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EDITED TRANSCRIPT

ADM - Q2 2015 Archer Daniels Midland Co Earnings Call

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OVERVIEW:

ADM reported 2Q15 GAAP net revenues of $17.2b, adjusted segment operating profit (excluding certain items) of $724m, and reported EPS of $0.62.

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PRESENTATION

Operator

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

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

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

For those following this 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 the 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, provide an update on our scorecard, and discuss our forward look. Finally, 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 - President and CEO*

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

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This morning, we reported adjusted earnings per share of $0.60. Our adjusted segment operating profit was $724 million. Adjusted ROIC of 9% was 240 basis points above our cost of capital. Our second-quarter results demonstrate the strength and value of our geographic and business portfolio diversity.

In corn, domestic and export demand for ethanol was robust, but record industry production limited margins. This was partially offset by strong results from our corn sweeteners and starches business.

In oilseeds, good meal demand supported strong North American soybean crushing results, and South American origination and export volumes were up, leading to good throughput at our expanded origination and board network. This, combined with the flexibility of our global crush plants, helped the oilseeds team deliver another strong performance.

The WILD Flavors and special ingredients team had an excellent quarter and continues to make great progress toward achieving their targeted cost and revenue synergies.

AG services earnings were impacted by lower margins and volumes of North American exports, as they were less competitive globally, and by a sharp upward move in commodity prices at the end of the quarter. But within our ag services segment, the milling business had record second-quarter results.

We continue to advance our strategic plans as improving our ROIC and growing our EBA. Among numerous other actions, we closed the sale of our global chocolate business to Cargill, we closed the Barcarena port transaction with Glencore in June, and we remain on track to close both our Eaststarch transaction in the sale of our global cocoa business later this year. And we're making great progress in our operational excellence initiatives. I will provide more detail on our scorecard activities later in the call.

Now I will turn the call over to Ray.

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

Thanks, Juan. Slide 4 provides some financial highlights for the quarter. Adjusted EPS for the quarter was $0.60, down from the strong $0.79 last year. Excluding specified items and also excluding net timing effects, adjusted segment operating profit was $724 million. The effective tax rate for the second quarter was 27%, compared to 28% in the second quarter of the prior year. Our trailing four-quarter average ROIC of 9% significantly improved by 120 basis points from the 7.8% at the end of the second quarter last year. The 9% adjusted ROIC is above our 6.6% annual WACC for 2015 as well as our long-term WAC of 8%, as reflected in the graph on slide 19 in the appendix. Our objective remains to earn 200 basis points over our WACC.

In the second quarter, our trailing four-quarter average EVA was $610 million based upon adjusted earnings in annual WACC, up $238 million from the second quarter of 2014.

On chart 18 in the appendix, you can see the reconciliation of the reported quarterly earnings of $0.62 per share to the adjusted earnings of $0.60 per share. For this quarter, LIFO represented a $0.06-per-share after-tax charge. We had some gains on sales or revaluations of assets primarily related to our Northeast Brazil port and the Romanian port totaling $0.11 per share. We also had some impairment charges totaling $0.04 per share.

Slide 5 provides an operating profit summary and the components of our corporate line. Before Juan discusses the operating results, I would like to highlight some of the unique items impacting our quarterly results. We had some gains and some charges in ag services, corn, and oilseeds segments that I mentioned in the last chart and that are highlighted in our press release.

As a reminder, our cocoa and chocolate business remain part of our segment reporting results in oilseeds until we have closed on the sales, and they are not treated as discontinued operations in our financial statements.

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Our new fourth business segment, WILD Flavors and Specialty Ingredients, or WFSI for short, is reported as its own segment for the second time this quarter. This segment includes the two businesses we acquired in 2014, WILD Flavors and Specialty Commodities Inc.(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 removed the earnings of the businesses that are now reported in the WFSI segment. To assist you with your analysis, we have included a chart in the appendix that recasts 2014 segment quarterly results to the new segments.

In the corporate line, net interest expense was about flat. Unallocated corporate expenses were $19 million higher due to, one, increased GAAP pension expenses relating to the changes in discount rates and mortality tables; second, increased spending in IT and our ERP project; third, investments related to strategic business improvement projects; and lastly, unique costs related to specific divestiture activities including the chocolate and cocoa.

