective remains to earn 200 basis points over our WACC.

In the fourth quarter our trailing four quarter adjusted EVA was $670 million based upon adjusted earnings and annual WACC, up $315 million from 2013.

On chart 17 and the appendix you can see the reconciliation of our reported quarterly earnings of $1.08 per share to the adjusted earnings of $1.00 a share. For this quarter LIFO represented a $16 million pretax credit or $0.01 per share after tax.

We also recorded net gains on sales of assets of about $135 million pretax or $0.14 per share after-tax primarily related to the sales of our South American fertilizer business. We incurred about $33 million of WILD related charges, or about $0.03 per share, related to transaction closing costs as well as restructuring costs during the quarter.

We incurred a $98 million non-cash pretax US pension settlement charge related to selling some of our retiree liabilities with lump sums. In our GAAP statements this charge is included in our SG&A expense line.

There were approximately $41 million of pretax impairment charges or $0.04 per share from various assets. And finally, we adjusted our fourth-quarter results down by $52 million, or $0.09 per share, for US biodiesel tax benefits attributable to the earlier three quarters. This breaks down as roughly $0.01 a share in Q1, $0.03 a share in Q2 and $0.05 a share in Q3.

Slide 5 provides an operating profit summary and the components of our corporate line. Before Juan goes into the operating results I would like to highlight some of the unique items impacting our quarterly results.

In oilseeds I just talked about this South American fertilizer gain and the out of period benefits of the biodiesel tax credits. We will also continue to have our cocoa and chocolate business as part of our segment reporting results in oilseeds until which time we have closed on the sales sometime in the first half of 2015. They are not treated as discontinued operations in our financial statements. There are also various asset impairment charges in all three segments in corporate to sum up to about $41 million pretax.

In the other processing line we have included the initial results of both WILD Flavors and Specialty Commodities Inc. There were about $33 million of transaction closing and restructuring charges in the fourth quarter.

In addition, included in the negative $13 million number in other processing is about $23 million of purchase price amortization charges related to inventories and $3 million of additional depreciation expenses. Excluding these amounts WILD and [SDI] earned about $13 million in the fourth quarter.

Effective January 1 the results of WILD and SDI will be included in our new fourth business segment called WILD Flavors and Specialty Ingredients, or WFSI for short, which also includes certain Specialty Ingredients businesses from our other three segments.

To assist you with your analysis for 2015 we have included in the appendix a pro forma of our 2014 quarterly results adjusted for the ADM business lines that would be part of the fourth business unit.

In the corporate lines net interest expense was down due to significantly lower debt levels; unallocated corporate costs were higher due to various special project costs including our ERP project that was initiated earlier in 2014. Other charges for the fourth quarter are primarily related to our $98 million non-cash US pension settlement charge.

In addition, I want to point out the currency translation effects on our earnings, while negative, were not material for the fourth quarter nor for the calendar year as much of our global merchandising and cost (inaudible) in trade flows are either US dollar functional or US dollar linked providing some insulation to our financial results against fluctuations of the US dollar or the euro.

I would also like to comment on our GAAP net revenue number that can be found in the appendix. GAAP net revenues for the quarter were $20.9 billion, down from last year's $24 billion. The significant reduction was driven by large declines in commodity prices that impact our revenues. But this decline also impacts our cost of goods sold as our input costs are lower.

So the key for us managing the spread between revenues and cost of goods sold, which is a core competency of our teams. This dynamic makes operating profit much more relevant when analyzing ADM.

Turning to the cash flow statement on slide 6, we present here the cash flow statement for the year ended December 31, 2014 compared to the prior year. We generated just over $2.7 billion from operations before working capital changes in the year ended 2014, slightly higher than last year. Working capital changes were a source of $2.3 billion this year compared to a source of $2.9 billion last year.

Total capital spending for that year was about $0.9 billion compared to the prior year -- comparable to the prior year and in line with our reduced CapEx target. We completed acquisitions of $3 billion in equity which included WILD and SDI, but net of cash assumed amounted to $2.7 billion. We also received proceeds of divestitures from the South American fertilizer business of $350 million.

For 2015 we are estimating capital spending in the range of $1.1 billion to $1.3 billion. This range is higher than our $0.9 billion spending in 2014 which you may recall we reduced after the WILD acquisition to assess capital spend avoidance opportunities. As a result some 2014 spending shifted into 2015.

We also have some additional spending for our ERP program and cost reduction projects, as well as the ramp-up of our specialty protein project spending in Brazil, our Fibersol project in China and the US, our lecithin projects in Germany and India.

In February 2014 our $1.15 billion convertible debt matured, we paid down this debt, contributing to our overall debt reduction. For the year we spent about $1.2 billion to repurchase about 25 million shares and we paid out $0.6 billion in common dividends. So for the year we returned about $1.8 billion to shareholders. We ended the year with about 643 million shares on a fully diluted basis.

Slide 7 shows the highlights of our balance sheet as of the end of both 2014 and 2013. Cash on hand was approximately $1.6 billion, down $1.9 billion from last year. Our operating working capital of $7.8 billion was down $3.1 billion from the year ago period.

This decrease was comprised of about $1.3 billion related to lower inventory prices and about $0.7 billion related to lower inventory quantities and a decrease of about $1.1 billion in other working capital, primarily related to reclassification of working capital of our global cocoa and chocolate businesses which are treated under held for sell accounting as well as additional trade receivables sold during the calendar year.

Total debt was about $5.7 billion resulting in a net debt balance that is debt less cash of $4.1 billion, up slightly from the 2013 net debt level in part reflecting the fourth-quarter cash outflows related to the acquisitions of WILD and SDI.

Our shareholder's equity of $19.6 billion is $0.6 billion lower than the level last year with a cumulative translation account down about $0.9 billion due to the strength of the US dollar. We had $6.6 billion in available global credit capacity at the end of December. If you add the available cash we had access to almost $8 billion of short-term liquidity.

