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ADM - Q1 2015 Archer Daniels Midland Co Earnings Call

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OVERVIEW:

Co. reported 1Q15 GAAP net revenue of $17.5b, reported EPS of $0.77 and adjusted EPS of $0.77.

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PRESENTATION

Operator

Good morning and welcome to the Archer Daniels Midland Company first-quarter 2015 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, Mark Schweitzer, Vice President, Investor Relations for Archer Daniels Midland Company. Mr. Schweitzer, you may begin.

Mark Schweitzer - *Archer Daniels Midland Company - VP-IR*

Thank you, Stephanie. Good morning and welcome to ADM's first-quarter earnings conference 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 risks and uncertainties. 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 these assumptions and factors in our SEC reports. 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 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 performance in the quarter and provide an update on our scorecard. And then they will take your questions.

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

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Thank you, Mark. Good morning, everyone. Thank you all for joining us today.

This morning we reported adjusted earnings per share of $0.77. That's 40% higher than the year ago period. Our adjusted segment operating profit was $883 million. Adjusted ROIC of 9.5% was 290 basis points above our cost of capital.

In the first quarter, the ADM team demonstrated their ability to leverage the strength of our diversified business model. The Oilseeds team capitalized on favorable market conditions and delivered outstanding results with strong performances in each region. In Ag Services, our recently created global trade desk or GTD platform, drove higher merchandise volumes. Our new WILD flavors and Specialty Ingredients business was off to a great start toward achieving the cost in revenue synergies we identified last year.

Together, this performance has helped deliver a good quarter overall, even as slower industry ethanol margins limited earnings in corn and the strong dollar limited US grain exports.

We have continued to advance the strategic plan we shared at our December Investor Day. In the area of optimizing the core, we announced the acquisition of a Belgian oil bottling business, helping us reach a wider customer base and creating a new output for our European crushing assets. And the WFSI team has been working with customers as they developed and launched new products using SCI, WILD, and ADM ingredients. We have more than 200 joint customer engagements building a pipeline of more than 400 projects, resulting already in more than 30 revenue synergy wins across a number of regions and businesses unit in Q1 alone.

In the area of driving operational efficiencies, we have already identified more than $200 million in run rate savings opportunities toward our goal of $550 million in five years. And in the area of strategic expansion, the Corn Processing business expanded in high-growth geographies with the acquisition of the remaining stake of corn wet mills in Bulgaria and Turkey and an increased stake in a facility in Hungary.

I will provide more detail on our scorecard progress later in the call. Now, I'll turn the call over to Ray.

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

Thanks, Juan, and good morning, everyone.

Slide 4 provides some financial highlights for the quarter. Adjusted EPS for the quarter was $0.77, up 40% from the $0.55 last year. Excluding specified items and also [spoon net] timing effects, adjusted statement operating profit was $883 million, up $94 million.

The effective tax rate for the first quarter was 29% compared to 27% in the first quarter of the prior year. For 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 9.5% improved from the 9.0% at the end of the fourth quarter and also significantly improved by 250 basis points from the 7.0% at the end of the first quarter last year. The 9.5% adjusted ROIC is above our 6.6% annual WACC for 2015 as well as our long-term WAC of 8.0% as reflected in the graph on slide 19 in the Appendix. Our objective remains to earn 200 basis points overall WACC.

In the first quarter, our trailing four-quarter-average economic value added or EVA was $742 million, based upon adjusted earnings in the annual WACC, up $581 million from 2014. On chart 18 in the Appendix, you can see the reconciliation of our reported quarterly earnings of $0.77 per share to the adjusted earnings of $0.77 per share. For this quarter, LIFO represented a $2 million pretax credit or less than $0.01 after-tax. There are no other adjustments for the quarter.

Slide 5 provides an operating profit summary in the components of our corporate line. Before Juan discusses the operating results, I would like to highlight some of the unique items that impacted our quarterly results.

Corn Processing adjusted operating profit of $127 million excludes approximately $14 million hedged in the effectiveness charges, split relatively evenly amongst file products in sweeteners and starches. In oilseeds, adjusted operating profit of $483 million excludes approximately $14 million of cocoa hedged timing effects in this quarter. As a reminder, we will also continue to have our cocoa and chocolate businesses as part of our segment reporting results in oilseeds until we have closed on the sales sometime later in 2015.

They are not treated as discontinued operations in our financial statements due to the lack of materiality of the operations to our overall results.

Our new fourth business segment, WILD Flavors and Specialty Ingredients, or WFSI for short, is reported as its own segment for the first time this quarter. The segment includes the two businesses we acquired in 2014, WILD Flavors and Specialty Commodities Inc. or SCI as well as certain specialty ingredients businesses that were previously reported in ADM's three other segments.

For purposes of comparison to prior results, the year ago quarter's segment operating profit for Ag Services, Corn, and Oilseeds remove the earnings of the businesses now reported in the WFSI segment. To assist with your analysis, we conclude a chart in the Appendix that recasts 2014 segment quarterly results in the new segments.

In the corporate lines, net interest expense was down due to lower interest rates and allocated corporate costs were higher, due to increased GAAP pension expenses relating to changes in discount rates and mortality tables, and increased investments in our ERP program, as well as very strategic projects and M&A and divestment activities. In addition, I want to point out that a strong US dollar and weakness in other currencies such as the euro and the Brazilian real do not have a material impact on ADM's overall first-quarter net earnings.

