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ADM - Q3 2015 Archer Daniels Midland Co Earnings Call

EVENT DATE/TIME: NOVEMBER 03, 2015 / 2:00PM GMT

OVERVIEW:

Co. reported 3Q15 GAAP net revenue of $16.6b, reported EPS of $0.41 and adjusted EPS of $0.60.

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PRESENTATION

Operator

Good morning, and welcome to the Archer Daniels Midland Company third-quarter 2015 earnings conference call. All lines have been placed on a listen-only mode to prevent background noise. As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's call, 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 third-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 risk 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. And 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, and thank you all for joining us today. This morning we reported adjusted earnings per share of $0.60. Our adjusted segment operating profit was $684 million. Adjusted ROIC of 8.3% was 170 basis points above our cost of capital.

The ADM team executed well in an environment very similar to the second quarter. ag services earnings were limited by lower margins and volumes of North American exports, due to the continued strength of the US dollar and ample crop supplies, particularly from South America. In corn, we continue to confront very weak industry ethanol margins, while sweeteners and starches results remain solid amid tight supplies.

In oilseeds, good global meal demand again supported soy crushing results, and solid origination volumes contributed to our South American operations, while continued weak oil demand, particularly outside the US, weighted in our softseeds business. And in WFSI, the impact of macroeconomic headwinds, weaker demand from some emerging economies and the strong US dollar, was greater than we'd expected.

We continue to execute our strategic plan. Among other actions, we closed on the sale of the global cocoa business, acquired Eatem Foods, and closed the Eaststarch transactions. We're also making strong progress in driving operational efficiencies, which will further enhance our cost position. And we remain committed to our balanced approach to capital allocation for our shareholders. I'll provide more detail on our score connectivities later in the call.

Now I'll 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 30% from the $0.86 last year. Excluding specified items and also excluding net timing effects, adjusted segment operating profit was $684 million, down $257 million.

The effective tax rate for the third quarter was 31% compared to 28% in the third quarter of the prior year. Our tax rate was higher this quarter due to some discrete items that impacted us for the quarter, mainly the finalization of some international tax returns. Our calendar year 2015 estimate for the effective tax rate remains at around 28%.

Our trailing fourth-quarter average adjusted ROIC of 8.3% is down by 40 basis points from the 8.7% at the end of the third quarter last year. The 8.3% adjusted ROIC is above our 6.6% annual WACC for 2015 as well as our long-term WACC of 8.0%, as reflected in the graph on slide 19 in the Appendix. Our objective remains to earn 200 basis points over our WACC. In the third quarter, our trailing four-quarter average EVA was $428 million based upon the adjusted earnings and the annual WACC, down $178 million from 2014.

On chart 18 in the Appendix, you can see the reconciliation of our reported quarterly earnings of $0.41 to the adjusted earnings of $0.60. For this quarter, LIFO represented a $0.07 per share after tax credit. We had gains on the sale to global chocolate operations net of expenses of $0.04 per share. We had a charge related to buying back US debt of $0.19 per share as part of a series of transactions to issue lower-cost, euro-denominated debt with asset impairment charges of $0.06 per share, and we had some restructuring and pension settlement charges of $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'd like to highlight some of the unique items that impacted our quarterly results.

In the Corn Processing segment, we had a $33 million charge related to the partial impairment of our Brazilian sugar processing assets. In oilseeds, we recorded a $32 million gain, net of expenses, related to the sale of our global chocolate operations in the third quarter. As a reminder, our cocoa business remain part of our segment reporting results in the third quarter. We closed on the sale of the business in October, and the sale will be recognized and recorded in our fourth-quarter results.

Our new fourth business segment, Wild Flavors and Specialty Ingredients, or WFSI for short, includes the two businesses we acquired in 2014, namely Wild Flavors and Specialty Commodities, Inc., as well as certain Specialty Ingredients businesses that were previously reported in ADM's three other segments. For the 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've included a chart in the Appendix that recasts the 2014 segment quarterly results to the new segments.

In the Corporate lines, net interest expense was down, due to lower interest rates. Unallocated corporate cost of $113 million were within the $110 million to $128 million guidance I provided to you last quarter. Our run rate in underlying corporate cost is consistent with the prior year, excluding the special project costs, such as the implementation of our ERP program.

I'd also like to comment on our GAAP net revenue number that can be found in the Appendix. GAAP net revenues for the quarter were $16.6 billion, down from last year's $18.1 billion. The significant reduction was mainly driven by large declines in commodity prices and foreign exchange translation, but these factors also impacted our cost of goods sold, as our input costs were lower. I also wanted to highlight that the GAAP statements for this year and last are not entirely comparable, due to some significant transactions over the past 12 months, including fertilizer, chocolate, Wild, and SCI.

