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ADM - Archer Daniels Midland Co at BMO Capital Markets Farm to Market Conference

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PRESENTATION

Ken Zaslow *- BMO Capital Markets - Analyst*

Juan Luciano and Ray Young have been the key architects in effectively changing Archer Daniels' identity in terms of capital allocation, efficiency and culture over the last four years. In recognition of his unparalleled effort and leadership, ADM named Juan the ninth CEO effective January 2015. Since taking the helm just five months ago Juan has reorganized the management team, continued to aggressively refine ADM's portfolio and outlined a strategy to accelerate growth while at the same time maintaining its core competencies across the supply chain and in risk management.

We're pleased to introduce CEO Juan Luciano to discuss the structural changes in ADM as well as what lies ahead for the future the Company.

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

Good morning. I'm pleased to be here today to give you an update on the implementation of our strategic framework that we unveiled for all of you in our investor call or Investor Day in last December. I think we have good momentum going into this year and we have great expectations for the opportunities that 2015 is presenting to us.

In the interest of time I'm going to assume a basic familiarity with our Company and our businesses. If you need some background I would suggest you contact Mark Schweitzer, our VP for Investor Relations. He will be happy to provide it.

As you know some of my statements may be forward-looking based on assumptions and factors subject to risks and uncertainties outlined in our reports filed with the SEC. So here is our policy. If not you can find it in ADM.com.

So the messages for today that I want to leave with you are three basically. One is that we have started the aggressive implementation of the plan we outlined in December. We are very happy with the momentum we have.

And if you remember when we outlined that we showed you a scorecard that we would like to be held accountable to. And we've been very pleased with the progress on that and we've been ticking boxes in that scorecard.

The second is that the culture is driving the value creation. What started as a top-down management mandate to improve returns has turned into teams worldwide basically driving this improvement both in cost and margins and some of the strategic projects that we've been implementing. This has also been reinforced by our incentive program; our compensation program is basically designed to incentivize implementation of this strategy.

And the third one is given the progress we are making in the implementation of all this we can see clearly we are positioned in ADM for a period of sustaining value creation going forward.

Let me give you a feeling of the process we are in. This journey to improve returns. This transformation as Ken described it started in 2011 and we tend to think about it in three stages.

The first stage we concentrated ourselves in improving ROIC with a sense of urgency. Basically returns in the Company were under WACC and that was the first stage.

The second stage is basically what we are starting right now, we are in the initial stages of this second phase. And it's all about now that we have ROIC above WACC it's about driving EPS growth, so basically above WACC so you are increasing EVA. And then management is already the core of the group is managing the implementation of this stage 2; we're already thinking on ideas for stage 3, how do you go beyond 10% returns?

So maybe if I take you in a little bit of a lookback into stage 1 in 2011 to maybe 2014 as you can see we focused the organization in what we call the three Cs: capital, cost and cash. And we drive an initiative through the organization to improve that. That and combined with active portfolio management.

And that was very important to change or to continue to evolve the culture if you will. The corporate culture at the end of the day is this set of values and assumptions the organization makes about the way they work.

But at the end of the day the corporate culture to a certain degree is the invisible force between you achieving performance and you achieving results. So it's very important to work on that to make sure that the changes you make remain sustainable over time.

So today I can say we have a culture that reinforces the vision and the strategy and not fight it. And with that you can see at the left side of the chart how ROIC improved to the point of going from about 6% to the 9.5% that we are today.

After we achieved that in December we shared with you our strategic plan for the next five years on how we are going to create shareholder value going forward. At that point we announced our intention to set the competitive standard in the three industries we participate in: in the grain industry, in basic processing and in ingredients.

And I think this is very important because we are holding our management accountable to be the best at each of the pieces because we think that we have a very cohesive strategy that reinforces itself. So as they work together they should be able to beat the returns of every individual focused player. And in that sense we've been also very disciplined in making sure that our portfolio again is very cohesive and it builds on itself.

So we've it divested things that didn't quite match that like maybe the cocoa business or the fertilizer in South America. And we increase the participation in adjacencies that benefit from that integration like specialty ingredients or flavors.

So as I said before to the right we unveiled our scorecard which is all the activities that we're planning to undertake to increase our shareholder value and to increase our earnings power. And we want to at every earnings call and every opportunity we like to update the progress we're making towards those activities. I'm not going to go into the details of all of that today but maybe I'm going to touch on some of the things that the businesses are doing as part of this plan.