On one hand, the strong US dollar did have some negative impact on the competitiveness of our US export programs, and our WFSI segment also had some negative impacts in terms of export competitiveness and earnings translation from Europe. On the other hand, the weaker euro and real had a positive impact on our fixed costs around the world, relative to revenue streams we're receiving. Also, the weaker real motivated Brazilian farmers to sell, thereby benefiting our origination business in Brazil.

So, on balance with the puts and takes, the net impact was not material. Going forward, we do not expect the currency impact to have a material impact on our overall results for the rest of the year.

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 $17.5 billion, down from last year's $20.7 billion. This 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 is management spread between the 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.

I also want to highlight that the GAAP statements in the prior year do not include the revenues and the cost of WILD and SCI which transaction closed in the fourth quarter of last year.

Turning to cash flow statement on slide 6, which shows the cash flows for the three months ending March 31, 2015 compared to the same period the prior year, we generated $577 million from operations before working capital changes in the quarter, significantly higher than Q1 last year. Total capital spending for the quarter was $244 million, up from the prior year. 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 our ramp-up of our specialty protein projects spending in Brazil, our Fibersol projects in China and the US, our lecithin projects in Germany and India.

During the quarter, we spent $566 million to repurchase about 12 million shares towards our 2015 target of $1.5 billion to $2 billion of share repurchases subject to strategic capital requirements. Our average share count was 639 million diluted shares outstanding, down approximately 24 million from the 663 million at the same time one year ago. Our total return capital to shareholders for the quarter, including dividends, was over $700 million.

Our first-quarter cash flows are consistent with our 2015 calendar year targets of capital allocations, namely CapEx of $1.1 billion to $1.3 billion, approximately $700 million of dividends, and $1.5 billion to $2 billion in share repurchases. And all this is consistent with the balanced capital allocation framework we set forth at our December Investor Day.

Slide 7 shows the highlights of our balance sheet as of March 31 for both 2015 and 2014, which remains very strong. Our operating working capital of $8.1 billion was down $3.4 billion from the year ago period. This decrease was comprised of about $1.6 billion related to lower inventory prices including the translation impacts, about $1.4 billion related to lower inventory quantities, and a decrease of about $0.4 billion in other working capital, primarily related to the reclassification of working capital for our global cocoa and chocolate businesses under the [help] for sale accounting.

Total debt was about $6.4 billion, resulting in net debt balance that is debt less cash of $5.1 billion up from the 2014 net debt level of $4.1 billion, in part reflecting the fourth-quarter cash flows related to our acquisitions of WILD and SCI. Our shareholders' equity of $18.8 billion is $1.3 billion lower than the level last year, with the cumulative translation account impact of about $1.6 billion lower due to the strength of the US dollar. We had $5.7 billion in available global credit capacity at the end of December. If you had available cash, we had access to $7 billion of short-term liquidity.

Next, Juan will take us through a review of our business performance. Juan?

Juan Luciano *- Archer Daniels Midland Company - Pres and CEO*

Thanks, Ray. Please turn to slide 8.

In the first quarter, we earned $883 million of operating profits excluding the specified items. This 12% year-over-year increase in underlying segment operating profit demonstrates the strength of our diversified business model and the team's ability to leverage that model.

In the first quarter, the team capitalized on great opportunities when they continued to advance our strategic plan. Sequentially of course, the quarter follows a very strong fourth quarter and with normal seasonality, underlying segment operating profits decreased. Now I will review the performance of each segment.

Starting on slide 9, in the first quarter, Ag Services results improved 37% over the last year. Merchandising and handling saw limited US export competitiveness more than offset by continued improvement in international merchandising where we saw the benefit of our GTD with merchandise volumes increasing. In Transportation, we saw an increasing demand for northbound US bar trade, which mostly offset the decrease in southbound demand. Milling and other results improved, due to our strong margins for flour, grain and feed. Please turn to slide 10.

Corn Processing results declined in the quarter. In sweeteners and starches, our underlying North American business is doing well with higher margins and volumes in Q1. This was offset by lower contributions from core products, reduced equity earnings from joint ventures, and the start-up costs related to the TNG sweetener facility. And in Bioproducts, earnings were lower due to lower ethanol production volumes and weaker industry margins. Supply and demand imbalances challenged industry ethanol margins most of the quarter though conditions and margins have been improving since late March.

Let me explain our corn results a bit further. We said before that we make decisions that will achieve the best overall results for ADM. This quarter, with low industry margins, we made a decision to run our ethanol operations for margins rather than volumes. That helped our earnings in

Bioproducts. It also had the effect of reducing our production of core products which limited our earnings in sweeteners and starches. Bottom line, the impact to our overall core business was positive. Slide 11 please.

The Oilseeds team delivered an outstanding quarter. Crushing and origination had great performances in each region. In North America, the team demonstrated the value of our strong footprint and our expected destination supply chain. Eight to 10 months ago, they determined Q1 will see an extended North American export window. They got maintenance out of the way and positioned soybean supplier so when the margins arrived, they were able to run hard until the seasonal shift to South America came.

In Europe, the team demonstrated the value of the swing capacity of our crush plants; when soybean crush margins were more than double canola crush margins, we would run the plants hard and crush a lot of beans. And in South America, the team prepared our network for a large, fast harvest and when the strong dollar drove Brazilian farmers to sell their beans, we were ready to handle the growth of strong margins.

In refining, packaging, biodiesel, and other, lower biodiesel margins in North America and weaker European demand limited results. South American biodiesel results improved with these seven implementation. And in North America, our Stratus bottle oil joint venture generated strong results with good volumes. Results from Asia rose primarily on [well mark] improved performance. Slide 12 please.