Turning to the cash flow statement on slide 6, here's the cash flow statement for the nine-month period ending September 30, 2015, compared to the same period the prior year. We generated $1.5 billion from operations before working capital changes in the first nine months of this year. Total capital spending for the nine months was $819 million, up from the prior year.

Our CapEx guidance for the calendar year was $1.1 billion to $1.3 billion. And based upon our run rate of spending, it's likely we will finish up the year at the lower end of the range or below that range. Given that more challenging business conditions we have encountered in 2015, we have been even more cautious in our capital spending.

We acquired several businesses this year, including AOR, the European bottled oil company, and our remaining interest in a Romanian port totaling [$83 million]. And the other investing activities line mainly reflects the proceeds from divestitures, such as our global chocolate business and the sale of our stake in our port in Northern Brazil, less the increased investment in Wilmar in the first quarter.

During the nine months, we spent about $1.8 billion to repurchase about 37.5 million shares towards our 2015 target of repurchasing $1.5 billion to $2 billion worth of shares, subject to strategic capital requirements. Our average share count for the first nine months was 627 million diluted shares outstanding, down 31 million from this time one year ago. At the end of the third quarter, we had 607 million shares outstanding on a fully diluted basis.

For the nine-month period, our total return of capital to shareholders, including dividends, was over $2.3 billion. You should expect that we will complete about $2 billion of share repurchase by the end of the calendar year and finish up with about 600 million shares outstanding on a dilutive basis.

On slide 7, shows the highlights of our balance sheet as of September 30 for 2015 and 2014. Our balance sheet remains very strong. Operating working capital of $7.9 billion was down $0.3 billion from a year-ago period. Total debt was about $6.8 billion, resulting in a net debt balance that is debt less cash of $5.6 billion, up from the 2014 net debt level of $0.7 billion, in part reflecting the fourth-quarter cash outflows related to our acquisitions of Wild and SCI, as well as the issuance this year of EUR1.1 billion of debt or roughly $1.2 billion in US dollar terms, and the subsequent repurchase of about $0.9 billion of US debt.

Our shareholders equity of $17.9 billion is $2.4 billion lower than the level last year, due to its share buybacks, and with the cumulative translation account down about $1.1 billion, due to the strength of the US dollar. We had $5.3 billion available global credit capacity at the end of September. If you add the available cash, we had access to over $6.4 billion of short-term liquidity.

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

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

Thanks, Ray. Please turn to slide 8.

In the third quarter, we earned $684 million of operating profit, excluding specified items. Compared to the second quarter, market conditions in the third quarter were fairly similar, with weak industry ethanol margins and in competitive US exports. So, not surprisingly, our operating profits were in line. On a four-quarter trailing average basis, our ROIC of 8.3% was above our annual WACC of 6.6%, and our EVA was [480 and] $428 million.

Now I'll review the performance of each segment. Starting on slide 9, in the third quarter, ag services results were similar to last year's, but reflected the starkly different set of market conditions. Overall, despite a robust global demand, we saw a general lack of merchandising opportunities as the global market was well-supplied.

Last year's third quarter saw merchandising and handling results driven by the normal seasonal July/August decline in exports, and the normal uptick with the harvest in September driving near-record volumes out of the Gulf. This year, ample global crop supplies, particularly from South America, and the strong dollar, kept North American exports, particularly corn and wheat, largely out of the global market for the third quarter. However, we did see some soybeans exports pick up later in the quarter.

Because of weaker global demand for US exports due to the strong dollar, elevation margins at our export terminals were significantly lower this third quarter compared to last year. You will also recall that the second-quarter global trade desk results reflected the late quarter market shift that negatively impacted some merchandising decisions, and we were able to recognize the benefit of these positions in Q3. However, our global trade desk results were slightly down from last year, due to lower margins from the more competitive global supply environment, and global customers delaying some purchases in a declining price environment.

In transportation, lower US exports reduced large freight rates. Milling and other results again increased, due to improvements in product margins, mix and strong merchandising results.

Please turn to slide 10. Corn Processing results declined from the year-ago period. In sweeteners and starches, we continued to see strong sweetener demand supporting both margins and volumes. Across the subsegment, domestic shipments were flat, while exports, particularly corn products, were limited due to the low export demand for DDG's in July and August, and the impact of the strong US dollar on the competitiveness of corn products exports.

And as our new sweetener plant in Tianjin worked to commercialize its capacity, we had to absorb the fixed cost for that operation. And in bioproducts, ethanol earnings were lower. Industry ethanol inventories throughout the third quarter were higher than last year, and industry production levels were also higher, causing ethanol margins to be considerably weaker than the prior-year despite increases in domestic demand. Our ethanol profitability reflects third-quarter ethanol EBITDA margins estimated at around $0.18 per gallon.