The first one and if you've heard me talk before I'm a fanatic about operational efficiencies and the cost position. ADM has a large scale but when you study this empirical data shows that about 30% of the Company that are scale leaders are not cost leaders. So we have spent a lot of time making sure that that scale advantage that we have translates into a cost advantage.

And in that sense it was not very difficult because ADM was also always very cost-conscious. But we went from a culture that was frugal to a culture in which we are using technology and we are using standardization to drive competitive advantage in cost.

So you may recall that in 2013 we put together what we call an improvement team and we launched this initiative to save $200 million of run rate savings at the end of 2014. That initiative ended up delivering $400 million of cost savings instead of the $200 million.

Now we are evolving that, we have evolved that into what we call the improvement effort and this is happening at every level in the organization. We are leveraging something that we did in 2011 or 2012 about the $1 billion challenge in which we involved everybody in the organization on suggestions and a contest to try to get the $1 billion of cash out of the organization. We finally achieved $2 billion in that sense.

Now we're taking the same approach to try to drive this new goal of $550 million over the next five years in terms of operational savings. I'm pleased to report that as of first quarter we have identified already $200 million in that journey. So we have many initiatives underway and as I said everybody at ADM has a personal goal to drive one of these and we are receiving tens of ideas on a daily or weekly basis.

Let me move now to what the businesses are doing to improve their value creation. Here we have the global asset map for our ag services business. Our ag services business is a formidable grain business that not only has origination and transportation but now it has connected much better the destination marketing.

If you remember last year we acquired 20% of AC Toepfer in Germany that we didn't own. With that when we incorporated that we created what we call the global trade desk. The global trade desk functions as ADM's main global merchandising and marketing group.

Obviously it's not a desk, it's a group of people that sits in Geneva, Switzerland. And basically allows us to collaborate better between the businesses, linking places of origination surplus where places with destination markets where they have deficits.

It certainly helps the business. It's better capitalized on trade flows, it improves collaboration across businesses and establishes and strengthens the customer relations around the world.

At the same time in our grain business we have expanded our participation in a port that we have. Now we have 100% control of that port in Romania which is very synergistic with some of the investments we have made in Eastern Europe in terms of corn. And we also have established ARTCO Stevedoring to continue to improve the services we provide to our customers.

And today I'm pleased to inform to announce that we are expanding one of our ports in Argentina, in Puerto General San Martin in San Lorenzo. This is a 20% increase in our capacity that will allow us to continue to export from Argentina, increase our expert but also reduce the utilization of ports in Uruguay that are very congested.

So I think if you can see even in a traditional, an old business like the grain business there are still many opportunities for us to do better and continue to improve earnings and returns going forward.

If we move into the corn business, the corn business is focusing on two pillars. One is diversifying the corn grind to continue to have more -- to broaden our portfolio if you will and to have more optionality for our assets so we can manage margin a little bit better. And also we're focusing the second pillar in geographic diversification.

So the business has announced the acquisition of three plants in Turkey, Hungary and Bulgaria which will meet growing need for high fructose corn syrup in Eastern Europe. The business has also started up a high fructose corn syrup plant in Tianjin, China that now is going to be followed by a fiber soluble plant in the same location. And we continue to improve to increase our premix animal nutrition capacity in China.

Last week we also acquired a sweetener facility in the Hubei province in China. So again although high fructose corn syrup is kind of flat or slightly declining in the US we continue to see growth demand around the world. And we are building for that capacity.

In the oilseeds business which is probably the most diversified and the globally diverse business we have we took a step forward to reduce our dependency on biofuels in Europe. The biodiesel in Europe is not doing very well. We acquired -- we highlighted that in our plans for 2015 and we acquired AOR NV in Belgium.

This puts ADM into the full service and retail market in Europe. It gives us the diversification so we don't have to take that much oil into biodiesel. And it adds basically more higher value products to our portfolio.

Also as part of as you can see in the picture there as part of our oilseeds business in Brazil we expanded our Barcarena port through a joint venture with Glencore that will allow us to quadruple our capacity in that port which is very important to move all the northeastern part or northwestern part of Brazil's crop, not having to avoid going through the congestion of the Port of Santos maybe.

If I can touch a little bit on the fourth business unit what we call WILD Flavors and Specialty Ingredients we are very happy with the start of that division. We acquired WILD Flavors last year. We close the acquisition in October and we started our division in January 1.