In view of our strong liquidity position and forward outlook, the Board of Directors approved increasing our quarterly dividend from $0.24 per share to $0.28 per share, a 17% increase. This would translate to an annualized cash outflow of about $0.7 billion.

In addition, with a strong balance sheet and forecast generation of cash we expect to repurchase anywhere between $1.5 billion to $2 billion of ADM's shares, subject to any strategic requirements that may occur over the course of this calendar year. So we expect to return anywhere from $2.2 billion to $2.7 billion of cash to shareholders this year, again, subject to any strategic requirements.

With a forecast CapEx spend of $1.1 billion to $1.3 billion in 2015 we believe we are again providing a balanced approach towards capital allocation consistent with the intentions we outlined on Investor Day in December.

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

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

Thanks, Ray. Let's turn to slide 8. I'll start with segment operating profit and then move on to discuss the three major segments. Our underlying segment operating profit improved sequentially every quarter this year. In the fourth quarter it increased 20% from the third quarter.

On a year-over-year basis a significant improvement in our services drove an overall increase of 8%. In all four quarters this year the team delivered year-over-year improvements in segment operating profit. For the calendar year we earned $3.7 billion of operating profit excluding specified items, up 25% the year before.

2014 was another solid year from our Oilseeds business, demonstrating the strength and diversity of the portfolio in delivering consistent results. The Corn business showed the value of managing the business with overall results. In 2014 they delivered their best operating profit ever.

And Ag Services demonstrated a strong recovery from the prior year, aided by a turnaround of international merchandising results and good execution by the team to fully capitalize on a more favorable environment. I am very proud of all the team that was able to accomplish this year.

Now I will walk you through our fourth quarter results. Starting on slide 9, the Oilseeds team delivered a strong quarter. It is worth noting that last year's fourth quarter was exceptionally strong driven by strong performances across all regions.

In the fourth quarter good capacity utilization and margins drove strong soybean crushing results in Europe and North America with the North American team delivering an all-time record quarter amid strong global demand and low input costs. Both North American and European crushing results were better than the same period last year.

South American results were down significantly compared to a very strong fourth quarter last year. Origination and transportation were impacted by lower Brazilian corn production, reduced exports and slow farmer selling relative to last year and losses on basis and board crush positions. In Paraguay a lower quality crop hurt export opportunities.

In addition, South American results were negatively impacted by fertilizer as we transition this business for the close of the sale in mid December. In Europe overcapacity pressured biodiesel margins. And in North America the retroactive US biodiesel tax credit improved margins on gallons blended in the quarter, though demand was down seasonally.

Also our results in Asia were consistent with last year, were much improved compared to the earlier quarters in 2014 driven by Wilmar results.

Please turn to slide 10. Corn Processing results declined in the quarter. In the year ago period sweeteners and starches benefited from a steep decline in net corn costs. This fourth quarter conditions were more challenging as net corn costs rose during the quarter.

In addition, our results in this fourth quarter were negatively impacted by hedge losses on co-product sales and increasing bad debt reserves and startup costs related to our new sweetener facility in Tianjin, China.

For the fourth quarter, absent these unique factors, sweeteners and starches results would have been about $100 million. Good execution, the combined management of production and merchandising drove a significant improvement in bioproducts results and animal nutrition results improved on better margins and solid demand.

Slide 11, please. In the fourth quarter Ag Services results improved significantly from last year when market conditions were challenged following the drought of 2011 and 2012. In the US the team put on a strong soybean export program during harvest moving beans at a record pace. This allowed great throughput to our origination and transportation networks, as you can see reflected in those results.

The international merchandising team continued their turnaround. The fourth quarter was the first quarter in which we coordinated our worldwide trade flows to our new global merchandising desk. I am particularly proud of our international merchandising team's work in 2014 as they integrated the Toepfer trading operation and led an operational and financial turnaround.

In transportation the strong US bean export program, replenishment of fertilizer and salt inventories, and great river conditions allowing large tows deep drafts combined with great execution to deliver an outstanding performance. And our milling results were strong as the business saw solid merchandising and blending opportunities in the quarter.

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 exceeded our target of $400 million in run rate cost savings by the end of 2014. During our December Investor Day we outlined our target for $350 million in further cost savings related to operational excellence and process improvements. We also highlighted $200 million in incremental purchasing savings. So we are targeting a total of $550 million in additional run rate cost savings over the next five years.

In the area of managing our portfolio, following the WILD acquisition we are well on our way to achieving our targeted EUR100 million in synergies over the next three years. The commercial and technical teams are focused on realizing the benefits of the combined businesses and have had over 100 customer engagements so far.

We have already recognized synergy wins within our first three months and are actively building a pipeline of opportunities for new business. Cost synergy activities are also underway. We are addressing redundancies and eliminating overlapping corporate SG&A. In December we announced our additional IT center will be located in existing space at WILD's facility in Erlanger, Kentucky.

We reached an agreement in December to sell our global cocoa business to Olam for $1.3 billion. We expect to close that sale in mid-2015. We remain on track to close the sale of our global chocolate business to Cargill for $440 million in the first half of 2015. We closed the $350 million sale of our South American fertilizer business in December.

And in an example of the asset light approach that we have mentioned before, I am pleased to announce that we have reached an agreement to sell a 50% stake in our export terminal in northern Brazil to Glencore. Combined with a plan to quadruple that facility's capacity, we are strengthening a strategically located asset in a cost and capital efficient way.

Our efforts to improve returns also involve investing to grow the business. In November we began production at our sweetener plant in Tianjin, China. Construction continues an our fiber plant in Tianjin, China, our feed premix plant in Nanjing, China and our specialty protein complex in Campo Grande, Brazil.

The expansion of our Fibersol production capacity at Clinton, Iowa is on schedule to be operational midyear. And our non-GMO lecithin projects in Hamburg, Germany and Latur, India should be operational in March and July respectively. We continue to take actions to further improve the business and, as you can see, that is reflected in our returns.