In their first reporting quarter, the WILD Flavors and Specialty Ingredients business unit delivered a great start. As I mentioned earlier, the team has been working with a wide range of customers as they develop products using ingredients from all of ADM's business units. Globally, the Flavors business is off to a strong start for the year.

On a constant currency basis, while EMEA business performed particularly well, this is a quarter in which demand is seasonally slower and results were limited by ForEx headwinds. We also had mark-to-market losses on currency hedges for future capital purchases for the specialty protein plants in Brazil. The project itself is benefiting from the weakened real versus the dollar. This is an exciting business with an energetic team and they are off to an absolutely great start.

Now on slide 13, I would like to update you on how we're strengthening and growing our Company. This is the scorecard we presented at the invested in December. It lists the actions we are taking to help grow our business, our earnings, and our returns. We highlighted some of the areas in which we made significant progress in the quarter; I'll discuss a few.

In Ag Services, we launched ARTCO Stevedoring, adding a wide range of services to our ARTCO barge operation. With ADM's logistical expertise and global reach, we provide customers along the lower Mississippi a range of services that nobody else offers.

As I mentioned, we saw the benefit of our GTD platform that we developed following the [top four] acquisitions. And today, we're announcing that we have agreed to acquire full ownership of our joint venture complexes at Konstantin Romania, a Black Sea port at the mouth of the Danube. This acquisition builds on the investments we have made in our Danube River network since 2011 and further strengthens our origination and transportation capabilities in Eastern Europe.

In Corn, we sold our lactic acid business, exiting a business for which we didn't see a path to acceptable returns in a reasonable time frame. And we acquired the remainder of the Bulgarian and Turkish wet mills and expanded our stake in the Hungary plant, positioning ourselves wells for when EU sugar production quotas are lifted.

We continued construction of our feed premix plant in Nanjing and this morning we are announcing plans to build a fourth feed plant in China in Zhangzhou, as well as one in Minnesota.

In Oilseeds, we are working with Cardell and Olin on the divestitures of our chocolate and cocoa businesses. We are targeting closing both in Q3, subject to final approvals and completion of transitional activities. We agreed to acquire an oil bottling business in Belgium. This acquisition will provide another demand stream for our Oilseeds Processing operations, reducing our reliance on biodiesel and growing our packaged oil business.

And as we mentioned on the last call, we are creating a joint venture to quadruple the size of our port in northern Brazil, improving our ability to export from this increasingly productive region.

In WFSI, relating to the WILD acquisition, we remain on track to deliver EUR100 million in synergies over the next three years. And we are on track for $0.10 to $0.15 accretion in 2015, although this will likely be in the lower end of the range due to the strong dollar.

And we continue to advance our construction project in Brazil, China, Germany, India, and the US. And in the area of driving operational efficiencies, as I mentioned, we have identified more than $200 million in run rate savings toward our goal of $550 million in five years.

As part of this effort, we launched a global improvement initiative involving colleagues across all regions and businesses, evaluating every aspect of our business for improvement opportunities. In the first quarter, we implemented projects that will achieve about $60 million in annual run rate savings.

We will update you on our scorecard each quarter, and over time, you should expect to see the results of these actions in improved earnings and returns.

So before we take your questions, I wanted to offer some additional perspective as we look forward. We continue to be excited about 2015. We came into the year with a lot of positive momentum, which we expect to continue through the year. With early plans in progress and long-term weather forecasts, suggest a good likelihood for excellent US growth. A large harvest combined with big carryouts of corn, soybeans, and wheat, could give us opportunities for very good carriers at the end of the year.

Those, combined with expected solid global demand, point to very high utilization of our storage, transportation, and processing assets in North America and Europe later this year. US gasoline consumption continues to improve. That will translate into stronger domestic demand for ethanol. These, combined with strong exports, will keep our assets running hard, especially as we move through the summer driving season.

Demand for sweeteners and flavors will benefit from the seasonal pickup in Northern Hemisphere beverage consumption. The WFSI team is off to a great start. They will continue to deliver synergies and we're confident they will meet the 2015 accretion goals.

We're also excited by our customer engagements. Every business unit has been working with existing customers, as well as new customers who are collaborating across the organization more than ever before, working on new types of projects, delivering wins, improving margins. And the team will continue to deliver our clear and aggressive strategic plan. The plan that is already contributing to our bottom line, a plan that returned 9.5% this quarter, a plan that will continue to grow our EVA.

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*

Just a first question on ethanol -- just, you talked about the margin outlook improving since late March. A lot of the work that we do on it and conversations that we've had suggest that the industry is running it -- operating profit per gallon in sort of that mid 20s right now and just wanted to get a sense as to what you are seeing.

Is that consistent with where ADM is running now? And just based on information that you have in your outlook, where do you see margins tracking and sort of maybe for the full year on average for exiting the year, just a little bit more context about where you are now and where you see it going over the next quarter or two.

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Yes, thank you. We are constructive on ethanol margins. You think about it, April has been a relatively big month for shutdowns as people saw some of the margins were relatively low in March. Some people anticipated some of the seasonal shutdowns.

So we see margins improving since the late part of March. We see this with optimism, we see a demand in the US growing, due to lower gasoline prices about 2% to 3% per year. That would put the industry around 138 billion, 140 billion gallons of gasoline. That and the increased exports. We exported very well in Q1. If you look at the January and February export estimate, they are annualized around 1 billion gallons because we exported in those two months, 152 million gallons. If you take the last week of April, that export annualized was around also in the billion range.