We are starting to see some of the benefits of some of the strategic business improvement projects in our results. Excluding these factors, our run rate and underlying corporate costs are consistent with the prior year, and you should expect our run rate the next few quarters to be between $110 million to $120 million per quarter.

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 $17.2 billion, down from last year's $21.5 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 is managing the spread between revenues and the cost of goods sold, which is the core competency of our teams. This dynamic makes operating profit much more relevant when analyzing us. I also wanted to highlight that the GAAP statements in the prior year do not include the revenues and the costs of WILD and SCI, which transactions closed in the fourth quarter of last year.

Now turning to the cash flow statement on slide 6, here's the cash flow statement for the six months ending June 30, 2015 compared to the same period the prior year. We generate $1.2 billion from operations before working capital changes in the six months, slightly higher than the prior year. Total capital spending for the six months was $540 million, up from the prior year but consistent with our guidance of $1.1 billion to $1.3 billion for the calendar year. During the six months, we spent $1.2 billion to repurchase about 24 million shares towards our 2015 target of repurchasing $1.5 billion to $2 billion of shares subject to strategic capital requirements. Our average share count for the first six months was $633 million diluted shares outstanding, down $28 million from the $661 million at this time one year ago. At the end of the second quarter, we had 621 million shares outstanding on a fully diluted basis. For the first half, our total return of capital to shareholders, including dividends, was over $1.5 billion.

Our six-month 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 of share repurchases. We have been more aggressive in the pace of stock buybacks, taking advantage of the recent weakness in our stock price, and all this is consistent with the balance of capital allocation framework we set forth at our December investor day.

Slide 7 highlights our balance sheet as of June 30 for 2015 and 2014. Our balance sheet remains strong. Operating working capital of $8.3 billion was down $2.7 billion from the year-ago period. This decrease was comprised of about $2.1 billion related to lower inventory prices including the translation impact, partially offset about $0.9 billion related to higher inventory quantities and a decrease about $1.5 billion in other working capital primarily related to reclassification of working capital for our global cocoa and chocolate businesses under "held-for-sale" accounting.

Total debt was about $6.9 billion, resulting in a net debt balance that is debt less cash of $5.7 billion, up from the 2014 net debt level of $3.6 billion, in part reflecting the fourth quarter of cash outflows related to our acquisitions of WILD and SCI.

In addition, we raised EUR1.1 billion in June in the euro debt markets to take advantage of low interest rates and to serve as the net investment hedge for our growing euro asset base following the WILD acquisition. We have paid down $0.8 billion of notional debt in July in a US debt tender settlement, and we may pay down an additional $0.2 billion before the end of the third quarter. While we will take a pre-tax charge of slightly

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above $0.2 billion in the third quarter related to debt tender premium, we expect going forward our ongoing annual interest expense to be lower by about $40 million pretax or $0.04 per-share after tax through the combination of the US debt reductions and the euro debt issuances.

This US debt tender, euro debt issuance transaction had a very positive NPV benefit for ADM. Our shareholders' equity of $18.6 billion is $1.7 billion lower than the level last year, with the cumulative translation account down about $0.5 billion due to the strength of the US dollar. We had $5.9 billion available global credit capacity at the end of June. If you add the available cash, we had access to over $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 - President and CEO*

Thanks, Ray. Please turn to slide 8. In the second quarter, we earned $724 million of operating profits excluding specified items. Our ROIC of 9.0% was up 120 basis points over last year's second quarter. And EVA was up $238 million, an increase of more than 60% from last year.

First-half operating profits were similar to the same period last year despite a decline of more than $200 million in operating profits from the ethanol business. These results demonstrate the power of our business model. Now I will review the performance of each segment.

Starting on slide 9, in the second quarter, our services results declined from last year. Merchandising and handling results reflected a more significant seasonal decline in North American export volumes and margins, while some global demand was met by increased South American exports that improved our oilseed segment results.

We also saw lower Global Trade Desk margins as the June 30 USDA report drove an increasing prices of some commodities, which negatively impacted some merchandising positions. While we had this impact at the end of Q2, markets came back a few days after that report. In transportation, we saw lower total US barge freight volumes, and high water increased our costs.

Milling and other results increased due to improvements in product margins, mix, and strong merchandising results. A great quarter for our global milling operations; record second-quarter results there. Please turn to slide 10.