Before we take your questions I wanted to offer some additional perspectives as we look forward. Our Ag Services result showed how our larger and more efficient US network can perform with a big crop. As the South American harvest continues we will see the seasonal decline in North American soybean exports. We also expect to see corn exports pick up starting with the Pacific Northwest and then moving to the Gulf.

Continued North American meal exports should support crush margins well into Q1. And the large South American harvest should drive exports and improve crush margins.

In sweeteners and starches we expect 2015 volumes and margins to be similar to 2014. Ethanol demand should improve in the coming quarter as low gasoline prices and the change in weather should support increased driving miles. And in this margin environment we would expect many producers to run for yield rather than volume which should improve alignment of supply and demand.

Across the Corn business we continue our work to optimize our product and customer mix. In our new WILD Flavors and Specialty Ingredients business unit we expect to benefit from new wins and increase customer engagements. We are working to deliver a compelling portfolio of ingredients and services that will allow us to better serve our customers.

We are adding geographic scale to our business with capital projects ongoing in China, Brazil, India, Germany and the US. And we are expanding the scope of our portfolio by adding the basic healthy ingredients of Specialty Commodities as well as pursuing new products such as texturized protein, non-GMO lecithin and omega-3's.

We expect that many of our businesses that did not perform that well in 2014 will have more favorable results in 2015. South American results should improve. We expect our international merchandising business to continue its improvement.

We have disposed of or are disposing of our poorer performing businesses such as South American fertilizer, chocolate and cocoa. And we have a list of other businesses for which we are targeting improve profitability of returns in 2015.

So, a strong finish to 2014, good conditions for the year ahead and continued improvements in our portfolio of businesses. Overall, we feel very good about our position for 2015.

To recap a few news items we announced on today's call, we are targeting an additional $550 million in run rate cost savings within the next five years. We have agreed to sell 50% of our port facility in northern Brazil to Glencore, and together we will be quadrupling capacity of the port.

We are targeting up to $2 billion of stock buybacks for the calendar year and the Board has increased our quarterly dividend from $0.24 to $0.28. With that, operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Evan Morris, Bank of America.

Evan Morris - *BofA Merrill Lynch - Analyst*

I just want to talk a little bit more about ethanol. And obviously fourth quarter came in better than what I was looking for. But your commentary regarding the margins being challenged suggests I guess it is more of a production issue than just a broader environment with lower prices.

Can you kind of talk a little bit about that? And if that is the case, how long does the oversupply usually take to correct to come back in line with demand?

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

Yes, Evan, so really we are not seeing a change in demand. Actually if anything it has been an improvement because of reduced gasoline prices that have increased consumption in the United States. We have seen an excess in production that is driven mostly by the very good margins we enjoyed in the November timeframe.

So how long will it take for that to correct? Difficult to say. Going to see a combination as we go into the first quarter of progressively higher driving miles and then some of the refineries getting to maintenance as they go into March as they prepare for the high driving season.

So we manage, as I said in my prepared remarks, the business for the overall. So we try to manage the overall product mix and we look for when margins are very good we run for volume, when margins are declining we run a little bit more prudently for yield.

So that is -- so we see this is a relatively immature industry, but these low margins will correct itself, the supply issue, and we expect increasing margins as we go into the later part of Q1.

Evan Morris - *BofA Merrill Lynch - Analyst*

Okay. And just with that and I know ethanol is not a huge part of the business but it seems to be -- your stock is trading on the exchange in oil prices. But when you talk about margins remaining challenged, I mean that is sort of a pretty ambiguous term.

Can you give a little bit more color around that? Are you expecting early on to not make any money in the early part of the quarter? I mean you had really strong operating profit per gallon as you exited the year. So if you could just put a little bit of context around what you mean by challenged, where do you expect margins to kind of settle out more broadly and where do we kind of head as the year progresses?

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

Of course. If you look at the story in Q4 you see the high volatility that are on ethanol prices. So it is very hard to predict with any precision. We continue, Evan, that is why we continue with our efforts on our cost improvements and we highlight that all the time. And you heard me that we have exceeded our stretch goal of $400 million because a big part of that is in the Corn business.

The other leg of the stool that we look at is the flexibility and the introduction of new products that allow us to shift production to the products that are growing the most or having less margin pressure. I would say, Evan, overall we expect probably margins in ethanol to be a little bit lower than 2014 but better than current levels.

Evan Morris - *BofA Merrill Lynch - Analyst*

Okay. And just last question for you. Given the operating environment and all the puts and takes, do you think in 2015 that you will be able to hit your medium-term ROIC target of 10%?

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

Well, you know we have the impact of WILD in 2015, that is 0.7% (multiple speakers).

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

About 70 basis points impact.

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

About 70 basis points. So listen, you heard us at the Investor Day. Two years ago we put this strategy based on returns. And as you see in the graph that I showed in my slide, that strategy continues to deliver and we feel very good about that.

Obviously every now and then as we have a big acquisition like WILD, we pause a little bit in that trajectory. But all our programs are working and we are very optimistic about our trajectory towards 10%.

Evan Morris - *BofA Merrill Lynch - Analyst*

Okay, thank you.

Operator

Farha Aslam, Stephens.

Farha Aslam - *Stephens Inc. - Analyst*

Looking at crushing and origination, could you just break down that segment a little bit for us? On any given year how much should we expect from North American crush versus South America versus international merchandising, roughly?

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

Well, let's see, international merchandising is reported into Ag Services so let's separate that, Farha, yes.

Farha Aslam - *Stephens Inc. - Analyst*

I'm sorry.

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

So certainly North America is much bigger than South America proportionately. I would say -- but you are probably wondering because of the offsetting effect this quarter of the South American result. We have a combination of issues there.

First of all, as you recall, in South America we report also origination efforts. So farmer selling has been very poor in South America and we are comparing again a very strong quarter of -- in 2013. So it is a very tough comp. But origination results were down because of farmer selling.

Crushing margins were normally -- we were expecting it to be relatively low in Q4 because of a lack of beans and that's the end of the season. But we have, to be honest, I mean in a tough environment like that with [more] farmers selling a low crushing margin, we also didn't help ourselves much. And on top of that we have the transition of the fertilizer business.