Slide 11, please. Oilseeds had yet another solid quarter. In crushing and origination, strong demand for milling in the US, and many of our traditional export destinations throughout Latin America, helped support good volumes and margins in our North American soybean crushing operations. Likewise, in Europe, good meal demand drove soy crush utilization.

Weak global demand for vegetable oil reduced softseed margins and volumes around the world, particularly in Europe, where rapeseed crushing results were down significantly. This was another quarter in which our switch capacity paid off. And, as the larger Brazilian corn and soybeans crop combined with the weak real to encourage farmers selling, origination volumes increased significantly and margins rose, contributing to stronger year-over-year South American crushing and origination results.

Refining, packaging, biodiesel and other results declined, mainly on the absence of biodiesel blenders credits we recorded last year. However, North American refined oils had the best third quarter ever from good domestic demand, and the results were offset by weaker demand for refined oils outside of the US and also weaker overall biodiesel margins. Results from Asia rose primarily on Wilmar's improved performance.

Slide 12, please. In their third reporting quarter, the Wild Flavors and Specialty Ingredients business unit earned $70 million. It was a tough quarter for the team. As I mentioned, the strong dollar and weakness in some emerging economies affected results across a number of product lines. And while these factors are largely beyond our control, we're focusing on the levers we can pull to deliver results and strengthen the business.

We are seeing improved gross margins on some key product categories, including flavors, polyols and proteins. We are seeing US domestic business generating good results from solid demand. We are seeing improved volumes in our polyols business. We are addressing some inventory management issues in our Specialty Commodities business, and this issue should be behind us by the end of the year. And our synergy work is paying off. As a result, are benefiting from margin expansion, cost savings and mix.

The team remains laser-focused on our synergy work. That's resulted in steady customer and pipeline growth. We've delivered 81 new wins and have an active pipeline of more than 675 projects. As a result of these efforts, we are seeing many new RFPs for SCI, for Wild Flavors, and for ADM. And, as I mentioned, we continue to see strong interest in our offering and lots of product launches.

Since the Wild acquisition, the team has implemented about $30 million in annualized run rate cost synergies. And we are on track to reach about $40 million by the end of this calendar year. 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. And we are still on track towards the lower end of the $0.10 to $0.15 per share first-year accretion for Wild Flavors.

Now on slide 13, I'd like to update you on how we are 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've made significant progress. I'll discuss a few.

In ag services, we expanded our destination sales operations, opening offices in El Salvador and Guatemala. In corn, in July, we acquired Lyrico Nutrition, an animal feed business that serves primarily the dairy and swine market in Quebec. And yesterday, we closed the Eaststarch acquisition, enabling ADM to better serve growing European demand, as the EU lifts its artificial cap on cereal-based sweeteners.

In oilseeds, we closed the sale of our global cocoa business to Olam. We closed the acquisition of AOR, the oil bottling company based in Belgium. This is allowing us to better reach the continental European retail and food service markets, and enhancing our ability to export value-added products internationally. And we are adding soy switch capacity to our rapeseed processing plant at Straubing, Germany.

And in WFSI, we acquired Eatem Foods, a leading developer of savory flavors, adding deep expertise in savory flavors and ethnic cuisines, and broadening our capabilities in the food service and private brand channels. We announced the construction of the state-of-the-art flavor lab and customer center in Cranbury, New Jersey. We located a new information technology support center in an existing building on the Wild campus in Erlanger, Kentucky.

We remain on track to deliver synergy targets, and we continue to advance our construction projects in Brazil, China, Germany, India and the US. And we have made great progress in the area of driving operational efficiencies. We had targeted $550 million of run rate savings by the end of year-five. In fact, we have already identified a pipeline of more than $700 million. We'll 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 have a large US harvest in front of us. And the US crop will eventually move to the world markets, which will benefit our ag services business. In corn, the sweetener balance sheet should remain tight while ethanol industry margins will move, based upon supply and demand dynamics.

In oilseeds, global demand for protein remains strong. And we're watching Asia polyols and soybean oil production and Brazilian biodiesel legislation, which could improve the global vegetable oil balance sheet. And WFSI continues to capture synergies related to the Wild acquisition and integrated recent acquisitions such as Eatem Foods.

As you saw a moment ago, we continue to make progress advancing our plan. And, as I mentioned earlier, we remain committed to our capital allocation framework that was set out at the end of 2014 in terms of a balanced approach for our shareholders.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Robert Moskow, Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

You might have kind of alluded to this in your comments, but I think you said that US farmers will eventually commercialize their grain. Can you give us kind of a little bit more color on the degree to which they are unwilling to commercialize at today's prices? And what does that mean for your fourth-quarter and kind of end-year EPS estimates, guys?