So we see exports for the year between 800 [million] and maybe a little bit north of that for the year. Plus maybe 13.8 billion to 14 billion gallons of domestic gasoline demand. We see very high-capacity utilization so we face this season with a lot of optimism in regards to ethanol.

Evan Morris - *BofA Merrill Lynch - Analyst*

Are you -- is what you are seeing with ethanol margins -- in the industry right now, it seems to be around that mid 20s. Is that -- is $0.20 per gallon on an operating profit basis, is that pretty consistent with what you're seeing right now within ADM?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

It's in the ballpark. It's moving, but it's in the ballpark, yes.

Evan Morris - *BofA Merrill Lynch - Analyst*

Okay. And then second, you kind of touched on it a little bit but just I wonder if you can put just a little more context around -- you had the record crop in North America last year. South America looks strong. Early commentary in the North American planting suggests another big crop.

So, I know there's a lot of things that can change the industry dynamics pretty quickly, but you talked about the positive outlook in the fourth quarter, given some of these dynamics -- through the fourth quarter given some of these dynamics, but can you -- some context on -- as you sit here today and you take a look at how the rest of the year shapes up, can you give us some context as to do you anticipate this is going to be a much bigger year than last year? I know things are headed in the right direction, but if you can put some context about sort of the magnitude and how strong this year could be?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Yes, obviously we started the year strong with Ag Services delivering 37% more profit than the same quarter last year. And as we see the good planting as you describe and plentiful of crops and the stocks around the world, we see a good transition to the next crop with plentiful of inventories that will provide [carriers] opportunity, and there is a lot of business to do ahead of us, so the Oilseed -- the Ag Services team, the Grain team is preparing for all that. It's preparing our assets, it's preparing commercially to do this. And we expect the second half to be very strong for them.

Evan Morris - *BofA Merrill Lynch - Analyst*

Okay. All right, thank you.

Operator

Adam Samuelson, Goldman Sachs.

Adam Samuelson - *Goldman Sachs - Analyst*

Maybe first on Oilseeds, which was truly a tremendous quarter, can we talk through the forward outlook there? As we wind down the North American crush, how much of that can shift to South America? Presumably, it's a bit of a one-time exceptional beat, but thoughts about how sustainable the oilseed outlook is as you move through the balance of the year, considering where softseed margins are in Europe and your South American exposures?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

I would say, Adam, the Oilseed teams that you described have an outstanding performance but not everything was hitting on eight cylinders. As you described, [oilseed] was kind of not very profitable and biodiesel has some headwinds as well. So, most of the profits were concentrated in soybean that has very high-capacity utilization around the world.

As you describe the shift starts from North America to South America, so South American crushing margins still are good, and we crush a lot of soybeans in Europe, taking advantage of our swing capacity and we're going to see a little bit of softening of that as we see every year with the enormous seasonality of that.

But the business is running very, very well, it implemented a lot of improvements and we are seeing those improvements coming through in the P&L. So overall in the year, we continue to feel very strongly about the year that Oilseeds is going to have.

Adam Samuelson - *Goldman Sachs - Analyst*

And within the -- specifically, you report your South American origination business in Oilseeds that you talked about a strong March as the real weakened. It's since appreciated in -- through April. Has farmer selling continued in South America? Are you seeing that slow? And maybe the same comments on farmers selling in the US.

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Yes, so slightly different situations. In the US, the farmer is concentrating in planting right now and rightfully so, so it has been little commercialization. In South America is the dynamic you describe and I think Ray explained in his commentary which is very much dependent on the real-dollar relationship, and it's been very volatile this last couple of weeks, so it just changes us -- the farmers see an opportunity to sell, given the real. So I will say we will continue to be volatile at this point.

Adam Samuelson - *Goldman Sachs - Analyst*

Great. If I can squeeze one more just on biodiesel, US and Europe. Any thoughts or signs that could improve as you go through the balance of the year or expectations for that business moving forward?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Well, I think that in -- normally, as we get into the summer weather, we see a little bit more activity, obviously. Brazil was good with the D7 that helped our profitability a little bit there, and in the US, a lot will depend on the expectations of June 1 and RVOs and all that, that announcement. So at this point in time, both businesses are challenged.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay, thank you.

Operator

Ann Duignan, JPMorgan.

Ann Duignan - *JPMorgan - Analyst*

Could you dig a little bit deeper into your revenue synergies on the WILD Flavor side? You said 30 revenue synergy wins in the quarter. Just give us some examples of what those actually are.

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Yes, it's difficult in this area to provide concrete examples, Ann, because obviously we respect confidentiality of our customers and all these are innovations for them to increase their revenue and differentiate themselves. But we are excited about it because we got two pipelines here going on.

One is the pipeline that we inherited from WILD themselves, but it was very robust as they continue to grow earnings and revenue every year. And then, the synergy pipeline that we got by mixing basically the ingredients that ADM provided. Remember, we contributed $1.5 billion of revenue worth of ingredients into this new division. And then the product that SCI brings, and also the product at WILD -- so we handle -- we had several conferences for innovation where we had customer teams working together with their customers and that's when we generated the pipeline that I described.

Again, we measured it in terms of engagements and obviously we measure in terms of potential revenue and margin.

This is the first quarter, obviously, of this business running, so the best -- the first order of business, obviously, is to make sure that we keep our customer momentum, so all the team is very much divided in two sets of people. The people that are working on the cost revenue -- the cost synergy -- and the people that are continuing to be engaged with customers.

We are very happy with our engagement with the customers, our combined culturally if you will. The combination of SCI, WILD, and ADM has been very, very good. People are working together seamlessly and I think customers have seen only benefits from this. So we wanted to report on that.