That business was discontinued and we transferred some of our operations to Mosaic we had bad results coming out of that, as you can understand. It's a very volatile business, low margins and is difficult to manage in normal operations much more in a transition.

So I would say those are the impact that we have in South America in Q4. That makes us optimistic for Q1 because we think that farmer selling will come back, crush margins have already expanded both in Brazil and in Paraguay and certainly we will not have the issue of fertilizer. And we have the new port of Barcarena fully operational.

So, all in all we think that that -- that South American results was an issue that will stay in that Q4 and we don't expect it to be repeated.

Farha Aslam - *Stephens Inc. - Analyst*

So looking out into the first quarter, North American crush remains strong, South America recovers. So we should see a nice pick up in the crushing origination going into the first quarter?

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

Farha, directionally we expect Q1 to be stronger than Q4 for oilseeds, that is correct.

Farha Aslam - *Stephens Inc. - Analyst*

Okay. And then just moving to your Ag Services business. Clearly you had a very strong quarter in the fourth quarter largely driven by exports. Do you anticipate the first-quarter export volume out of North America to remain the same or to grow?

And importantly, how do you think basis will work out in North America first quarter versus fourth quarter? Did you capture the harvest basis in the fourth quarter or will you still have more to capture in the first quarter?

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

Yes, fourth quarter was very close to perfection, Farha. We had perfect harvest weather with the exception of maybe 10 days, weather conditions were vey favorable to us because of our very strong transportation businesses. So when freight in rail and all that get complicated obviously we profit from that in our transportation -- in barge transportation business that really excelled in Q4.

Obviously -- and we were able to capture good basis, to be honest, during Q4. So we were very happy with that. As we roll into Q1, obviously the soybean export program kind of declined as South America becomes to pick up the pace there. We expect corn program to pick up during the quarter as the US corn becomes more competitive against European destinations or Argentina.

So all in all we have seen steady demand, not maybe spectacular demand, but not weak demand -- steady demand. So we're looking at the execution of a good book, execution of -- good execution margins in the interior, good storage margins, still good transportation P&L as we still -- we see a lot of northbound freight being used. And we see decent carries in both corn and [hard] wheat. So all in all not as spectacular as Q4 but strong performance in Q1 for Ag Services.

Farha Aslam - *Stephens Inc. - Analyst*

Great, thank you very much.

Operator

Robert Moskow, Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

I think that the -- I'm trying to figure out Corn Processing for 2015. You have a good set up I would think in sweeteners and starches. I understand there have been some pretty significant price increases in high fructose corn syrup. Obviously the bioproducts line is very difficult to forecast.

Is it possible to isolate sweeteners and starches in your outlook here, Juan? Can this be a pretty significant improvement versus 2014 given the pricing? And then in addition, would you expect more of the grind to switch to sweeteners away from ethanol as you try to help the industry manage inventories?

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

Yes, Rob, so let me give you some perspective. So our expectations for sweeteners and starches for 2015 are pretty much in line to 2014. We expect moderate or relatively stable corn prices and so as such margins will be approximate comparable to 2014. On relatively for liquid sweeteners -- relatively stable volumes in that sense.

We have other products where we have shifted demand that are growing a little bit faster. We have other geographies especially Southeast Asia where it is also growing a little bit faster. We are still going to have the very incipient contribution of our high fructose corn syrup new investment in Tianjin, which is more like for a longer-term, not just that much 2015.

So, the way we are thinking, although we did better than our plan in 2014 for sweeteners and starches, we are thinking something comparable to 2014 in general.

Robert Moskow - *Credit Suisse - Analyst*

Why wouldn't it be better? I mean, I thought there was some pretty good price increases taken at least in HFCS, why couldn't it be better?

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

It could, Rob, I am just thinking about when we look at the pricing system, we probably have about half of the -- we had 2014 with some pressure on pricing on margins. And probably the first half of our negotiating period was under those conditions. And then probably the later half conditions become a little bit better industry, a little bit plan to be more balanced.

So I would have -- we have a little bit of that, but also a little bit of the past in our 2015 margin negotiations. So all in all I think is mostly comparable if I said to 2014.

Robert Moskow - *Credit Suisse - Analyst*

Last question. Do you think that your ethanol margins are -- are your ethanol margins still positive right now?

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

Obviously we have a set of units that are different, so we have some dry mills and we have some wet mills. I would say overall they are slightly positive.

Robert Moskow - *Credit Suisse - Analyst*

Okay, thank you.

Operator

Ann Duignan, JPMorgan.

Ann Duignan - *JPMorgan - Analyst*

I just am curious as to how you think about your business, particularly merchandising going forward in an environment of a stronger dollar and weaker other currencies. Do you change the way you do business anywhere or the way you think about merchandising globally?

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

Not really, Ann. I think that obviously the US currency is getting stronger again most of the other currencies. But that tends to end up adjusting the prices of the commodity to find their own equilibrium. At the end of the day you may shift a little bit the timing of some of those exports, but at the end of the day the balances are the balances, the import nations have to import from the exporting nations those who are the ones that have the excesses.

So our teams adjust obviously to that, but I would say that is something that they do on a normal course of business as we have international teams that they adjust for all the other currencies as they move all the time as well. So, no exception for the US team. I wouldn't read that much into that.

Ann Duignan - *JPMorgan - Analyst*

Okay, thank you. Because there is a lot of talk about corn exports from the US and how they might be competitively disadvantaged versus maybe Brazil where perhaps we get more corn planted than we anticipated and they compete for the export market. But you are not anticipating any of that?

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

We see some of that, but the US has come back and is competitive and we expect that to increase during Q1 as it develops, yes.

Ann Duignan - *JPMorgan - Analyst*

Okay. And are you willing to share with us at this point what your expectations are for planted acres in the US this spring?

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

I would just refer to the USDA numbers at this point. I am sure my guys have an opinion but we will keep it to ourselves.