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

Thank you, Rob. Yes, certainly, US farmers don't like these prices. And at this point in time, they are holders of grain. If we look at their normal pattern of commercialization of before the harvest, during the harvest and post-harvest, this year we have seen that in corn, they probably sold about 30% of the new crop, while normally they would be about 45% by this time of the year.

If we look at beans, they probably sold about 35% of the new crop. And normally, they would have averaged about 60%. We still believe that our Q4 earnings in ag services will grow versus Q3. But we probably see more commercialization of grain either through rallies, that will depend probably on a weather event, whether it's a concern about potentially South American maybe later on in December or something like that, or with the regular cash flow needs maybe during 2016.

Robert Moskow - *Credit Suisse - Analyst*

Okay. That's very helpful. And another question. I've heard rumblings about what the election in Argentina could mean. With the new leader coming in, it might lead to reduction in tariffs or export duties. And I want to know how do you think that might play out? And how will it affect your business if Argentina suddenly commercializes a lot of soybean meal? Thank you.

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

Yes. Obviously, there's going to be a runoff election in November 22, so we're hearing from both candidates on their proposals. And there are rumblings about potential reduction in export restrictions or the licenses that they are applied today, or maybe export taxes or potential devaluation.

I will qualify the following way, Rob. I think it's at one of the larger exporter of grains in Argentina, that reduction in restrictions and licenses will be positive for our ag services business. And if you think that there's going to be more soybeans coming to market and more crush than in Argentina, that may be a potential negative for the competitiveness of US meal exports out of the US. And it might impact a little bit the situation in Europe. So I will say positive for ag services; potential negative for oilseeds.

Robert Moskow - *Credit Suisse - Analyst*

Do you think it's a net positive for ADM overall? Or is it just kind of neutral?

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

Well, it's interesting because the ag services impact is a direct impact. We're going to get to export more, and our exports from Argentina have been subdued over the last couple of years. The impact in oilseeds, it could be a little bit more indirect, since it depends on other issues, and this is more substitution. So I can't quantify more than that at this point in time, Rob.

Robert Moskow - *Credit Suisse - Analyst*

Okay, thank you.

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

You're welcome.

Operator

Kenneth Zaslow, BMO Capital Markets.

Patrick Chen - *BMO Capital Markets - Analyst*

This is Patrick Chen for Ken. Just another question about ag services. I guess is the $850 million to $900 million number still at risk? Is it a structural risk, given the farmers' ability to hold grains longer, especially in light of the third consecutive large crop?

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

Yes, let me give you some perspective. We do believe that the range is relevant for ag services. Given the conditions and given where we are in Q4, we know that Q4 will be better than Q3 but will be -- will fall short of Q4 last year. So probably this year, we may end up lower than that range, given the conditions of the US dollar and the very strong crops in South America.

But let me give you some perspective. If we look at the last eight years, ag services has hit that range in seven of the last eight. And the only year in which we didn't, it was because of this 50-year drought that we had. So I would say, at this point in time, we continue to maintain that that's a fair range for ag services into the future.

Patrick Chen - *BMO Capital Markets - Analyst*

Great, thanks for your color. Just switching gears a little bit to ethanol margins, what would debt industry margins to recover? Seems like there are a lot of headwinds right now. You have ethanol trading on a premium to gasoline; the weak real improving Brazil's pricing competitiveness; and also China supposedly closing its borders to US DDG's. I guess how much cost savings can you realize and your plans to offset some of that? Thank you.

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

Yes. You get it right. The main thing that we can do to help ourselves certainly is continue to work on the cost of the plants, and we are evaluating that. It's a constant process to see how much can we help ourselves into that. Granted maybe dry mills are a little bit more limited in our ability to get savings than maybe a larger wet mill. But we continue to work on that.

I would say the dynamics at this point in time as we see, Patrick, are -- there has been some good news in this quarter about China getting into the export destination roster, if you will. Some of the plants have maybe came back a little bit later from their maintenance, which provided a little bit of time. But as you said, medium-term, we continue to trade as a premium to gasoline, which will have some impact in certain export destinations. That way, we continue to call the net exports about the same, even if China is coming into the export destination roster.

So it will be -- it will continue to flow, depending on how much the industry will produce. We are positive about the demand. Demand is up in gasoline about 3% this year and maybe it's going to be up 1% to 1.5% for next year. Exports continue to be robust. Ethanol is growing very, very fast in Brazil. And now with increasing gasoline prices in Brazil, ethanol has become a little bit more expensive. Petrobras is on strike today, so they are not producing that much oil, so maybe they need a little bit more ethanol.