Off to a great start, customers seeing the opportunities, and we are seeing the opportunities to bring more of our products to our solution.

Ann Duignan - *JPMorgan - Analyst*

Okay, thank you for the color. And then switching gears a little bit, could you comment on the rail car spenders? I know that your ethanol non-jacketed [DOT 10s 111s], probably don't need to be retrofitted until 2023, but does the slowdown on the speed or any of the other rules have any impact on your ethanol business in the near term?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Yes, obviously this is a recent proposal so we continue to study. At this point, although this did not conform exactly with our public position, we are pleased that we appear to have a little bit more of a longer timeline than maybe crude oil.

But we are a little bit concerned about this reduction in speed because not only will speed -- just transportation of oil and ethanol, but will slow down the whole system. So hopefully, we're still going to have some discussions with the government about this area.

Ann Duignan - *JPMorgan - Analyst*

Okay. And when would you expect a decision to be made or an outcome from those discussions?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

I really don't know and I will be venturing at this point. I don't know.

Ann Duignan - *JPMorgan - Analyst*

Okay. Thank you for the color, I'll get back in line. Appreciate it.

Operator

David Driscoll, Citi.

David Driscoll - *Citi Research - Analyst*

I wanted to ask about the oilseed crush margins again. Juan, right now we are seeing CBOT crush margins around $0.69 per bushel, that's down from like well over $1.00. Put into perspective just how good the Q1 margins were on crush and then what I'm really trying to get after is it feels like we should be down -- ADM should be down quite substantially in the second quarter on Oilseed Processing simply because of the -- moving from Northern Hemisphere to Southern Hemisphere and just -- Q1 was just a remarkable result on the crush side. Can you give me your comments?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Yes, I would say the thing that we noticed -- you noted the strength of the crush margins in North America. And our team played very well. But I think what also happened is that normally during March, you see a transition already to South America. And I think in this case what we had is probably the full March that you see here in the North American result.

So yes, there is a shift that we normally see and we're going to see a little bit of a slowdown in the earnings of oilseeds in the second quarter as we shift to South America. South America -- both Paraguay and Brazil, we don't have crushing in Argentina, but Paraguay and Brazil continue to be a good crushing margin. So -- and then we're going to have, we're going to pick up a little bit of the exports from the grain origination part that we'll report in oilseeds.

So I would say yes, with the normal seasonality from Q1 to Q2, not a significant or spectacular decline, I would say.

David Driscoll - *Citi Research - Analyst*

And then just to follow on that, Q4 last year and Q1 this year were terrific because of how tight the conditions are in oilseed crush. Is there any reason that would it reoccur in the fourth quarter of this year and first quarter of next year on just the basic presumption that the crops are good? So assuming the crops are good, the crush margin that we saw these last couple of quarters were terrific, but I would expect those to repeat.

Is that a reasonable thought process?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Yes, David. I think that there is a tight capacity -- this industry continues to grow. And there hasn't been much capacity added, so you will continue to see those dynamics in which -- when we get to export a lot and we have very robust domestic demand, that presents very good crush margins.

This is a global demand story. It continues to grow the protein consumption. And also, don't forget that as we were exporting a lot of DBGs to China, that basically increased the domestic demand for soybean meal for us. So crushing went very, very well, and we think that will continue over the year.

David Driscoll - *Citi Research - Analyst*

On ethanol, can you discuss how much of your ethanol business has been hedged in the second quarter?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

I normally tell you that we hedge. as a matter of principle. something between 25% and 75%, depending on how we see the conditions. I would say that we are constructive in margins and margins have been recovering. So that probably indicates that, as you can understand, we are probably in the soft side of that, but I don't want to disclose that much our tactics going into Q2.

David Driscoll - *Citi Research - Analyst*

That's very helpful. Kind of same question, though, related to Q3 and Q4 on ethanol. Do you have much visibility on margins there or is it same story? It's only just improving now, so you would be on the lower side of normal hedge patterns.

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

I would say we like the prospects through the summer; we like the way exports are reacting. Ethanol continues to be, clearly by a big margin, the lowest octane enhancer around the world and that continues to bring export markets to the US.

The US is a reliable supplier. So we continue to be optimistic about that.

We know that plants run a little bit softer during the summer and the driving season is upon us. So we have several months ahead of us with potentially good margins.

David Driscoll - *Citi Research - Analyst*

And then one last question. In Ag Services, do you think that we will see better North American flow because farmers have been, I think, a little bit reluctant to sell some of their crop, particularly corn? Bottom line is, is there a good corn flow expected in the second quarter that would be a little bit larger than normal?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

I don't know if in Q2, but we are optimistic about the second half. We believe that we have a lot of business ahead of us, both in South America and in North America.

David Driscoll - *Citi Research - Analyst*

Okay, great. I will pass it along. Thank you for the color.

Operator

Paul Massoud, Stifel.

Paul Massoud - *Stifel Nicolaus & Company - Analyst*

Thanks for taking my question. I was wondering if you'd talk a little bit more about the ethanol exports. You had mentioned that FX gave you some trouble as far as the grain exports out of the US, but the number that you gave annualized was close to 1 billion gallons, and before, you were talking about flat. Now it seems that you are implying a year-over-year increase.

At some point do you start to see a strong US dollar, weak oil pricing having any kind of an impact on US exports of ethanol?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Well, I described it before, Paul, that ethanol continues to be, by a big margin, a big -- the cheapest oxygenator out there.

