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ADM - Q1 2016 Archer Daniels Midland Co Earnings Call

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OVERVIEW:

Co. reported 1Q16 reported EPS of $0.39.

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PRESENTATION

Operator

Good morning, and welcome to the Archer Daniels Midland Company first-quarter 2016 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, kindly, Stephanie. Good morning, and welcome to ADM's first-quarter earnings webcast. Starting tomorrow, a replay of today's webcast will be available at ADM.com.

For those following the presentation, please turn to slide 2, the Company's Safe Harbor statement, which says that some of our comments constitute forward-looking statements that reflect management's current views and estimates of future economic circumstances, industry conditions, company performance, and financial results. These statements are based on many assumptions and factors that are subject to risks and uncertainties.

ADM has provided additional information in its reports on file with the SEC concerning assumptions and factors that could cause actual results to differ materially from those in this presentation. And you should carefully review 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 webcast, 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 - Chairman and CEO*

Thank you, Mark. Good morning, everyone. Thank you all for joining us today. This morning, we reported first-quarter adjusted earnings per share of $0.42. Our adjusted segment operating profit was $573 million. Global dynamics reduced margins across the US agricultural export sector, the US ethanol industry, and in the soybean-crushing industry worldwide.

Challenging market conditions continued in the first quarter, particularly affecting Ag services. Low US export volumes and weak margins continued. And, in the quarter, poor results from the Global Trade Desk impacted results for Ag services.

Results for corn improved, compared to the first-quarter one year ago, led by strong performance in sweeteners and starches. For oilseeds, global protein demand remains solid. However, first-quarter results were impacted by weak global crush margins. WFSI results were in line with expectations.

So while adjusted ROIC was below WACC on a four-quarter trailing average basis, we expect to be above WACC for the full year. We continue to take actions to mitigate the impact of near-term market conditions.

During the quarter, we continued to advance our strategic plan. We acquired a controlling stake in Harvest Innovations, enhancing ADM's plant protein, gluten-free ingredients portfolio. We announced the purchase of a corn wet mill in Morocco that will further expand our global sweeteners footprint. We opened our new, state-of-the-art flavor creation, application, and customer innovation center in Cranbury, New Jersey.

And, as part of our ongoing portfolio management efforts, we reached an agreement to sell our Brazilian sugar cane ethanol operations. In addition, we achieved almost $50 million of run rate savings in the quarter, and remain on track to meet our $275 million target by the end of the calendar year. We repurchased about $300 million of shares in the quarter and paid dividends of about $200 million, as we continue to execute on our balance capital allocation framework.

The first-half of the year continues to be sent a challenging environment. However, we are cautiously optimistic that reduced South American soybean and corn production could bring improved soybean crush margins and merchandising opportunities in the second-half of the year.

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

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

Thanks, Juan. Slide 4 provides some financial highlights for the quarter. Adjusted EPS for the quarter was $0.42, down from the $0.78 in the year-ago quarter. Excluding specified items, adjusted segment operating profit was $573 million, down $319 million.

The effective tax rate for the first quarter was 25% compared to 29% in the first quarter of the prior year, largely due to differing geographic mix of earnings. Although it is still early in the year, and our full-year tax rate will largely depend upon a number of factors going forward, at this point, I would expect our tax rate to be at the lower end, or below the 28% to 30% range I mentioned in the fourth-quarter earnings call.

Our trailing four-quarter average adjusted ROIC of 6.3% is 30 basis points below our 2016 annual WACC of 6.6%. Our objective for the full-year 2016 is to earn an ROIC in excess of our cost of capital, despite the challenging operating environment that's likely to persist for the majority of the year.

On charts 18 in the Appendix, you can see the reconciliation of our reported quarterly earnings of $0.39 per share to the adjusted earnings of $0.42 per share. For this quarter, we had asset impairment and restructuring charges of approximately $0.01 per share and LIFO charges of approximately $0.02 per share.

Slide 5 provide 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 impacting our quarterly results.

There was nothing extraordinary in terms of unique accounting or special items in the offering lines to note this quarter. In the corporate lines, net interest expense was down, due to lower interest rates and the favorable effects of the debt restructuring from last year. Unallocated corporate cost of [$116 million] were slightly higher than the year-ago quarter, due to asset impairment charges of approximately $11 million, primarily from some software impairment.

Going forward, unallocated corporate cost should be in the area of $120 million per quarter, as I have outlined in prior earnings calls. A minority interest in other was significantly unfavorable to the prior year after absorbing $50 million of equity income losses, or $0.08 per share after-tax booked in this quarter, and which was included in both reported EPS and adjusted EPS, related to updated portfolio investment valuations in CIP, an investment joint venture that we've held since the late 1980's, and in which ADM currently has a 43.7% equity interest.