So I would say, at this point, we handicap it a little bit like the margins we have today going forward, and with hopes into the global domestic demand, and keeping those export markets.

Patrick Chen - *BMO Capital Markets - Analyst*

Great. Thank you. I'll pass it along.

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

Thank you, Patrick.

Operator

Ann Duignan, JPMorgan.

Thomas Simonitsch - *JPMorgan - Analyst*

This is Thomas Simonitschin for Ann. Can you talk about your increased stake in Wilmar and the strategic rationale behind that investment?

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

Sure, yes. Well, we have opportunistically acquired shares of Wilmar in the open market recently. And I say opportunistically because obviously they were relatively low with regards to their book value, and certainly the Singapore dollar also was very convenient for us to make that investment.

You've heard us before. Wilmar is a strategic partner and one of our largest customers. And we continue to be very committed to this relationship, to grow in this relationship. Wilmar gives us a window and an exposure to tropical oils, to China oilseed crops and crush, to consumer packaged products in China. So it's a great way for us to participate in that. And we believe in our relationship and we will continue to grow it over time.

Thomas Simonitsch - *JPMorgan - Analyst*

Okay. Thank you. And also you mentioned with Wild Flavors facing demand headwinds in Q3, can you expand on this? Especially in light of the expectation that Wild will perhaps be less volatile than other segments?

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

Yes. I would say, listen, the trends are intact. We continue to see big push from a pull from customers in terms of the pipeline that we have. The pipeline continues to grow. If I quoted 675 projects in the pipeline, at the end of October, that number is like 805. So it continues to grow.

The segment is composed of many products. And some of those products, as we -- you heard that we are building a plant in Brazil of specialty proteins. Well, at this point in time, we source everything from a plant in the US. Certainly, with the strong US dollar, our ability to export to the world has been reduced.

There are some countries that have some issues of importing, like Venezuela, for example, even if our customers who want to get the product. Some key markets -- key emerging markets have been soft, whether it's called Middle East or whether it's Russia, or whether it's China. And some of these products, like emulsifiers or hydrocolloids, are used in oilfield drilling. And obviously you see the rig count going down in the US with less drilling going on as oil prices have declined. So, several factors.

I would say none of the fundamentals have changed into this business. We continue to be excited. We continue to be building capabilities. We have bought three companies in the last year with Wild, SCI and Eatem Foods. They are all on trend, they are all on target. So we continue to feel very strong about it. It's a long-term play that we are building a great company for ADM here. And as long as synergies are on track and products are getting approved from customers, we don't worry that much about these short-term headwinds.

Thomas Simonitsch - *JPMorgan - Analyst*

That's very helpful, thank you. I'll pass it on.

Operator

Farha Aslam, Stephens.

Farha Aslam - *Stephens Inc. - Analyst*

Juan, could you give us some color on soy crush margins, kind of around the world, and what your outlook is going into the fourth-quarter for that crushing and origination division?

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

Yes, sure. So crushing has continued to be very solid and very positive in the US. So we are still running hard. Certainly the US has the best crush margins in the world, followed by soy crush margins in Europe. There is still good demand in Europe. And even if some soy meal from South America has started to show up, we still remain more skewed towards soy crushing than rapeseed crushing in Europe.

South America has recovered a little bit and is doing better. It's coming third in the pecking order, if you will. And then probably lagging is China. We still have good demand for meal in China, but it's more hovering into the breakeven territory, if you will. So going into Q4 and being halfway to Q4, if you will, as I said, the crush margins remain in decent state. And maybe you're going to see a slight decline of Q4 versus Q3 for oilseeds in general, but still very solid.

Farha Aslam - *Stephens Inc. - Analyst*

That's helpful. And then a theme throughout your comments has been the strong US dollar. Is there opportunities for ADM to re-price this product? Anything that -- any actions you can take to make ADM more competitive, given that the US dollar likely will stay strong for somewhat an extended period of time?

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

Yes, I would say that the big issue is sometimes not that much the strong US dollar that we can -- as you said, we can commercially offset some of that. The issue is whether some currencies are very weak versus the dollar, whether you call it the real or it's the ruble. And that makes other origins much more competitive.

Think about how competitive has been Brazil in the world markets; with Paraguay, with the same weather, with the same climate, hasn't been. It's not that Brazil is any different competitive advantage than Paraguay; is that the real has devalued significantly versus what the Paraguayan currency has done. So those things, they ebb and flow.

And we profited from our origination in Brazil. Our volumes in Brazil are like -- have exploded versus last year, and we see part of that reflected in ag services. So at the end of the day, the good thing is that there are large crops everywhere, and we are going to commercialize those crops. But it certainly affects the timing of all that, Farha. And we are going through that period.

Farha Aslam - *Stephens Inc. - Analyst*

Thank you. That's helpful.