Ann Duignan - *JPMorgan - Analyst*

Okay, I appreciate that. And just real quick follow-up on ethanol. Ethanol benefited from very significant exports last year. I guess the same question with the strong dollar -- would you expect exports of ethanol to decline given where oil prices are and the strength of the dollar?

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

No, at this point in time we expect ethanol exports to be in the range of $800 million for 2015. We are seeing that demand pretty stable. We have checked with most the countries and our customers and we don't see that. Ethanol continues to be the cheapest oxygenate out there and we monitor very closely all the other types. And at this point in time we feel very strongly about this 800 million gallons per year being there in 2015.

Ann Duignan - *JPMorgan - Analyst*

Okay. Thank you. I appreciate the color. I will get back in line.

Operator

Michael Piken, Cleveland Research.

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

Michael, are you there?

Operator

Vincent Andrews, Morgan Stanley.

Vincent Andrews - *Morgan Stanley - Analyst*

Juan, I'm having trouble kind of reconciling what you actually think 2015 is going to be like versus 2014. I see a bunch of puts and takes, but I am just trying to circle back to in the past you guys would talk about you were about to have -- the business was going to break out and we were going to get well through the sort of $3.00 threshold, which --.

I'm just trying to figure out, is that -- your commentary today is very focused on getting the returns up and I understand that. But I'm also trying to understand whether you think 2015 over 2014 is really going to finally be that big year where the earnings actually break out.

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

Yes, Vince, we feel very strongly about 2015. I think that if you look at what we have done and with all the puts and takes as you described, we face every year to be honest. Every year we face conditions that are negative on one side and positive on the other side. But the overall is we have improved our portfolio.

So there's going to be a lot of businesses that gave us trouble in 2014 that will not in 2015. There are a lot of units that without major divestiture that we are in the process of improving. That gives us hope and good expectations for 2015 that some of those results will be better.

We have proven that with the Toepfer integration and which is halfway or maybe two-thirds through it, but it needs to continue and there are other things that we continue to improve. So we feel good about that as well.

We feel very good we have shown to everybody and to ourselves how our services can perform in an environment of good growth that we haven't seen over the last two years. So we feel good about how the business executes but also how the business can run all those assets.

And we continue to add to our cost improvements and operational efficiencies and that continues to [grow] through the bottom line. When you put on top of that that we expect WILD to continue to be as we expected, contributing maybe accretive $0.10 to $0.15 during 2015 we feel very good about the combination of all of those factors.

Will there be surprises during 2015? Of course, every year and we adjust to those. But overall we continue to see our plan unraveling very positively.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay and just as a clarifying question. You talked about co-product hedges in the Corn Processing business. Could you just clarify what those were? I thought co-products were very difficult to hedge.

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

We did some proxy hedges on that using corn. And it didn't turn out the way we would have liked it. So that impacted some of our sweeteners and starches results in the fourth quarter.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay, fair enough. Thanks very much. I will pass it along.

Operator

Michael Piken, Cleveland Research.

Michael Piken - *Cleveland Research - Analyst*

Yes, just wanted to circle back to Ag Services here for a minute. And specifically in the past you've talked about $200 million to $250 million in EBIT is relatively run line to use. In light of what you did in 4Q do you think there was some push forward in terms of some of the 2015 earnings or is that the right run rate to use or with this record harvest should we be using a higher number?

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

It is difficult between -- obviously in last quarter you had some things shifting from one quarter to the other, sometimes in one direction or the other. I would say the range that we're thinking about it for 2015 is something in the range of $850 million to $950 million.

You have to think that when this realignment that we have of divisions of businesses within the division Ag Services has lost basically $50 million of annual profit that has been transferred to other businesses. So considering that transfer we are thinking that the range you should consider is something between $850 million to $950 million, period.

Michael Piken - *Cleveland Research - Analyst*

Okay, that is really helpful. And then with respect to kind of the WILD Flavors Specialty Ingredients, I know you had sort of targeted $0.10 to $0.15 of accretion for this year. I mean can you give us some sort of flavor for how quickly that can ramp up? You at your Analyst Day gave a revenue target, but what should we be thinking sort of in the outer years?

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

Yes, we provided the guidance when we announced the acquisition back in July. First full year $0.10 to $0.15 per share accretion. We are still on track towards that particular range, Mike. As we kind of work through our plans we see that in the numbers.

Actually there may be a little bit of risk towards the downside just because of currency translation impacts, particularly on WILD's European business. But overall we still feel good about that range for calendar year 2015.

Michael Piken - *Cleveland Research - Analyst*

Okay, great. And then finally the last question is on the $550 million in cost savings that you are targeting over the next five years, can you give us some sort of breakdown by segment where you would expect to see the majority of that benefit? Thanks.

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

I would say -- to be honest, I don't have it top of my head by segment. We have -- internally we have a plan of like 10 categories. Some of those categories include things like margin for new products as we fight for the grind, we have categories about maintenance reduction or improvements, we have categories such as energy efficiency.

I would say corn tends to add the bulk sometimes of that probably in the range of maybe 40% to 50% just because of the size of the asset. Ag Services has a little bit less because we have less fixed assets and more maybe transportation assets.

So I would say if I have to give a guess, but I don't have it, it is something like 50% Corn, maybe 35% Oilseeds, and maybe 15% Ag Services give or take.

Michael Piken - *Cleveland Research - Analyst*

Okay, thank you very much.

Operator

Tim Tiberio, Miller Tabak.

Tim Tiberio - *Miller Tabak - Analyst*

Juan, I guess looking at oilseed demand, there's been a lot of focus in the questioning around farmers selling and utilization between North America and South America. But we have seen a little bit more commentary in the trade press around just a more uncertain environment around incremental oilseed demand in Asia. Just wanted to kind of get your sense of how you are seeing that frame up on a full-year basis and then from the first half to the second half?

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

Yes. So, at this point in time we're seeing still good export demand in the US, we have it for January and February. We expect there's going to be a little bit of a shift to that in March to South America. When we're looking to China, we see China feed demand a little bit down at this point in time.