Corn processing results improved sequentially and declined year over year. In sweeteners and starches, overall volumes were up about 3% year over year. A tight supply chain for North American sweeteners supported very good margins and volumes. We also saw good demand for livestock feed. And our Almex joint venture in Mexico and our Eaststarch joint venture in Europe both delivered solid results.

And in bioproducts, ethanol earnings were lower. As I mentioned earlier, demand was robust, with increased exports and record US driving miles, but margins were limited as the industry ran at record volumes. Our ethanol profitability improved from the first quarter, with second-quarter ethanol EBITDA margins estimated at around $0.18 per gallon.

Now looking forward, on the demand side, we see continued strong domestic and export demand for ethanol. Driving miles are up more than 3%, which will help domestic ethanol consumption approach 14 billion gallons in 2015. We see annualized net exports running at about 800 million gallons. We expect continued growth of exports to market at currently used MTBE, and E15 adoption continues to grow, which will also bolster demand long-term.

On the supply side, industry production levels will be a function of many factors including maintenance timing, yields, hot weather, planned and unplanned downtime, and the pace of industry capacity creep.

In terms of what we're doing, we're strengthening our efforts to expand E15 adoption in the US and ethanol adoption in markets abroad. We are also investing to further improve ADM's cost position in this business. ADM has invested a lot of effort to drive operational excellence and cost reductions in our wet mills, which represent about 1.1 billion gallons of nameplate capacity, and that has translated into strong financial results from these facilities even in challenging environments.

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We believe there are still opportunities to improve the cost positions of our large dry mills which represent about 600 million gallons of nameplate capacity. We are intensifying efforts across a range of areas to drive these cost improvements.

In summary, we continue to believe there is an important place for ethanol in the global fuel supply, and we expect that our actions will help drive improved results from this business in the near term.

Slide 11, please. Oilseeds had another consistent, solid quarter similar to last year. In crushing and origination, large global bean supply and a strong US mill demand drove great global soy crush results. In the first half of 2015, we crushed record volumes of soybeans globally. As part of our strategic plan for oilseeds, we've added switch capacity to more of our North American crush plants, and we've profited from our global switch capacity in a weak, soft seed margin environment this quarter.

As I mentioned earlier, our South American origination and port operations, including our Barcarena port, had good throughput at the region's large corn and soy harvest through the world's most competitive supply. In fact, ADM's South American export volumes were up 38% compared to last year's second quarter. On the soft seed side, concerns about seed supply significantly reduced margin volumes -- margins and volumes. Refining, packaging, biodiesel, and other results declined mainly on the absence of biodiesel blenders credits we recorded last year.

In Europe and South America, margins were challenged by regional market conditions. In North America, we saw strong refining margins, and our Stratas Foods bottle oil joint venture delivered its best quarter yet. Stratas continues to be an industry leader in working with customers to manage the transition away from trans fat. Results from Asia rose primarily on Willmar's improved performance.

Slide 12, please. In their second reporting quarter, the WILD Flavors and Specialty Ingredients business unit delivered more than $100 million in earnings an excellent performance. WILD Flavors had strong results in North America. To provide some context, it's worth noting that in 2014 North America represented slightly more than half of the profits for WILD Flavors globally. And despite macroeconomic headwinds, flavor profits in Europe were in line with our plans. And this quarter was one of the best ever for our specialty projects business. Among other highlights, the customer launched the first retail product with our Textura customized inclusions.

The WFSI business, with products ranging from protein specialties to ancient grains to natural flavors, is a key component in ADM's efforts to serve customers with on-trend products to grow their business.

As I mentioned earlier, the WFSI team continued working across all ADM businesses to fuel synergy efforts. In terms of revenue synergies, they continue to grow the pipeline and customer base. In the quarter, they added 175 projects to the pipeline, bringing the total to nearly 600. In the quarter, they work across all ADM's business units to deliver more than 50 more revenue synergy wins.

One interesting note here: the SCI team and their customer relationships have proved to be a valuable engine for driving cross-business collaboration and delivering these wins.