Operator

Michael Piken, Cleveland Research.

Michael Piken - *Cleveland Research Company - Analyst*

Just wanted to dig a little bit deeper into the ethanol side of the business. And specifically just wanted to get your sense in terms of what you think total industry capacity is today, and out into 2016? It looks like, in the last couple months, total production has gone down a little bit.

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

I'd say probably total capacity is in the range of [14.8], something in that range. The industry, Michael, has normally takes two shutdowns for maintenance. One before the driving season, one post the driving season to get the plant back in shape. Obviously, you have these corn dynamics in which corn is more plentiful or bases are lower in the West than in the East. So some of the East plants might have taken a little bit longer to come back from maintenance, just because it was difficult maybe to get corn.

And I think at the end of the day, with these low oil prices, domestic demand has been strong. And what with exports -- net exports -- staying in this range of maybe 750 million gallons, and that's kind of where we are seeing this year and maybe for next year. We see the balance is pretty similar to what we see now.

Again, I think the two positive sides could be if we get another 1%, 1.5% domestic demand growth, and then we see ethanol in Brazil being more requested internally, and China -- China went from, like, 3 million gallons last year of imports to maybe 60 million gallons this year. So, what that's going to bode well for 2016. Those are probably positive. On the negative side, capacity utilization in the industry continues to be 90, maybe 92% and it should go a little bit higher to see market expansion.

Michael Piken - *Cleveland Research Company - Analyst*

Okay. Great. And then shifting over to the other side of Corn Processing, it looks like there's some favorable news on HFCS pricing into 2016. Maybe you could talk a little bit about when we might start to see some of those benefits roll through in any sort of order of magnitude from those favorable contracts.

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

Yes. Well, we are still finalizing some of those contracts, so I will refrain from making any specific comments about that. Normally, we clarify what happened at the end of the season in our next call. And I would say from a P&L perspective, we see the impact kind of February to February. So starting in February. So it rolls into our P&L probably at the end of Q1. That's kind of what tends to happen. But we see the industry being tight, so the industry is running at about 90% and our volumes have been strong.

Michael Piken - *Cleveland Research Company - Analyst*

Terrific, thanks.

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

You're welcome.

Operator

(Operator Instructions). Adam Samuelson, Goldman Sachs.

Adam Samuelson - *Goldman Sachs - Analyst*

A bit of a longer-term question. And I want to think about the current environment today relative to the $4.00 medium-term EPS target that you've laid out. The last two quarters have had EPS [about] of $0.60, and there's also some headline noise in there. But to think about getting to a $4.00 EPS number from here, and understanding seasonality -- 3Q is usually a seasonally softer quarter for you guys -- you'd probably need to see something on the order of $175 million, maybe $200 million of quarterly operating income improvement here. And there's going to be moving pieces within the businesses in terms of what's performing well cyclically or not.

But help us think about how we can bridge to that kind of level of performance over the medium-term. Are there particular -- is there a particular part of the portfolio that really has to step up its performance, whether cyclically or operationally, the future benefits from cost actions, future capital allocation? And just help us think about the moving pieces. Thanks.

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

Yes. Thank you, Adam. Thank you for the question, actually. Listen, I would believe on the medium-term's earnings range of $4.00 to $4 50 that we shared with you before has not changed. Although we face certain headwinds, we have looked at these and we have stress-tested actually with two scenarios recently. And we still believe that we are on track to deliver that.

It may not happen exactly the way we have described it to you before in four orderly buckets of $0.30, but let me walk you through some of those issues. We certainly have a little bit higher ethanol margins in our original projections, and we have cut those ethanol margins -- and as I said, when we stress-tested -- to more like the levels we have today. We also look at what if the US dollar continues to be strong and ag services will remain in this kind of range.

And then we look at the positives. And there are some businesses in certain portfolios that we are recovering that we haven't highlighted to you, because there was not a need to divest those businesses from a portfolio management. But those businesses are businesses that have specific actions to recover. And we feel strongly about being able to achieve that over the next year, year and a half.

Then we have operational excellence and operational efficiencies. And as I described in my remarks, when we started to look at this target of $550 million in five years, and having $0.10 per year out of that, we are already, after the first year, Adam, we have unveiled a pipeline of $700 million. And we continue to find more. So we have programs to accelerate that, to bring them faster into the program.

We also continue to deploy our cash into these bolt-on acquisitions. And, as we did Eatem, we have more in the pipeline. And when we put all these things together, again the recovery of some of the units, some of the operational efficiencies, some of the M&A, but we also have the ability to maybe even accelerate the buybacks, as Ray mentioned, that we will be in the upper side of our range this year. Again, we have stress-tested and we look at two different scenarios, and we always come back within that range.