If you think of ethanol in the range of $1.60 to $1.70, then next oxygenator is about $2.50. So there is still a big incentive out there. So we haven't seen, even with all the strength of the dollar, any reduction in our exports of ethanol.

So at this point in time, we continue to look at 800 million gallons this year. I just was reflecting on the numbers that were posted on the January and February exports, and that happens to be annualized to 1 billion. We continue to be somewhere in that range.

Obviously we look at -- we continue to look at new markets and there are several mandates around the world that are being implemented and there is more than 3 billion gallons of MTB that needs to be replaced. So we are optimistic about that and that, over the last two years, has been a very strong market for us and it can -- seem to continue to grow.

Q2 exports, they are probably going to be larger than Q1. So.

Paul Massoud - *Stifel Nicolaus & Company - Analyst*

Thanks for the color there. On the -- switching gears just a little bit over to WILD flavors and the EUR100 million in synergies that you're talking about. I believe you said in the past that you are expecting that over three years.

I'm just wondering if maybe the FX headwinds might delay some of the material results to years two and three. Or do you still expect to see some accretion, in maybe year one?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Yes, we do expect accretion year one. The synergies -- normally in these cases, Paul, happen that you get the cost synergies upfront because that's when the integration happens. And then at the same time, you start working with customers in qualifying products and developing new products and then they go to shelf life, testing and -- testing and all that.

So the revenue synergies are more backend-loaded and the cost synergies are more front end-loaded in these projects. But at this point in time, we're probably running at or a little bit ahead of schedule in that sense.

Paul Massoud - *Stifel Nicolaus & Company - Analyst*

Okay, great. And my last question is just on the Brazilian strike -- the transport strike that we saw in the first quarter. It doesn't look like you had any material impacts in your numbers, but were there any effects and do you see anything lingering into the second quarter from that? Thanks.

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Yes, no. This time, the Brazilian strike happened almost a little bit ahead of the harvest, if you will. So it didn't have a material impact to us. We had a little bit of an attempt last week again, that brought a little bit of an issue in Mato Grosso, but nothing significant that we can report. So no impact, I will say.

Paul Massoud - *Stifel Nicolaus & Company - Analyst*

Thanks a lot.

Operator

Vincent Andrews, Morgan Stanley.

Vincent Andrews - *Morgan Stanley - Analyst*

Just a question on Argentina. I think it's Brazil as well.

My understanding is that there is a -- at the grain elevator, there's a thing called the point of delivery system, whereby originators such as yourself will test soybeans to see if they are biotech; and if they are, you collect a royalty fee that then is shared with the biotech seed manufacturer.

I think there have been problems with this in Brazil in the past, but I've been reading that there are issues with it in Argentina. So could you just talk a bit about what those dynamics are? Is it a meaningful amount of earnings for you? And are you having any discussions with the Argentine government about this or just sort of what the state of play is?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Yes, no, Vince, I am aware of the issue. This is just a matter of putting the grain industry in a position to have to collect royalties if you will or licenses. So it doesn't have a margin impact on us, but yes, it's a little bit of a domestic dispute. And since there are other companies on the other side involved in this, I would rather don't comment and let the guys solve it themselves in Argentina.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay. Fair enough. That answers my questions. Thanks, I'll pass it along.

Operator

Farha Aslam, Stephens.

Farha Aslam - *Stephens Inc. - Analyst*

Juan, could you share with us your global trade desk? How you're merchandising volume differently and how it actually did help you increase volumes and is that volume increase sustainable?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Yes, I think as you recall, I was -- and we were, as a team, unhappy with the performance we were having with Top Four, and we needed to fix that. That was not only providing low recurrence, but a lot of volatility to our earnings to where we were running it.

Part of that was created by inefficiencies between interface between Top Four and ADM. Part of that, it was because of a blow to the structure, if you will, that was increasing our fixed costs. So when we bought the 20% of Top Four, we brought both companies together and we moved some of the people to roles to Geneva and that allowed us to, first of all, have a more concerted view of the market -- more coordinated view of the market between the origination and the destination that Top Four provided.

We had better utilization of our infrastructure, our logistics. And certainly, reduced the cost of the whole operation, so it's a more profitable operation. It doesn't have that many fixed costs.

So I think that overall, we improved the volumes because we have better coverage, but we also increased the margins out of that since we have lower cost. So I think the overall end-to-end supply chain that you hear me talking from origination to the destination market -- that's what the GTD has brought to us. And we should continue to see improvements in to these. And you see, this is a very true reflection.

Ag Services with North America not being able to export that much because of the strong dollar still grew earnings 37% year over year, which is a significant improvement. And a lot of that is because of this implementation.

Farha Aslam - *Stephens Inc. - Analyst*

And so is this improvement captured in that $550 million improvement target? Is that the types of projects that will be in that 550 number?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

I would say that's probably a different bucket. The $550 million are more operational improvements. This is more like a strategic portfolio management. We will count it in another bucket. So I will say only maybe a tiny bit maybe in the $550 million, but you shouldn't deduct from the $550 million of these. I think we're going to be the $550 million without counting this.

Farha Aslam - *Stephens Inc. - Analyst*

Okay, great. And then you announced several small divestitures and acquisitions and notably many of them were either greater ownerships of ports or expansion of ports. Could you help us frame what earnings you drive from ports and how we should think about your investments in ports?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Yes, well, ports are strategic points. They are -- at times, if they become a choking point, they can be a big source of either your earnings or your losses depending if you own it or you don't. What we're trying to do, if you think some of the announcements we made, we made the announcement of Eaststarch ? for example where we have more ownership now of Eastern European assets and then we announced this morning also (technical difficulty) [the port of Constanta where we'd take full ownership of that.