So far this year, the WFSI team has implemented $24 million in annualized run rate cost synergies. That's more than halfway toward their three-year target. We remain confident that the team will deliver EUR100 million of run rate synergies from the WILD acquisition by the end of year three, which is 2017. But we still expect the WILD business to deliver $0.10 to $0.15 earnings accretion in the first full year of operations despite some FX headwinds.

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

In ag services, we expanded our farmer services offering with an investment in Agrible, a leader in on-farm analytical and forecasting tools. We announced the expansion of our port at Puerto San Martin in Argentina, enhancing our export capabilities from the region. And our port services JV acquired a Brazilian port and shipping agency.

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In corn, we are on track to close the Eaststarch acquisition in the second half of the year. We've contributed our liquids feed business into a joint venture to achieve greater scale without additional capital intensity. And in May, we announced an agreement to acquire a small sweetener manufacturer in central China, but unfortunately, that transaction fell through.

In oilseeds, we closed the sale of a 50% stake in our Barcarena port to Glencore. We closed the sale of our global chocolate business to Cargill, and we remain on track to close the global corporate sale to Olam by the end of the year. And in WFSI, we acquired a tree nut and seed processing facility in California, adding processing to support strong sales growth. We remain on track to deliver synergy and accretion targets, and we continue to advance our construction projects in Brazil, China, Germany, India and the US.

And with respect to our operational excellence initiatives, I talked about our objective of delivering $550 million of run rate savings by the end of year five. By the end of the second quarter, we have realized already about $125 million of these run rate savings. We will update you on our scorecards 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 feel good about 2015. Large US harvest should help drive utilization of our storage and transportation assets in the US. The large global corn crops, the tight North American sweetener balance sheet, and continued global sweetener demand should support margins and volumes in our sweeteners and starches business.

As I mentioned earlier, in ethanol, in the near- and medium-term, we expect demand, both domestic and export, to remain very strong. Production levels should also be robust, and industry margin should evolve based on the supply demand balance as we move through the year.

We are intensifying our work and the cost position of our dry mills. Over the medium-term, ethanol remains the cheapest octane enhancer in the world, and we are growing toward domestic and international demand.

Good global demand for meal should continue to support capacity utilization of our global soybean processing assets. And the WFSI team is well on track towards their cost and revenue synergy targets for 2015. We continue to see great collaboration across all of ADM's business units as we partner to serve a growing customer base.

Overall, we continue to advance our clear and aggressive strategic plans. We will continue to see contributions from that effort throughout the year and will remain focused on growing EVA.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Farha Aslam, Stephens.

Farha Aslam - *Stephens Inc. - Analyst*

Could you just walk us around the globe for global crush margins, one? Clearly, soy crush margins are very, very strong. How will ADM position itself for that, and can that be adequate to offset the weakness in soft seed margins?

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

Margins in North America continue to be very, very good; very strong domestic demand. And if you remember, we announced earlier in the year that there are two facilities in the US where we have added switch capacity to soybeans, so that's helping us to offset a little bit the weakness that we expect in soft seeds.

South American margins continued to be solid. European margins were very solid in soybeans in second quarter. We took advantage again of our swing capacity, and we maxed that -- the soybean crushing capacity in Europe. We have seen now a little bit more softness as more South American soybean meal is arriving.

And in China, we saw some recovery of that. It's not where it used to be at the beginning of the year, but it's much better than last year. So overall, we see strong continued demand and we foresee good crushing margins for the rest the year.

Farha Aslam - *Stephens Inc. - Analyst*

That's helpful. And are you concerned about Argentine capacity coming back online this year or early part of next year?

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

Listen, I think that at one point in time we will have to deal with that. It's predicated in many factors at this point what the farmer will do in Argentina. There are upcoming elections and all that. But we are really bullish given that the domestic demand in the US and the global demand I think it was to grow for soybean meal.

Farha Aslam - *Stephens Inc. - Analyst*

That's helpful. Thank you. And just one follow-up. On ag services, in your prepared remarks you highlighted that you expect a strong performance in the second half in that business due to a good US crop. Could you just share with us what you've seen so far from the farmers as they prepare for harvest and what you think your elevator utilizations are going to be and how that's going to affect earnings going forward?

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

Obviously, ag services first half was softer than what normally is the second half. We saw it last year. It doesn't surprise us that much. If you look at the performance year to date for ag services, it's in line with the first quarter last year. So as last year, I think and the US comes into the harvest and it becomes more competitive in exports, we plan to move a very strong harvest through all our facilities.