So happy to report that, at this point in time, we continue to see ourselves on track for end of 2017 or early 2018. I'll leave it in that range.

Adam Samuelson - *Goldman Sachs - Analyst*

That's very helpful. And then maybe as a shorter-term question and an update on your thoughts on the biodiesel market, both thoughts in Europe and in the US, what do you think the likelihood that we actually can get a producer tax credit passed here domestically by Congress?

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

Yes. This is obviously important, because we've been carrying the crush based on meal. And I think the creation of an oil story is important to bring more strength and more -- yes, more strength to the overall crushing area. But I would say we have seen both the US government and the Brazilian government a little bit more proactive to be supportive of biodiesel, whether we can have different RVO's here in the US, which is a guess at this point, but that kind of seems to be the rumor, and whether Brazil is thinking in increasing from a B-7 to maybe a B-8.

So we feel positive at this point into that. My speculation is probably as good as yours at this point. So we don't have any inside information. But we seem to see signs in the market that, again, both governments may be more positive toward biodiesel and supporting biodiesel products.

Adam Samuelson - *Goldman Sachs - Analyst*

All right. That's very helpful. I'll pass it along. Thanks.

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

Thank you, Adam.

Operator

David Driscoll, Citi Research.

Cornell Burnette - *Citi Research - Analyst*

This is Cornell on the line with a few questions on behalf of David. Just wanted to start off on the Wild Flavors segment. I believe earlier, it was mentioned that the Company is still looking for that business to kind of come in line where it previously thought it would for the full year. However, it looks like the results in the quarter are really soft -- I think $70 million or so -- is down a lot from what you did in the second quarter. And I know that 2Q and 3Q's are supposedly the seasonally strong quarters for that segment.

So it would seem like that segment significantly underperformed in the quarter. One, is that true? And then if that's the case, what would be the offset going forward that would keep the full-year guidance intact?

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

Yes. Thank you, Cornell. Let me clarify to you -- and we are learning all these businesses, obviously, because they are new to us. But Q3, we were expecting to be softer than Q2. This business is heavy on the summer season because it's all about beverages in the summer in Europe is very important. And so the preparation for that summer is important. After that, the business has the lower seasonality.

So there was some, as you described, of underperformance, but part was the normal seasonality. So the underperformance, as I described before, specialty proteins is -- we export everything at this point from the US, so we're still building our plant in Brazil, and the strong dollar hurt some of the exports. Some of the destination markets have issues I described before, whether it was Venezuela, whether it was Brazil, whether it was Russia.

In the Wild Flavors, there was some softness in some accounts that are large produce that became a little bit softer in Japan and in China. Nothing that -- this is structural, nothing we worry significantly about. And we saw also in the specialty proteins and some of these products that are soy-related, customers actually destocked. Because they saw the pricing of soybeans and all that coming down, there was not a lot of incentive for them to accumulate products or have forward books on any of that.

So we saw a little bit of a destocking. So the fundamental indicators about the strength of this business have not changed. The pull from customers, the number of projects, the excitement about all these solutions, haven't changed. So I would say it's just an adjustment in terms of destocking and emerging markets and softness, if you will.

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

Okay. And just -- hey, Cornell, just also -- I think it's fair to say that we are all learning about the seasonal pattern of this business here. And so you should expect that the second quarter will always be the strongest quarter for WFSI. After the second quarter, you will see declines. Third quarter will come down, because that's the seasonal pattern. And in the fourth quarter and the first quarter generally would be the lowest quarters in terms of profitability for WFSI.

So I think once you have kind of gone through one year, you'll start understanding the seasonal pattern of this business for modeling. The second point I want to make is, as Juan reaffirmed -- and we are -- for Wild Flavors, we are still on track for the first year accretion. We provide guidance that'd be $0.10 to $0.15 a share. We are still on track, despite the headwinds that we've seen in terms of foreign exchange, in terms of the weakness of certain markets around the world. We are still on track to what's lower in that range for Wild Flavors.

And then thirdly, if you recall, I did provide some guidance earlier to the entire WFI segment. I said it would be somewhere about $300 million, $340 million for the calendar year. We are still on track towards the lower end of that range. And so I think it's fair to say the team has done a very good job in terms of confronting the headwinds that we've seen in the business, yet I am still very, very comfortable that the financial results for this segment, as well as for Wild Flavors, are still consistent -- again, on the lower end of the range, but still consistent with what we are tracking in terms of helping this business actually move towards supporting our $4.00 to $4.50 earnings power over the medium-term.

Cornell Burnette - *Citi Research - Analyst*

Okay. Very good. And if I can switch and then ask one question, if I may, about ethanol. Just kind of mentioned earlier you're looking at New York Harbor ethanol prices at about a $0.35 per gallon premium to gas, and it seems like a very wide premium, and obviously historically, you've kind of traded at a discount.