This is to continue to complement our value chain and be in charge of all those different parts in the value chain that allow us to make small margins in many, many points as we touch the grain here all the way from the origination to the processing.

So we control many, many ports around the world and as I said before, I think at times they become the bottleneck. And you don't want to be held hostage to somebody else owning that and having to bus all the profit there.

So to the extent that it makes capital sense because obviously, they are expensive. We tried to -- in places where we have the full supply chain, we tried to own them.

Farha Aslam - *Stephens Inc. - Analyst*

So your investment will smooth out your earnings, accelerate earnings? How should we think about that?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

I think it should expand our earnings.

Farha Aslam - *Stephens Inc. - Analyst*

Expand earnings. Great. And final question is in Argentina, there's an election coming up. Do you expect Argentine soy mills to start crushing post the election, and how do you anticipate that impacting global crush margins?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Yes, the Argentinians have been selling a little bit more as well. But yes, a lot of people expect that if there is a change in government in Argentina, there might come an evaluation, and that may prompt a little bit more aggressive farmer selling. At one point in time, we will fill the soybean mills from Argentina. Obviously more probably in Europe than otherwise for us.

So it's hard to speculate on the result on election to be honest, Farha, but that will be one of the potential scenarios.

Farha Aslam - *Stephens Inc. - Analyst*

So, that would be more a 2016 event?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Yes, the elections in Argentina, Farha, I think they happen in October and I think the government changed like in December 10 or something like that. So whether the new government decides to have the evaluation in December or to move it to 2016, it's probably more a 2016 impact.

Farha Aslam - *Stephens Inc. - Analyst*

Okay, great, thank you very much.

Operator

Michael Piken, Cleveland Research.

Michael Piken - *Cleveland Research Company - Analyst*

Just wanted to go back to the comment you made about how your sweeteners and starches results were impacted by running the ethanol at a lower rate during the quarter. Just wondering in the past, you talked about shifting grind capacity. Was this the dry mills that were [rushed] down or the wet mills? Thanks.

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Yes, we look at the overall pool of assets that we have and so I'm not going to disclose granularity around what assets we take down or not, but I think as I said, I think it's important for you to consider that we're always going to look at both to maximize the margin coming out of every bushel that we grind. So sometimes, that benefits buyer products to the detriment of sweeteners and starches like in this case. It doesn't happen that often, but in this case, we thought it was material enough that we should mention it.

Michael Piken - *Cleveland Research Company - Analyst*

Okay, great. And then within your wet mill operation, how much flex capacity is there? I recognize you sell hundreds of products, but within the wet milling process, how much of the grind could be shifted theoretically from ethanol toward high glucose or another type of product?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

That's a very strategic an important number that I rather don't disclose, Michael. We have the ability to produce between 20 and 30 products but how much can we shift from one extreme to the other is a very strategic number. I'd rather don't disclose.

Michael Piken - *Cleveland Research Company - Analyst*

Okay, sure, thanks. All right, thanks, I'll pass it along.

Operator

Tim Tiberio, Miller Tabak Research.

Tim Tiberio - *Miller Tabak - Analyst*

One of your competitors had described the specialty protein market in the US as a bit more competitive in the first half. Would you agree with that comment? And is this, I think, a situation where maybe whey protein prices have come down? As dairy production has increased, are you seeing increased price competition or flexibility in that space?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Yes, Tim, let me tell you what happened to us. And I don't know what happened to competitors. But what happened to us is that we use a lot of our North American capacity to supply the rest of the world. And because of the dollar strength and some emerging market weaknesses if you will, we exported less.

That might have prompted that more volume actually stayed domestically and that might have put some pressure on margins domestically. But the biggest impact we felt was we didn't have the pull from exports this quarter.

We are working on that and we're solving that and some of that -- some of that was also customers around the world looking at soybean prices coming down and decided to go a little bit hand to mouth to see how low can they become. So we are seeing that turning a little bit now. But that's the impact we saw, Tim.

Tim Tiberio - *Miller Tabak - Analyst*

Okay, that's very helpful. And then my second question, with the buyout of the JV with Tate and Lyle, I know they've talked about that venture requiring more capital investments over time than they were comfortable with. Can you frame up what the additional CapEx requirements may be over the next couple of years after you've consolidated that?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Yes, the issue is it doesn't require capital investments. Capital investments is a choice if we want to grow that capacity. The reality is, the US uses 92% of high-fructose corn syrup versus 8% of sugar for soda, if you will. Eastern Europe uses 28% of high-fructose corn syrup versus 72% of sugar. So the opportunity to grow that is enormous.

So sure, if you want to capitalize on that, you need capacity, you need capital to expand capacity. But we will only do it on the back of very strong returns that will make that expansion make sense. So, we don't have a must. We can run this for cash flow or for cash as long as we want until we decide that we want to expand.

We're not going to expand day one. Day one is all going to be about integrating this to our footprint and taking advantages of re-managing that growth asset and reintegrating those assets with our grain and our transportation business.

Tim Tiberio - *Miller Tabak - Analyst*

Perfect, thanks for your time.

Operator

Ken Zaslow, Bank of Montreal.

Ken Zaslow - *BMO Capital Markets - Analyst*

Just two questions. One is, can you frame this quarter as a quarter in terms of earnings power? Because there was a lot of puts and takes. Is this something -- is the return characteristics and the overall performance, is this kind of what you'll be thinking about for a longer term number? What would be the major changes to enhance your earnings from this type of quarterly rate?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Let's say -- first quarter is not traditionally a very strong quarter for us; especially from an ethanol perspective, it's a low demand quarter. Certainly biodiesel didn't run as expected.