Profitability for farmers to raise pigs or chicken is not great at this point in time. Part is the slowdown in the economy, part is the government's [anti-graft] campaign because we do some consumption there. But we expect that as, I talk to my colleagues in China, to increase -- to improve during the year. So right now it is a little bit soft.

Tim Tiberio - *Miller Tabak - Analyst*

Okay and is there any other regions that could potentially offset China? I know there has been some talk about India potentially liberalizing their imports, you know tax regime on oilseeds. Is that kind of factored into your outlook or that is just still difficult to handicap at this point?

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

I would say you continue to see poultry consumption growing per capita basis in India, so that is also obviously bullish since there are like 1.4 billion people. I would say overall we continue to see meal demand growing 3% to 4% year over year and we feel good about that. So I think China has these ups and downs, but we don't foresee a slowdown in demand at this point in time for 2015. We still believe 3% to 4% up in meal demand.

Tim Tiberio - *Miller Tabak - Analyst*

Great. And then just shifting gears back to WILD Flavors. There was a lot of talk at your Investor Day that really the next stage is taking this platform and really proliferating it out to a lot of your CPG relationships.

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

Yes.

Tim Tiberio - *Miller Tabak - Analyst*

Can you just kind of talk -- I know it is still early days, but how is the win rates looking with a lot of your large CPG clients? Any notable wins in the quarter? How is that progress tracking to your expectations?

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

Yes, that is a great question, Tim. Listen, the first thing that I would like to say about WILD Flavors and Specialty Ingredients is that I am pleased to report that we are getting the people equation right. In this case the capabilities obviously are there. Both were successful companies individually in their own right in ingredients so the capabilities are intact.

But the issue is can you combine the people and can you get that? And I am pleased to report that is going extremely well. So we are very confident we are going to beat our 2015 synergy targets.

In terms of customer, we have had more than 100 customer engagements so far and we have recorded, I was checking with the team late last week, I have every Friday a meeting with them to check this. We had more than 355 ideas with actual efforts behind for each customer.

So I wouldn't disclose any specific customer obviously for confidentiality reasons. These are all innovations that we will keep to ourselves and then hopefully you will see it reflected in revenue growth. But we are very enthusiastic about how customers are responding to the combined capabilities of both companies.

Tim Tiberio - *Miller Tabak - Analyst*

Great, thanks for your time and I will pass it along.

Operator

David Driscoll, Citi.

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

David, are you there?

Operator

Ken Zaslow, BMO.

Ken Zaslow - *BMO Capital Markets - Analyst*

I just want to go back to the ethanol just because I am puzzled by it a little bit. So how do ethanol margins actually go higher in this current oil and corn environment? You think corn is going to stay relatively stable and oil stays stable. If supply gets cut, ethanol prices need to trade at a premium to GAAP. Is that a sustainable situation? I guess that is where I'm kind of having a hard time with the ethanol margin recovery.

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

So I think, listen, I see -- we see driving miles of gasoline consumption going up and we see stable exports out there. So, but the issue is did we produce at 15 billion gallons is -- we're now going to have excellent margins. So at the end of the day it will require some rationalization of capacity.

We expect some of these low margins that we're having right now giving people some -- giving people in the high part of the cost curve some problems. And that is why we continue to emphasize our cost position and that is all we can drive.

All we can drive is our cost position, our fight for the grind and the way we commercially -- we commercially play between produced gallons and purchased gallons. So other than that it is all speculation, to be honest.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay, so you think that gas can trade at a premium to ethanol and the demand will remain, that's fair?

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

Yes, yes, we think so. Yes.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. On the (multiple speakers).

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

Remember that you have $0.70 rins at this point in time. And I think that we can go 10% higher and we can still be a very competitive oxygenate out there.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay, that is fair. That is the thing, my confusion is, trying to figure that out. I appreciate it.

On Ag Services, the $850 million to $950 million is roughly in that $200 million per quarter basis. Over the next two to three years, as you make these improvements that you have been talking about at the Analyst Day, and it seems like maybe there even some cost-cutting there. Will that go up to say $250 million to $300 million per quarter like -- or how does that shift?

It seems like you have very tangible gains to be had here. And I am just trying to put a number around that. Is that a fair point saying about $50 million to $100 million after all these adjustments are made?

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

Ken, the way I think about Ag Services is we believe Ag Services will continue to go up hopefully in that range. It is difficult for me to quantify it and I tell you why. In the other businesses we can add some of the cost improvements.

In Ag Services it becomes a little bit more based on whether we add an investment that increases our origination or our transportation or we do something like we did with Toepfer in which we combined in the global trade desk or we move more into destination marketing and we capture a bigger part of the margin there.

So our plans and our expectation are that that range is going to evolve over time. It is a little bit more difficult to say exactly the number at this point. And I wouldn't venture that. But we are continuing to build to increase margins and our share in Ag Services.

Ken Zaslow - *BMO Capital Markets - Analyst*

My final question is, at the Analyst Day you guys said that there was a level of preparedness. I like that word that you used for Ag Services. And obviously that generated a very, very significant return during the quarter. Do you feel like you can get the same preparedness that you had in the third quarter -- for the fourth quarter that you all have for the first quarter?

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

Absolutely, absolutely. We are very well prepared to handle this first quarter. It would be, as I said, a different quarter. When I was saying the preparedness is because obviously this team was so looking forward to show what their asset base and their capabilities could do in a full crop because of the two very bad years in the previous crop. But absolutely they are the same level of preparedness for Q1.

Ken Zaslow - *BMO Capital Markets - Analyst*

Great, I really appreciate it. Thank you.

Operator

David Driscoll, Citi.

David Driscoll - *Citigroup - Analyst*

So good morning and congratulations on the results, Juan and team.

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

Thank you.

David Driscoll - *Citigroup - Analyst*

Wanted to just maybe clear up a couple of points on ethanol. I think you said in a previous comment that you thought you would see I think you said you felt very strongly about 800 million gallons of ethanol exports. Is that correct?