So we expect a very strong second half. We expect the US to become more competitive in exports. We haven't been so far. But we expect that demand can come to our elevators very fast and being able to increase elevation margins towards the end of the year. So at this point, we are very bullish second-half for ag services earnings.

Farha Aslam - *Stephens Inc. - Analyst*

Thank you very much.

Operator

Adam Samuelson, Goldman Sachs.

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Adam Samuelson - *Goldman Sachs - Analyst*

Maybe the first question in ethanol -- and Juan, I heard you expressing some confidence that the margin outlook would improve from here. And I guess I'm trying to reconcile -- the supply demand with exports where they are seems reasonably balanced, although it's not clear stocks are actually going to dry as you move into the second half. But with the sharp decline in oil prices, how do you see -- do you become incrementally concerned about the pricing of ethanol relative to gasoline both domestically and overseas? Just keeping that margin contained over the near- to medium-term?

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

Listen, we have to separate the analysis in certain pieces. From a demand perspective, we continue to feel very good about ethanol. As I said before, domestic demand with low gasoline prices has increased 3%, and that pattern should continue with the normal seasonality during summer and winter in the US.

Export demand continues to be very solid in those countries that are already customers; and we have many, many new countries trying to become new customers, and our teams are out there trying to develop those markets.

So the issue all will become, in this relatively new industry, what happened with the supply. And the supply has been strong so far during this year because we have a very mild start of the summer from a temperature perspective. We expect that right now we've seen that even in June and July. Over the last three weeks, inventory has been flat or slightly declining for the last two or three weeks. So the industry can produce that 15 billion gallons, but not more than for a very few weeks.

And then I would say it's relatively balanced what we see right now in ethanol. And even at these oil prices, we are making money in all our mills. And if you think about the oxygenate values, MTBE continues to be at about $2.85 versus ethanol of about $1.50 or $1.60. And the other alkylates are about $2.50. So we continue to be the most competitive octane enhancer out there, so we don't even thinking about E15 growing in the background.

So I think overall, I cannot call it through the month through or through the quarter because, as I said, this is a relatively volatile industry as we grow into our capacity. But I think medium-term, we are very optimistic about the balance and turn it into the favor of ethanol.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay. That's very helpful. And then, you expressed confidence in ag services in the second half in principally in the US. Do you -- A, was there a loss on the global trading desk late in the quarter that provides some good cushion to the third quarter? And if so, could you quantify it? And second, how do you think about the mix, the breakdown of that ag services second-half between export volumes against a very competitive South American crop versus domestic, merchandising, and origination, domestic transportation, and the offshore business?

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

Yes, it's a complex question, Adam. Let me see if I can split it a little bit. So the first part (multiple speakers) the loss on the global trade desk, yes. As you know, June 30 report created a big volatility and basically brought prices up. So when we mark to market that, I think the loss was around $25 million and (inaudible), so maybe not that significant. And the price is corrected by July 2 or 3; they go back to it. So part of that has already come back in those positions.

Regarding the second half, I think maybe the export season will start a little bit later this year for the US as South America continues to extend their window a little bit. But we believe that that demand will come to the US and will come all of a sudden, altogether, so that will bode well for elevation margins. We think that our transportation business also will be very strong, and we need to move a very large crop.

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I think that we're going to see the comeback of the normal carries that we see in the US. So we believe that the very strong crop and the very big carryout bodes very well for our footprint in North America.

So I think it's going to be heavy fourth-quarter loaded, and I cannot call it out whether it is all exactly fourth quarters or slip a little bit into Q1. But we are prepared to manage a very large crop.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay. And then just a point of clarification there on the carries. Is that corn or corn and wheat or both?

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

I think that we are seeing both at this point in time.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay, that's very helpful. I'll pass it along. Thanks.

Operator

David Driscoll, Citi Research.

Cornell Burnette - *Citi Research - Analyst*

This is Cornell Burnette on with a few for David Driscoll.

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

Hey, Cornell.

Cornell Burnette - *Citi Research - Analyst*

All right, all right. Just wanted to give a few on ethanol. Just wanted to see what was your take on where export RINs would be at the end of 2015. It appears to us that the number could be something greater than 1 billion gallons. So putting that together with the fact that you're seeing somewhat of an oversupply currently in the ethanol market, just was wondering what prevents margins from continuing to be soft if that is indeed the case.