Turning to the cash flow statement on slide 6. Here's the cash flow statement for a three-month period ending March 31, 2016, compared to the same period the prior year. We generated $557 million from operations before working capital changes in the quarter, slightly lower than the first quarter last year. Total capital spending for the quarter was $180 million, down from the prior year's $244 million. Included in the other investing activities line is our increased investment in Wilmar to a 20% level.

During the quarter, we spent about $0.3 billion to repurchase approximately 9 million shares. Our objective remains to repurchase $1 billion to $1.5 billion of our own stock in calendar year 2016. Our average share count for the quarter was 597 million diluted shares outstanding, down 42 million from the same period one year ago. Our total return of capital to shareholders, including dividends, was about $0.5 billion for the quarter. We can see that there was a balanced use of cash between CapEx, M&A, and capital return to shareholders in the quarter.

Slide 7 shows the highlights of our balance sheet as of March 31. Our operating working capital of $7.7 billion was down $0.5 billion from the year-ago period. Total debt was approximately $6.6 billion, resulting in a net debt balance of $5.4 billion, up slightly from the 2015 net debt level of $5.1 billion, in part reflecting the issuance in June 2015 of the EUR1.1 billion of euro debt and the subsequent repurchase of [$0.9 billion] of US debt.

Our leverage position remains healthy, with a net debt to total capital ratio of about 22%. Our shareholders' equity of $17.9 billion was down from the $18.8 billion level last year, due to shareholder capitals returns in excess of net income by approximately $870 million and a cumulative translation account, also down about $80 million, due to the strength of the US dollar.

We had $5.9 billion in available global credit capacity at the end of March. If you add available cash, we had access to over [$7.1 billion] (corrected by company after the call) of short-term liquidity. Our balance sheet remains solid.

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

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

Thank you, Ray. Please turn to slide 8. In the first quarter, we earned $573 million of operating profit, excluding the specified items, down from the $892 million from last year's first quarter. Ag services results were challenged by lower US export volumes, significantly lower margins, and unfavorable merchandising positions from the Global Trade Desk.

Results from corn improved in the quarter compared to the first quarter last year, led by strong performance in sweeteners and starches. For oilseeds, results were impacted by lower global crush margins compared to an exceptional strong year-ago quarter. WFSI was in line with expectations, up from the prior year with solid performance from WILD Flavors and higher results from the specialty proteins. As a result, segment operating (technical difficulty) was down 36% versus the year-ago quarter.

Now I will review the performance of each segment and provide additional details. Starting on slide 9, in the first quarter, Ag services results were down significantly compared to last year's first quarter. In merchandising and handling, we continue to see a challenging merchandising environment for our Ag services North American footprint. We saw weak US export competitiveness, lower North American volumes, and significantly reduced margins.

In addition, we had a quarterly loss for the Global Trade Desk compared to positive results last year. Losses from the Global Trade Desk were caused in part by unfavorable merchandising positions. These were unrealized losses generated in part by the significant movements in prices at the end of March.

In transportation, results declined, due to low US exports and high water conditions on the Mississippi River system that drove lower barge volumes and higher operating costs. Milling and other had a solid quarter, but results were down due to lower grain and feed margins.

Please turn to slide 10. Corn processing results were up slightly, led by results in sweeteners and starches, which performed well with an improved cost environment and strong capacity utilization. In addition, Eaststarch results were up, in part due to the consolidation of the results of their acquired operations in November 2015. Our Olenex joint venture also had stronger results in the quarter, with solid sweetener demand in Mexico.

Bioproducts results were down in the quarter, due to tough lysine and ethanol margins. Ethanol margins continued to be driven by high industry production levels that caused inventories to build throughout the quarter. In April, we saw inventories come down in the month, as domestic and export demand remains solid and production levels slowed. This is due in part to seasonal maintenance programs of many plants in our industry.

In addition, the continued overcapacity of the global lysine market negatively impacted results. While we expect this to continue through the second quarter, we are taking actions to further improve our lysine operations and are looking to stabilize the business in the second-half of the year.

Slide 11, please. Oilseeds results were down in the quarter versus an exceptionally strong quarter one year ago. Crushing origination declined from last year's high levels. While global protein demand remains solid, global soybean crush and origination results were down significantly, due to lower global margins resulting from increased Argentine soy meal exports.

US crush volumes were down primarily due to reduced US mill exports. In addition, lower soft seed crushed volumes and weaker Brazilian commercialization, that has slowed throughout the quarter, negatively affected results. Refined oils, packaged oils, and biodiesel was down, with stronger results from North America and Europe, partially offset by weaker results in South America. North American biodiesel demand was strong, with the extension of the biodiesel credit through the end of the year.