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

Yes.

David Driscoll - *Citigroup - Analyst*

Yes. So then if you add to that somewhere 13.7 billion to 14 billion gallons of E10, well, why would you not feel confident that we are not going to see a very tight balance in 2015 on ethanol supply and demand?

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

I do feel confident that we will see a tight balance. As I said, I don't think that all the plants will run at the rate that they were running in November -- on a full-year basis.

So the problem with ethanol, David, and this is the problem to model and uncertainty sometimes around ethanol is that it moves during the year because of the gasoline consumption has a system. And obviously our ability also to produce a max rate [have a system] as well.

So sometimes those things -- plants can produce at higher rates when people can drive less. And that produced a little bit of a spike of margin in the summer and a little bit of a drop of a margin as we get to the end of the year. But we continue to be positive about the overall balances in ethanol, David, yes.

David Driscoll - *Citigroup - Analyst*

Okay. And then just my final question, and you answered this a little bit before, but I want to just be clear on something. This interaction between North American crush margin results and South American crush margin results, are you trying to draw a parallel here by saying that North American fourth-quarter crush margins were particularly strong in part due to the weakness in South American farmer selling exports, etc.?

Are these two factors interrelated as kind of one gives to the other, or was there specific issues in your South American unit that are isolated, such that in a future period we could see both good results simultaneously in both geographies?

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

Yes, so let me split that question in two. On the impact of South America maybe not a lot of slow farmers selling or being a little bit delayed. We felt -- we feel it two ways. One in better soy crush margins in Europe, not in North America. And we tried to shift during Q4 more crush from rapeseed into soy just because we didn't see that much meal coming to compete in Europe from South America. So you saw it that way.

And also you could see it by having a longer export program in Q1 in North America, that is the way you see it. And to the second point of your question is absolutely we can see times in which both are doing very well. As I said, we have a lot of issues on our own in South America in this quarter, not only the farmer selling, but we have fertilizers and some other issues that we had there as well. So absolutely you could see both doing very well in another quarter.

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

In fact, David, you saw that last year. Last year's fourth quarter you actually saw South America do extremely well and North America do extremely well. This year we saw North America do extremely well; South America did not do as well. And frankly a lot of the things that occurred in South America was our own doing.

So when I kind of look at the results I look at South America just a comparison of fourth quarter this year versus last year just directionally. There was about a $100 million swing in South America just because of factors that frankly we didn't help ourselves with. And so that just gives you an order of magnitude in terms of what the delta was in Q4 here related to South America.

David Driscoll - *Citigroup - Analyst*

And then, guys, to tie it together, what you said in the press release in the -- I don't know -- second or third paragraph was that you expect South American oilseeds will have higher returns in totality in 2015 versus 2014, correct?

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

Yes, that is correct.

David Driscoll - *Citigroup - Analyst*

So then it sets up to be a very good year in oilseeds and maybe this fourth-quarter issue in South America is not what we should focus on, but rather the bigger picture of good strong tight balances within Oilseed Processing?

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

You got it, yes.

David Driscoll - *Citigroup - Analyst*

Thank you. I will pass it along.

Operator

Adam Samuelson, Goldman Sachs.

Adam Samuelson - *Goldman Sachs - Analyst*

A lot of ground has been covered today, but I want a question on the cost savings and thinking about that 2015 bridge. The exceeding $400 million target in 2014, not a lot of that came through in the second half of the year because, if I recall correctly, it was the second quarter of 2014 where you increased that cost savings target. How should I think about the year-on-year increment of savings realized in 2015 versus what you actually flowed through the P&L in 2014?

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

Yes, I think you should expect from these programs about $100 million going into 2015.

Adam Samuelson - *Goldman Sachs - Analyst*

And is that-- to your earlier comment, is that mostly coming through in corn -- or at least corn and oilseeds are the majority, but corn the biggest one?

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

That is a general comment. I mean when we tried to assign that $100 million of course it applies. But don't hold me to it. I may update you later on that. And also, you have to offset some inflation obviously that we have every year. But yes, about $100 million should roll into 2015 out of our cost-saving programs.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay, that is very helpful. And then can you just help us think with WILD and the new business unit, the Specialty Ingredient business unit in total, how the reporting there is going to look in thinking about metrics?

I mean this is -- I mean revenues for your Company historically have not been a particularly meaningful metric. I think for that business unit it actually will. Can you help us think about the organic growth of volume and price mix that you would kind of think about on a run rate basis for that unit going forward?

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

Yes, we have been working on that, Adam, because, as you said so correctly, sometimes for Ingredients it should be revenue growth. But on the other hand, remember that this division is composed by $1 billion of WILD which reacts like you describe. But also $1.5 billion from products that we contributed, that some of them are soy proteins that when soy comes down sometimes we expand margins but actually revenue goes down.

So we are trying to come up with a good set of measurements that actually reflect the performance of the business without getting -- without misleading people on that. So I think for a while it will be a combination of strong revenue growth, strong gains in some customers or maybe volumes and also returns, obviously. Margins are relatively healthy in that industry. So just percentage margins are not that important at that point, it is more about winning businesses.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay, all right, thanks very much.

Operator

Paul Massoud, Stifel.

Paul Massoud - *Stifel Nicolaus - Analyst*

I just wanted to get a better sense of what is being embedded in your ethanol assumptions. So specifically the ethanol export figure, 800 million gallons. Included in that is there an assumption out there that there is going to be lower exports out of say Brazil because of the higher blend rates that are going to occur down there this year? And so in effect you will be taking market share?

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

Yes, I think that obviously Brazilians are trying to help the sugar mills in general and so more is going to be used internally at the same time that they are increasing gasoline prices. So we don't expect Brazil to be a competitor for exports out there. And it may be a recipient of some of the US exports. So certainly we don't see Brazil at this point in time as a big threat.