So I will say we still believe that there is a strong ability for ADM to improve returns and results from this kind of level. We don't think that this is top, we don't think that this is maximized not even for oilseeds that you can say that have an outstanding quarter.

Some of their divisions -- as I said, all the softest side, all Europe didn't quite perform that well. Biodiesel is not performing great. We couldn't export a lot from North America from a grain perspective, so our earnings from grains was subdued. Certainly we didn't have any margins in ethanol, so I don't think that this was a spectacular quarter from what the market could give us.

I think that, given what the market could give us, the team executed very, very well and we continue to be excited about the implementation of our strategic blueprint. Our strategic plan. That continues to bring strength, because it comes from improving our operations, from having better facilities, from divesting things that we don't like. That I announced today, we divested the lactic acid business.

It's not a significant thing, but it continues to show the commitment of management that there are no sacred cows here. Everybody needs to present a credible forecast for returns to be part of the integrated business. And I think we continue to be excited about the strength of our plan and the way our Company is executing with a very good consistency, I would say. So I think there is upside from here, Ken. That will be my summary.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay. And then my second question is just on more detail is, could you give us a little bit of outlook on the European crush outlook? What's going well there, when the crops coming in, just a little bit more because it seems like margins in Europe have been a little softer and when do they turn -- how do you [think] to them?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Yes, so Q1, we shifted as much as we could to soybean crushing as margins were so much better. Obviously now, the market has gotten a little bit better but also Argentinean soybean has started to show up so now it's going to become a little bit tougher. And I think from a [softer] perspective, we probably need to wait until July or sometime later on for us to see an improvement there.

Ken Zaslow - *BMO Capital Markets - Analyst*

Thank you very much.

Operator

Robert Moskow, Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

Glad to hear that lactic acid is not a sacred cow. Sounds like a great title for a note. But I wanted to know HFCS demand -- certainly I don't think anyone would say it's great domestically, but I think supply has been cut back in my understanding is that that has tightened up the spot markets quite a bit.

You didn't report very strong results profit-wise in the quarter, but how do you think this bodes for future periods? Do you think this will be a -- do you think you can do better in future periods, especially when contracts roll over?

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

I think I said it in my remarks, we posted an increase in profitability and the underlying business in sweeteners and starch, driven by good volumes and profit margins. It was offset by part of this lack of controller credits because of the decisions we made to run ethanol for margins, and also decrease earnings from the joint ventures, and the one times from the Tianjin and the start-up costs.

Think about the Tianjin plant. We have a full plant -- a full world scale plant waiting to get approval, so you have all the fixed costs and some of the variable costs that we are making product. No revenue, no cash flow from that plant. So that's impacting the business.

But I will say from -- I agree with you, margins for spot business are a little bit tighter and a little bit higher and we have a combination of contracts. Contracts that were done before the announcement of some of the shutdowns, that were done at previous years' margin on some businesses that were performed after that which are at better numbers. But we expect the profitability of sweeteners and starches from now on to improve as some of these one-offs will be eliminated.

Robert Moskow - *Credit Suisse - Analyst*

Juan, I didn't -- but sweeteners and starches -- once you get Eastern Europe, the full accountability of the profits there in you numbers, and then you get China up and running, can you give us a sense of what those two projects would add incrementally to your normal run rate? Because I think I and others always think of this division as just being North America and that's it.

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Yes, and I would rather maybe give you some perspective on that maybe on the next call. We still want to get the feeling of getting all the approvals in China and we need to get our hands on the Eaststarch and we didn't get 100% of Eaststarch, so some of Eaststarch have gone to [take alive] and some to us and some of that will be in sweeteners and starches and some may not.

So we -- I would rather get to close those operations before giving you. But you are correct, that should add to our segment sweeteners and starches on a global basis.

Robert Moskow - *Credit Suisse - Analyst*

And it kind of builds to a broader question, Juan and Ray, that in your presentation today, you presented a lot of projects and I think it's kind of hard for us in the Street to quantify what the incremental benefit of those projects is. So, any more clarity you could give in future calls, because as you increase in invested capital base, the earnings power should go up, too. So just a comment.

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Yes, that's correct. And that is the intention and, at this point in time, we were trying to balance both obviously. The improving earnings per share with the improving ROIC. And that's why Ray was describing EVA is that's what we're looking at. But that's the intention. They are all investments to improve EPS and you should see that reflected in the bottom line as we go forward.

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

I think it's fair to say for major transaction, we are going to be very open with you, just like the WILD transaction. We were very open with you in terms of returns and accretion.

I think you've raised a good point. We got a lot of smaller bolt-on acquisitions which, traditionally, on this bolt-on acquisitions or small acquisitions, we never really have given that much guidance on, but the pace of this is probably increasing. So you raise a good point. We may elect to actually fund them all up together and give you some direction so it'll help you in terms of your modeling.

Robert Moskow - *Credit Suisse - Analyst*

That would be great, thank you.

Operator

There are no further questions. I turn the call back over to Juan Luciano for closing remarks.

Juan Luciano - *Archer Daniels Midland Company - Pres and CEO*

Thank you all for joining us today. Slide 15 notes our upcoming investor events where we'll see each other. As always, please feel free to follow up with Mark if you have any other questions. Have a good day, and thanks for your time and interest in ADM.

Operator

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