With the sale of the cocoa business in October 2015, results decreased $24 million compared to last year. Oilseeds results in Asia for the quarter declined, due primarily to Wilmar's lower fourth-quarter earnings. In April, we started to see improvement in soybean crush margins. While these movements create near-term negative mark-to-market implications for our positions in the second quarter, these improved crush margins, if sustained, should translate to better results in the second-half of the year compared to the first-half.

Slide 12, please. WFSI results were up from last year and in line with our expectations for the quarter. We saw solid performance from WILD Flavors and higher results from Specialty Ingredients, including specialty proteins, oils, and natural health and nutrition products. Results included more than $3 million in operational startup costs for the Tianjin Fibersol facility in China and the Campo Grande specialty protein complex in Brazil. With more than 900 revenue synergy projects identified, WFSI remains on track to achieve its 2016 targets.

Only two months in, we are excited about what we see for Harvest Innovations. It's a great example of how you can plug the right bolt-on and drive results. We can leverage our internal origination strength, originate all the soybeans and contract the acres, to get benefits from the Specialty

Ingredients component of WFSI. Harvest is a nice business, a quality facility, and provides a great complement to our existing commodity network, yet allows us to feed our Specialty business while building out our portfolio.

We remain on track to achieve our 15% to 20% operating profit growth target for 2016. In the second quarter, we expect some modest underlying growth on a year-over-year basis, and we'll continue to see some additional startup costs. Our growth will be more concentrated in the second-half, based upon the pattern of new business and synergy realizations, the startup of Campo Grande, as well as the avoidance of some unique, one-time costs incurred last year.

Now on slide 13, I'd like to update you on how we're strengthening and growing our company. We have highlighted some of the areas in which we've made significant progress recently. I'll discuss a few.

In Ag services, we continue to grow our destination marketing capabilities, as we recently closed, in April, our Medsofts joint venture in Egypt. In corn, we announced plans to acquire a Casablanca, Morocco-based corn wet mill that produces glucose and local native starch. The facility is the leading sweeteners and the starch suppliers in the country, that should see substantial demand growth in the coming years.

In the quarter, we also announced the agreement to sell our sugar cane ethanol operations in Brazil. And we are making good progress with the strategic review of our ethanol dry mill operations, which we announced in February. In oilseeds, we began a significant expansion and modernization of the Santos Port in Brazil, expanding annual storage and grain handling capacity from 6 million to 8 million metric tons.

And in WFSI, we acquired Harvest Innovations, a leading producer of non-GMO, organic, and gluten-free ingredients that consumers are demanding in increasing numbers. We also expect our Campo Grande soy protein complex in Brazil to begin ramping up production during the second-half of the year. We have targeted plans to expand our business with existing customers and gain new customer business in this important region.

In March, we opened our new WFSI state-of-the-art flavor creation, application, and customer innovation center in Cranbury, New Jersey. Also, just two weeks ago, ADM celebrated the grand opening of the new headquarters of National Food Works Services, a full innovation center in Decatur, Illinois. And we announced the launch of the Food Innovation Challenge, designed to inspire more entrepreneurs to develop and commercialize their food innovations in the Midwest.

Together, these initiatives leverage the growth strengths of ADM and the food ingredient strengths of our WFSI business unit. So these are just a few of the highlights from the quarter. We will continue to update you on our scorecard progress each quarter. And, over time, you should expect to see the results of all this.

So, before we take your questions, I wanted to offer also some additional forward perspectives. As I indicated earlier, the first-half of the year continues to present a challenging environment. And our performance in the first quarter reinforces that we have more work to do to focus on actions that we can control and which will make the Company better in the long run.

These actions include our ongoing focus on costs, lightening up the amount of capital in our business, additional geographic diversification, and our continued efforts to move further downstream in the value chain. Separately, there are some new global developments that make us cautiously optimistic as we look at the second-half of the year.

First, the heavy rain in Argentina is reducing the size of the Argentine soybean crop, creating a tighter soybean balance sheet that supports higher global crush margins. Second, dry weather in Brazil is also reducing the size of the soybean crop and the safrinha corn crop. Third, the US dollar has stabilized against the currencies of other crop-growing regions. And finally, the tighter soybean balance sheet is further supported by strong global protein demand.

For Ag services, the second quarter is a seasonal low-volume quarter. However, we are seeing a large North American corn crop get planted in ideal conditions, which supports larger production. With a reduced South American crop, this could bring added export volumes and merchandising opportunities in the later part of the third quarter and fourth quarter. For corn, sweeteners and starches continues to benefit from the flexibility at our wet mills solid demand and low costs.

The integration of the Eaststarch acquisition is going better than expected, and will continue to help demand -- expand our global product portfolio and customer reach. The ethanol industry margins remain challenged, although domestic and export demand remains strong and inventories have started to come down recently. The second-half of 2016 currently has the potential for a better pricing environment, with tighter supply/demand, but the key driver will be future production versus demand.