Paul Massoud - *Stifel Nicolaus - Analyst*

Okay. And then just if we shifted slightly to the margin side of things, I mean we have seen this in the trade rags that China is looking for more DDGs. And so we've seen a recovery in those DDG prices. And so I guess I am wondering, Juan, when do you start to see those price increases in DDGs hit your dry mill margin specifically? And is that part of the assumption that you will see a margin recovery for that business?

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

Yes, they are -- DDG prices, we are already there. I mean we have seen that increase. China has been taking DDGs for probably a month already. So we have seen that increase. We feel good about it.

Paul Massoud - *Stifel Nicolaus - Analyst*

Is there more upside (multiple speakers)?

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

Sorry, it helps also the dynamics of soybean meal as soybean meal -- as DDG's been taken out of their domestic ratio sometimes. So, sorry, go ahead.

Paul Massoud - *Stifel Nicolaus - Analyst*

No, I was just curious if you thought the trajectory is still to the upside or are you effectively assuming that you are just going to hold steady where we are at now?

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

Well, I think there is still some upside to DDGs as well, yes.

Paul Massoud - *Stifel Nicolaus - Analyst*

Okay. And then one question on sorghum. I mean we've seen Chinese sorghum demand tick up pretty significantly here. Is that an area where you guys are participating in any material way?

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

Yes, Ag Services is a player as well in sorghum exports, yes.

Paul Massoud - *Stifel Nicolaus - Analyst*

Could you give us a sense of the percentage of volumes that sorghum accounts for and how that's kind of grown over the last couple of years?

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

I don't have it top of my head to be honest.

Paul Massoud - *Stifel Nicolaus - Analyst*

All right. No problem. I guess the last question I have got here is just sort of going to -- going back to the Analyst Day. I mean you talked about Ag Services shifting focus from port of export to the end-user. So I was just curious what your current philosophy is on energy hedging, whether or not you have got hedges on the books now.

I know you've got ships out there. And so, I assume that there is some commodity price that you are hedged at. But how do you see that evolving over time as you make that transition over the next few years?

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

I think on energy hedging, I mean we really don't really hedge -- talking about crude oil hedge or bunker oil hedges, we really don't do much of that.

Paul Massoud - *Stifel Nicolaus - Analyst*

So there are no fuel cost hedges for ships then I guess?

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

No, we hedge mostly natural gas which is the big input for ethanol. That is where we hedge and where there is a very good market for that.

Paul Massoud - *Stifel Nicolaus - Analyst*

Okay. Thanks for the questions.

Operator

Eric Larson, Janney Capital markets.

Eric Larson - *Janney Capital Markets - Analyst*

Can I get a quick flavor? You mentioned earlier in your comments, Juan, in prepared comments, about you really had really pretty good basis capture in soybeans in the fourth quarter, probably pretty near to ideal type conditions. And clearly you probably had near ideal conditions for transportation revenues.

But corn was certainly suboptimal. I mean I don't think any of us would have predicted what happened with corn in that fourth quarter. But looking to the fourth quarter of this year, taking those two complexes together, is there the ability to improve basis capture and just assume a normal crop, a normal harvest? Was there anything so extraordinary in the soybean structure this year that it would be hard to repeat that next year? Or this year, excuse me, in 2015?

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

So you -- sorry, let me clarify your question. You said that if we can repeat our performance of this Q4 in next Q4 given the --?

Eric Larson - *Janney Capital Markets - Analyst*

Yes, well given particularly the strength probably in the soybean side. I realize that corn was probably suboptimal, but is it a repeatable performance next year -- this year versus what you had last year?

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

I think so. Listen, I -- you can see the strength of the way our team played with these conditions. Last year we made it more into the summer and this year we have a great performance now into the winter. So every year there is a picking which you make the profit given the market conditions. And I think that the team adjusts to that. But we see no reason for which not being able to repeat this next Q4.

Eric Larson - *Janney Capital Markets - Analyst*

Okay. And then just one quick follow-up on all of that. Looking forward, talking about overall demand and looking at demand into next year, is there sufficient demand to let's say if you had a normal crop year to reduce our carryovers in crops next year? Or should we gradually see a little bit of a build here in our corn and soybean carryovers given the strength of the US dollar particularly?

And I guess the only offsetting factor, particularly like in corn, there is always talk that China could be a 20 million to 25 million metric ton buyer that crops up all the time. Any comments on the demand side on that function? And it seems to me that the general direction of corn and maybe soybeans over the next 12 months, a year from now I would expect those complexes to be lower. But I am interested in your thoughts.

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

I mean I think demand -- I mean, if you looked at trend lines in demand, they continue to be very positive whether it be corn, soybean or meal around the world. So nothing fundamentally has changed in terms of our long-term assessment of continued demand growth for these agricultural products.

As you know, we have actually had pretty favorable supply conditions over the past couple of years. And as you know, weather it is a factor. So when you ask the question about what carry out in the future will be, we feel pretty good about the demand side. In the supply-side there are definitely weather aberrations somewhere around the world which will impact the supply-side and that will have an impact on carry out.

But generally speaking, we feel that we are in a pretty good environment right now in terms of just general global supply/demand balances and, frankly, subdued commodity prices into soft goods.

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

But if you look, Eric, also -- if you look at the overall production and planted area around the world, it continues to grow and it's been growing for a while and it will have to continue to grow as we need to feed the growing population. So we continue to see this 3%-4% increase that Ray has just described. And I think that we will have to count with the favorable weather to continue with this. But we foresee favorable crop prices let's say going forward.

Eric Larson - *Janney Capital Markets - Analyst*

Okay, stable crop prices? Okay. And is there any window for China to be a 25 million metric ton buyer anytime soon of US corn?

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

Oh, hard to say, Eric. I don't know if I can answer with any -- I mean it is just speculation to be honest at this point.

Eric Larson - *Janney Capital Markets - Analyst*

Okay, all right, thank you.

Operator

As there are no further questions I would like to turn the call back over to Juan Luciano.

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

Okay, we thank you very much for participating and see you next quarter.

Operator

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