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

Yes, we expect this balance to be like 1.8 billion. I think I said it before when I answered to Adam in the ethanol, it's difficult to call it in the short term. In the short term, there are risks to our forecast certainly. Brazilian ethanol could be coming into the US. But we continue to see markets being developed outside the US, and the US domestic market being robust.

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Consider this, and I think we said it before, Cornell: there are out there at least 6 billion gallons of MTBE capacity that we are working very hard to replace. And these products, again, ethanol is the most sustainable and the lowest-cost octane enhancer. So I like to be positioned in a product that is very sustainable and lower cost than their alternatives. So there is a big market out there.

And yes, we're going to go through ups and downs through all these regulations. Again, I said before, it's a relatively new industry. It's an industry that started in 2007. It needs to go through phases of consolidation. We're going to have great capacity. Some producers will come better producers, more cost efficient. That will push some of the margin of producers into more troubled water. That will, to a certain degree, modify the industry. So we're watching this industry development. But at this point in time, we continue to be very excited about the potential we find in our oil plants to improve our competitive advantage and the potential for this market to grow in front of us.

Cornell Burnette - *Citi Research - Analyst*

Okay. And then just a follow-up, over the remainder of 2015, we're looking at, on the futures market, certainly on prices under $50 a barrel, and there's some concern that there might be some oversupply in the market. When you talk about the ethanol profitability perhaps strengthening going forward from what you saw in the second quarter, was that predicated on us seeing some type of rebound in petroleum? And at what levels of petroleum do you think you can get there?

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

At this point in time, I will refrain from forecasting oil for obvious reasons. But I will say in the current environment, when I make this comment, adding the frameworks of the current oil prices and the current corn prices, if you will. So I'm not forecasting that we are going to go anywhere.

Cornell Burnette - *Citi Research - Analyst*

Okay, very good. Thank you.

Operator

Robert Moskow, Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

Just in general, it looks like the first half came in below internal expectations for the year. And judging from what you're saying, the market-to-market trading benefit would only be $25 million in the third quarter. It just looks like the year as a whole is going to be below what your internal expectations might've been, and I just want to get a sense from that -- a sense of that from you. Is there still a chance that you could hit your internal targets for the year as you set them?

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

Let me walk you through the different businesses, Rob. Oilseeds is way ahead of last year, and we continue to see upside in oilseeds. Granted, we are coming against the strong comps that we have in Q3 and Q4 last year, but oilseeds is coming very strong -- on very strong demand. So that's ahead of last year, and that should continue to be over the year.

Ag services, as I told you, is online for the first half. And last year, we had a second half that allowed us to deliver in the range of 850 to 900, and we see this year again the possibility to be in that range if we can repeat the second quarter -- the second half. And with these kind of crops, we have the potential to do so. So I would say those businesses are on par or ahead of last year.

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WFSI aside, it's having good performance; will hit within the range. So that's in addition of last year. And then we have in sweeteners and starches, that are going very, very strongly, and it needs to offset the weaknesses in ethanol. I think ethanol was -- obviously started the year very bad -- very soft in Q1, improving Q2. It has improved a little bit over the last three weeks. So I think the issue is we have one business that we think it will deliver, which is ag services. We have two businesses, WFSI and oilseeds, that will probably outperform, and that needs to offset a little bit the softness in ethanol. So all in all at this point, we still feel good about 2015.

Robert Moskow - *Credit Suisse - Analyst*

Okay --

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

Also, from our returns perspective, Rob, we feel good about our ROIC -- our ROIC focus, and we continue to be running our plans pretty aggressively in managing invested capital. We are buying back shares -- also reduce invested capital. So we feel good in terms of our progress towards ROIC as well.

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

Don't forget, Rob, that when we divest cocoa and chocolate -- when you consider we are 9% ROIC today, we are divesting basically $1.2 billion of invested capital that for us represent very, very low returns. So our implicit return when all that is gone is going to get a boost.

Robert Moskow - *Credit Suisse - Analyst*

I totally agree, no doubt. I just think that your stock, whether justified or not, is going to hinge on forward projections for EPS. And it just looks like the ethanol business is -- it would require a pretty heroic recovery to improve off of the first half. So I just think that that's what's holding back your stock.