Going forward, do you believe that there could be some risk there just on the pricing front, as you get deeper into the fourth quarter and some of those ethanol plants that are down, start to come up? And so you start to see production tick up and presumably inventories tick up within the industry?

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

Cornell, there's always that risk that we face. And that's why ethanol margins have remained at this level. I think that the -- I think exports have been resilient and that gives me a lot of comfort.

If we look at the top 12 export destinations of US ethanol, year-to-date, even within this dynamics, only two are down versus last year. 10 of them are up, or three of those 10 are actually new destinations. So there is a lot of dynamic into these. And as some customers are looking at these and saying, okay, it's more expensive than gasoline, I don't export it any more, or I don't import from the US any more, we're going to see other customers coming to the market.

Remember that ethanol continues to be the cheapest oxygenate. And all the other oxygenates are in the range of $2.50, even at these oil prices. So there's always going to be an opportunity for ethanol to replace other oxygenates. So -- but it will always hinge on how much capacity runs, and how much capacity runs at full capacity, so.

Cornell Burnette - *Citi Research - Analyst*

Okay, thank you.

Operator

Your last question comes from the line of Evan Morris with Bank of America. Your line is open.

Evan Morris - *BofA Merrill Lynch - Analyst*

Just a question for you just on ethanol. I know a lot of the sort of operational questions have been asked, but just the bigger picture. I mean, ethanol has clearly been very volatile. And your stock is, at times, and certainly for the better part of the past year, has been trading based on oil prices and the ethanol outlook.

I mean, internally, I know you can't exit ethanol in its entirety, given sort of the wet mill/dry mill balance, but how much thought have you guys put into internally looking at why maintain the dry mills, and why not just sort of shift some of that ethanol production in the wet mill -- you know, shift away from ethanol in the wet mill, just reduce your exposure, going forward? What is still the reason to be there in the size and the capacity that you are?

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

Yes. Thanks for the question. Listen, this is something that obviously we think about very frequently. Our focus is to improve the competitiveness of our two dry mills. You understand there is very different dynamics between dry mills and wet mills. So, obviously, that's what we're looking at improving the competitiveness.

Naturally, if we get to a point in which we cannot improve our cost position to the point of differentiation, if you will, for whatever reason, and if we believe that they cannot compete in a more challenging US ethanol environment, we will naturally look at the various alternatives to maximize shareholder value. At this point in time, we haven't found the end of that. And we continue to find opportunities.

And we want to see -- listen, it could be that the ethanol dry mill cost curve is very flat. And even if we improve, we don't get to a point of differentiation. And in that sense, we would like to make -- we would probably need to make a decision. At this point, we are not there yet. We are still finding opportunities to differentiate our dry mills. But I'm not surprised with your question or your assessment. We constantly are reviewing that.

Evan Morris - *BofA Merrill Lynch - Analyst*

Okay. And then just a broader sort of acquisition strategy. Someone asked earlier about the incremental investment in Wilmar, and there's been some speculation regarding potential grain crop in Australia being able to potentially complete that deal with a new Prime Minister, and then other about exiting -- if you could just -- I think you've talked about having the capacity to do $5 billion to $6 billion or so in terms of an acquisition. Can you talk about -- as you're thinking about it, now your acquisition strategy, the strong dollar, some of these opportunities may present themselves again, sort of bigger versus smaller, as you think about acquisitions?

Evan Morris - *BofA Merrill Lynch - Analyst*

Yes. So we are very comfortable and confident in our strategy. Our strategy doesn't call for a large M&A. Our strategy, at this point in time, includes, for certain businesses, bolt-on M&A. Bolt-on M&A's -- that actually what they do is they present opportunities to create platforms for ADM to continue to move its products into more stable and higher earnings.

So, obviously, if there is an opportunity that is too hard to pass, that is somehow inexpensive out there, I mean, we will look at those things. But that's not the main thrust of our story, of our strategy here. So I would say regarding all the other comments, obviously we don't make comments on speculation and there's been enough speculation.

You're going to see more of us doing this kind of Eatem or Eaststarch in which we continue to strengthen our businesses as they need some platforms to continue to grow. Eatem provides an excellent culinary expertise, an excellent savory platform that we didn't have before. We will continue to do so. Very large M&A again, it's not something that we are seeking at this point in time. We might stumble into something that's very convenient and will provide big shareholder value creation, but we are not seeking them at this point.

Evan Morris - *BofA Merrill Lynch - Analyst*

Okay. Great, thank you.

Operator

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

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

So thank you for joining us today. Slide 15 notes an upcoming investor event. And, 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.