We are making strong progress towards the integration, the cultural integration which is the thing that you worry more, in this case it's going very well. We put our specialty ingredient business together that was $1.5 billion of revenue with WILD that was $1 billion in revenue, creating automatically a very important company in the specialty ingredients area with $2.5 billion of revenue.

And we are driving very fast into delivering on our three-year EUR100 million synergy target. That target is composed obviously of cost synergies in revenue synergies. We are very happy with the engagement we are having with customers.

Obviously because of the nature of the cost synergies and revenue synergies you get the cost synergies a little bit in the front side and the revenue synergies a little bit more later in the process.

But we have three very robust pipelines basically, one pipeline which is our own specialty ingredients pipeline of growth projects. We have also the WILD pipeline of growth projects. And what we are reporting here in synergies which is just the revenue pipeline of those products that are made with a combination of specialty ingredients and WILD Flavor products, so all new products.

So at this point in time we have more than 250 joined customer engagements. We have 400 products in our pipeline that are being studied and tested. And we still expect to achieve our $0.10 to $0.15 accretion in 2015.

So all this again is reflected in our scorecard and in our strategic plan. When we look at that strategic plan we need to retain and to reinvest in the business in terms of CapEx around between 30% and 40% of all our cash flow. So that's what needs to be delivered on those numbers, leaving the 60% to 70% of the remaining cash flow to be returned to shareholders or potentially for strategic M&A if that happens to be an opportunity.

Because of how we move our portfolio looking for more stability of earnings we feel very comfortable also to announce a new range of dividends. We have moved our target range of dividends to 30% to 40% of earnings from our traditional 25% to 30%.

We also wanted to highlight despite all this activity we continue to be very disciplined in our capital allocation. If you look at the more than 20 bolt-on investments that we made whether small acquisitions or growth investments over the last since January 2013, so over the last couple of years, this excludes WILD Flavors. We are expected -- these investments are expected to deliver about $0.30 per share being accretive to our earnings power in the medium term.

And I think this is a significant achievement because while doing that we're while we are rebalancing our portfolio and expanding geographically. So all in all bringing us a more robust set of earnings and a more stable ROIC.

So we talked a little bit about Phases 1 and 2 of our value creation journey. We believe that this second phase which started as I said late last year and is probably going to last for the next five years as we implement our strategic scorecard has the significant potential to boost our earnings power.

What we mean by earnings power is that under normal conditions if you take $3 of the base that we have as we implement everything that we have in the scorecard we expect the Company to be able to deliver earnings in a range between $4 to $4.50 per share at an ROIC of about 10%. So that's what we described by earnings power is the power of these portfolio of projects to add to a base of $3 that it may not stay at $3 it may go up or down depending on the year and depending on the condition. And looking further as we said we're working already on how to break that ROIC 10% target that we put to ourselves before.

So again when we're thinking about stage 3 and how do we break on that 10% ROIC for the long term we're thinking about what we call game changers. And this is another evolution if you will that starts with our culture and our people.

In the first stage we focus a lot in our people in the issue of capital intensity, efficiency and portfolio management. These were things that maybe at ADM we didn't have at the core and we wanted to bring it along.

As we move into this third stage and the organization is implementing stage 2 we're working already in the culture in making it much more customer friendly, much more driving much more innovation in terms of innovation for efficiency but also innovation for growth. We have created already an innovation center in ADM which some of our leaders are participating.

And the third stage in that is getting much more -- getting deeper into data and analytics to drive both our R&D pipeline but also our efficiency pipeline even faster. This mindset I would say is already changing the way our team are thinking about the businesses and our portfolio. So we can see already we are experimenting with different business models and we go into these new areas hopefully using a little bit less capital and getting more stability of earnings.

And we do this management of this evolution so this transition very carefully. Because I think that the art is how do you manage, how do you balance change with continuity, how much do you keep of what made this Company great, how much do you add, how much do you change. We call this changing while winning.

We still can change and evolve and make this Company better while still improving returns. And we think this is positioning ADM for a sustained period of value creation going forward.

With that again we repeat our takeaways. Thank you, now we are ready to take some questions.

QUESTIONS AND ANSWERS

Ken Zaslow - *BMO Capital Markets - Analyst*

Great. I will open it up to questions.

Just going with that slide, do you think your current asset base is set up to get to that $4 to $4.50 number? How much is in your control, how much do you need to actually deploy the cash that you have and how much are you relying on improving fundamentals?