And let me ask a follow-up. On share repurchase, Ray, did you say that you are shooting more towards the $2 billion now in that range of share repurchase guidance? Is that what you said?

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

Yes. Given the pace that you have seen in the first half of the year, we've been fairly aggressive, especially when our stock pulled back. So I have to say that we are probably on the higher end of the range there for sure.

Robert Moskow - *Credit Suisse - Analyst*

Okay.

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

And our balance sheet remains strong, so we've got a lot of capacity to buy back shares.

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Robert Moskow - *Credit Suisse - Analyst*

Certainly. Okay, thank you.

Operator

Michael Piken, Cleveland Research.

Michael Piken - *Cleveland Research Company - Analyst*

Just wanted to dig a little deeper into the WILD Flavors/Specialty Ingredients segment. Maybe you can talk about the cadence of earnings for the back half and what type of growth rate we might be looking for from a EBIT standpoint or a revenue standpoint as we look ahead maybe to some of the outer years.

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

Sure. There is some seasonality in this business, as you know, because there's a lot of juices and there is a lot of products that are sold in the summer. So the second quarter is slightly higher from a seasonal perspective in Q3 if you would. Margins continue to be very strong in the high-teens EBITDA margin from this business. The ingredients growth that we continue to see are in the range of 3% to 5%. And when you take natural products, natural flavors products are more in the 5% to 6% range. We feel very excited about the reaction that our customers have had to our product mix and to the segments, and we have been expanding the customer base to make our business even much more robust.

Just to give you some examples, the number of customers driving 80% of sales have increased by 47%, which showed the robustness of our pipeline going forward. And as I said in my prepared remarks, the pipeline of new wins or project that the customer -- that compose our revenue synergy portfolio have had a quantum leap of 75% from Q1 to Q2. So all the prospects, all the products are on trends. Those trends are strong, and customers are reacting very well to innovating with us. We feel very good about it.

Michael Piken - *Cleveland Research Company - Analyst*

Okay. So just as a follow-up, do you have any sort of quantification that -- I understand the seasonality part. But in terms of do you have a revenue target? Or in terms of next year, what could that $0.10 to $0.15 maybe turn into from an accretion standpoint? Thanks.

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

Yes, to be honest Michael, this is such a new business for us, and this is a combination for us of nine different businesses that we grouped together. We don't have a strong comp, so we don't have a lot of history, too. And since a lot of this growth are the product of combinations of new synergies, of new solutions for customers, it's difficult to put the target. We know we are ahead of schedule in terms of synergies, and we know we're going to deliver the accretion next year. We just haven't developed a robustness of comps going forward since this is a new business for us.

Operator, do we have more questions?

Operator

Ann Duignan, JPMorgan.

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Ann Duignan - *JPMorgan - Analyst*

My question is more big picture. There were some press releases over the weekend that the Chinese government is considering changing its corn pricing policy, and that if it did do so, the world might be awash in Chinese corn. Just curious if you've heard anything about that. And what could that do to your business if they did indeed change their pricing policy?

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

There are two things, Ann, that everybody says brings excitement to our lives in the grain business. One is weather; the other is government intervention. So we are very used to follow that, to track that. It always presents opportunity for this continuity.

Obviously we hear the rumor that China is finding more difficult to sustain these subsidies to the farmers, but we don't know at this point in time. And I rarely bet against the Chinese government. They seem to be very prudent and very strategic about their moves. So we're just paying attention. Obviously, the release of inventories or a drop in price could mean a decline in prices for corn. That will probably bode well for our business.

Ann Duignan - *JPMorgan - Analyst*

Okay. I appreciate that. And not to beat a dead horse on the ethanol side, but you were very clear at the end of Q1 that you are running the ethanol business for profits, not for volumes. The tone of your comment seems to have changed a little bit. Am I reading too much into that, or are you just running for volume now and not returns?

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

We don't make a statement for the full quarter, so we don't commit to a position. It's very much tactical based on what we see in the supply and demand and what we see in the unplanned capacities and the temperature and the weather and all that. So the thing remains very flexible.