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

Yes, so in our plan, if you're talking improving fundamentals for example, in our plan we're considering ethanol for example in the range of $0.20 to $0.30 per gallon if you will which we consider is something in the middle of the range. We think we have our assets most of the assets that we need to deliver that. We plan to continue to invest going forward as per our scheduled 30% to 40% of our cash flow into that and maybe something between $1 billion and $1.5 billion like we've been doing so we don't need anything exceptional.

We continue to be very focused on building our value chains around the world so reinforcing those systems that we have. So we acquired these companies in Hungary, Bulgaria and Turkey and now we also are acquiring the port in Romania so we're strengthening that pocket. We acquired our port in Barcarena in the northern part of Brazil, we're building the barges and the elevator to strengthen that.

But I would say you will continue to see us that way, small bolt-ons, small capital projects to continue to beef up our value chain. Nothing spectacular we need to go after to deliver that.

Ken Zaslow - *BMO Capital Markets - Analyst*

How will ADM use analytics to drive growth and find new opportunities?

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

Yes, analytics is not a new tool. We are just accelerating. We use analytics a lot in transportation to program our transportation.

And we're using a lot we are starting to use analytics more to analyze our businesses to provide more visibility to our teams as they move around the world and as they move into more customer-facing units in which we need to analyze trends. And we invest behind those trends so we need to make sure that we distinguish between a trend that is a long term and something that is maybe a short-term fad.

Ken Zaslow - *BMO Capital Markets - Analyst*

I'm going to couple two questions together here. There has been much speculation about potential acquisitions in the specialty ingredients base. Could you give us a sense of what you're strategic thoughts are around M&A and what sort of target size range of acquisitions you would consider and what is your target return on invested capital on acquisition opportunities?

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

Yes, so in terms of M&A we needed to do a big flavor acquisition. We needed flavor capabilities. Our customers are moving are trying to take sugar and fat out of their formulations and add protein and fiber.

And we have a very good portfolio to do so but as you reformulate we were getting to a point in which in the last stage we needed to go to a flavor company to finalize that. And we were always at the mercy of their time to take care of our developments. So we needed to have a flavor company within ADM with the flavor capability.

We thought about developing the flavor capabilities but there is something about legitimacy. People -- there is a stronger relation between the value of the brand and the flavor of the product, so it's difficult as a newcomer and as ADM to say all of a sudden we are a flavor company. So we wanted to buy experience in flavors.

WILD provides 80 years of experience in flavor and it's also 95% natural flavors which is very good for clean labels for our customers. So we thought it was a perfect platform for us to build our specialty ingredients.

At this point in time we don't necessarily need more flavor capabilities. We have the flavor capabilities we needed. What we're going to do is we will continue to listen to our customers and pursue things that will complement our portfolio of products.

For example we made a small acquisition Specialty Commodities Inc. Specialty Commodities Inc., that's a lot of origination and marketing of ancient grains, for example quinoa, chia, amaranth. If you take a cereal bar or any product more and more products are using these ancient grains, or legumes or fruits and we need to make sure that there is a strong supply chain to satisfy that.

So they had a lot of synergies with us. We do origination with the same team that does origination for oilseeds in Bolivia. It's the same thing that does origination for chia or quinoa in Peru.

So we're trying to fit things into our portfolio that have a strong resonance with our customers and what our customers are doing. But they are at the core of what we do it ADM and they are synergistic with our operations. So we feel very good about that.

Ken Zaslow - *BMO Capital Markets - Analyst*

Oilseeds keeps hitting new operating profit highs and there's always a historical sense that it's a cyclical business. And yet you continue to deliver as well as say that this part of the business is still there is a growth avenue here. Can you reconcile the historical cyclicality to the future of how this can continue to grow?

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

If you look at our data because our oilseed business is so diversified we not only crush soybeans, we crush like eight different seeds, our business actually hasn't been that cyclical. If you look at our operating profit this is the most stable business we have and we achieved that stability through product diversification and geographic diversification. So we certainly continue to see growth potential.

Demand continues to grow. We tried to be in that industry more a consolidator than actually adding greenfield capacity. We have added greenfield capacity in Paraguay where there was nothing to be bought.

But in the rest of the world we are a little bit more prudent and looking maybe more consolidation then just greenfield. We have a lot of still creep capacity that we can bring from our own plants.

Ken Zaslow - *BMO Capital Markets - Analyst*

Great. With that we will end it there. Thank you very much.

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

Thank you.

Ken Zaslow - *BMO Capital Markets - Analyst*

We will be having lunch in the ballroom 3.