I guess what we wanted to say is like we're trying to maximize earnings into our business. It depends; during the quarter we might move from one position to the other. So I wouldn't make a statement for the full quarter at this point.

Ann Duignan - *JPMorgan - Analyst*

Okay. I will get back in line and take my questions off-line. Thanks.

Operator

Ken Zaslow, Bank of Montreal.

Ken Zaslow - *Bank of Montreal - Analyst*

Just two questions. One is on the ag services, what are the keys that we have to be looking for you to have the recovery? Is it the basis? Is it the farmer moving? What are the concerns that are associated with when the farmer is going to be selling and how do you think about it?

And my second question is can you give us an update on the cost-savings programs? Are you finding more -- is it coming in as expected? And just give us an update on that as well. Thank you.

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

Yes, one key thing is -- in ag services is the rate of exports and how competitive the US is. Obviously the US has shown some competitiveness out of the P&W this year, but still the goal continues to be second or third in terms of this versus other origins. So that will be probably the key aspect that will drive our earnings in the second half.

But every year, the ag services business finds different ways to make money. Sometimes it's through better usage of our footprints, sometimes different carriers, sometimes it's through exports. So we will adjust. The large crop gives us a lot of opportunities.

The second point was --?

Ken Zaslow - *Bank of Montreal - Analyst*

The cost savings.

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

Oh, the cost savings program, yes. We are, at this point in time, $125 million run rate of that promise of $500 million in five years. I would say, Ken, that we have probably identified enough opportunities that we know already that we can implement that are close to $380 million to $400 million, so those $500 million. And since we are one year into this five-year program, we feel that we are ahead of schedule.

So we continue to find -- you heard me saying about our intensifying focus on dry mills. The wet mills are larger and older, so, rightfully so, when we started this program, we focused a little bit more energy there because we thought the opportunity was bigger.

Now when we look at the difference we have in cost between the wet mills and the dry mills, we feel that there are opportunities there, whether it's enzymes or yields or things like that. So we continue to find -- ADM is a large Company, and as much as we cut costs, we continue to find new technologies that bring us new promises.

Ken Zaslow - *Bank of Montreal - Analyst*

Thank you very much.

Operator

Sandy Klugman, Vertical Research.

Sandy Klugman - *Vertical Research - Analyst*

Return to ethanol, you highlighted E15 as a positive driver. And I know the near term is hard to forecast, but I think flex fuel vehicles, currently about 6-7% of the total vehicle fleet. I was wondering where you see us going over the long-term, and how quickly do you see us getting there.

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

Yes, when we started with E15, we said that we were expecting the implementation to take about five years. And I think at the end of the day, we would like to thank Secretary Vilsack for making available some funds to invest in infrastructure. The industry has coalesced around that and is gathering money and is putting together projects to be able to participate in this program.

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And at the end of the day, there's going to become a tipping point. And I don't know exactly how -- when to call it, but we think that by 2017, 2018, this will become a more meaningful part of our free fuel supply. And we feel very good what I will do to supply demand balances for the ethanol industry.

Sandy Klugman - *Vertical Research - Analyst*

Okay. Thank you. And just a shift to biodiesel, could you tell us how you're thinking about the near- to medium-term outlook? And do you see further opportunities to reduce your dependency on biofuels in Europe, or have you already done what you needed to do on that front?

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

Oh, no. I would say, first of all, in the medium-term the situation is tough for biodiesel. In the absence of a more clear RFS, biodiesel will struggle; no doubt.

I will say in our strategic intent to reduce the dependency on biodiesel, we are just getting started. You heard us about AOR N.V., which is an acquisition we did in Belgium on a bottle oil producer.

So there are three elements to our program. One is to crush more soy in Europe; that produces less oil. The second is to grow our share in food industry, which 80 AUR is one of those elements. And the third one is to increase the use of oil into industrial uses, and that's growing as well. But I will say you're not going to feel an impact until probably 2016 from our perspective.

Sandy Klugman - *Vertical Research - Analyst*

Okay, that's helpful. Thank you.

Operator

I would now like to turn the call back over to Juan Luciano for closing remarks.

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

Thank you, Stephanie. Thank you for joining us today. Slide 15 notes our upcoming investor event. As always, please feel free to follow up with Mark if you have any other questions. Have a good day, and thanks for the time and interest in ADM.

Operator

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

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