For oilseeds, in the second quarter, South America will continue to have more favorable supply economics. South America conditions are reducing global supplies, creating a tighter global stocks-to-usage scenario. This, along with solid growth in protein demand, is creating a better margin environment for soybeans. These market demands have the potential for a modest improvement in late 2016.

For WFSI, on-trend items like clean-label, GMO-free, organic, and natural, all fit well within the ADM strategy and leverage the WFSI portfolio. With a diverse product portfolio, turnkey system solutions, and more than 900 revenue synergy projects identified, we continue to build this business for the future. And WFSI remains on track to achieve second-half weighted 2016 profit guidance.

So thank you for joining us today. Slide 15 notes some of the upcoming investor events where we will be participating. Now, we would like to open for Q&A's.

QUESTIONS AND ANSWERS

Operator

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

Evan Morris *- BofA Merrill Lynch - Analyst*

Juan, thank you for that outlook here. I guess -- just still struggling a little bit. There's been a lot of things that have changed over the past few weeks. And I guess just starting with you're cautiously optimistic about the second-half, I guess is that a little bit more optimistic than you were? A little less optimistic? Same?

I guess -- again, there's been a lot of moving pieces. What's more positive? What's more negative? I guess at the end of the day when you kind of add this all up, does it put you in a -- you know, results going to be worse than expected for 2Q but maybe better for the back-half? If you can kind of just help frame some of that, again, given all the things that have changed over the past couple of weeks.

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

Yes. If you recall, Evan, at our last earnings call, we provided a scenario for the year. And if I compare that scenario versus what we see today, I will say that, in Ag services, given the tough start of the year and probably a similar Q2 to the Q1, we are less optimistic about Ag services overall results for 2016.

In corn, what we said that we would see improvements in 2016 over 2015, we are even more confident about that, given the strength of our sweeteners and starches, and how the year is evolving. If you look at the oilseeds, we said that oilseeds, we were expecting a down year versus 2015 -- the strong 2015, and we still expect that. But, as you described, we are more optimistic about the second-half of the year, given some of the tightness in South America.

In WFSI, we continue to be excited about the future of that business, and we continue to be in line with our previous forecast of growing 15% to 20% year-over-year. So I would say, in general, we see that the year similar to the last time, maybe a little bit better, but given these puts and takes.

Evan Morris - *BofA Merrill Lynch - Analyst*

Okay. No, that's really helpful. And then just a couple, I guess, more housekeeping kind of questions. On that Global Trade Desk loss, I mean, how much was that? Does that reverse in coming quarters? If you can just help us understand that, Ray.

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

Yes. I would say maybe I start and let Ray do -- our positions didn't -- were not immune to the end of the quarter movements, the significant volatility that we have. So, we saw some of that. Some of that are open positions; some was mark-to-market. So, part of that, it will come back.

Maybe, Ray, you want to provide a little bit more color to that?

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

Yes. I mean, I think that, as we kind of closed out the quarter, I think we indicated Ag services should probably be in the lower end of the three-digit range. And I think that really what happened was, with the movement in prices at the end of March, a lot of our positions kind of went negative.

Most of it is unrealized in nature. We think some of these are timing effects. When you think about where we ended up, like [76] versus, let's say, in the low-hundreds, we're maybe $30 million off. Some of it is timing-related. Maybe a third of it is probably timing-related. Some of it is unrealized positions, unrealized losses.

We will have to figure out where these contracts actually settle, where the prices will end up. And there were some other unique items in that variance, which are really one-timers that don't expect to repeat itself. So, I think, Evan, it's a mixture of a combination of the various factors that kind of caused this variance here.

Evan Morris - *BofA Merrill Lynch - Analyst*

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

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

Thank you, Evan.

Operator

Ann Duignan, JPMorgan Stanley.

Ann Duignan - *JPMorgan - Analyst*

Well, it's JPMorgan -- leave it there. Good morning, everyone. Can you talk a little bit about what's happened in the last few weeks again? Not to harbor on that, but we've seen a lot of farmers selling when prices rose. We're seeing exports pick up a little bit. Can you talk about why Q2 wouldn't shape up to be better than Q1 in Ag services, just given where we are today?

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

Yes, I would say a couple of reasons. You are correct; we had a couple of days of very strong farmer selling, as the [Board] rallied. We've seen that. And we've seen, with the dollar stabilizing or weakening a little bit with regards to the other currencies, US becoming a little bit more competitive.

When -- our cautious look to Q2, and it's mostly on Ag services, because when we think about it, part of that is, second quarter is traditionally our lower export volume. South America becomes more competitive with the harvest. And, in general, our exports, even in good times, they tend to drop about 20% from Q1 to Q2. So they become -- Q2 is the low margin.

But also, even if exports will increase a little bit, there is still ample capacity. And we don't foresee a big pickup in margins even if exports climb from this depressed level. So, we want to be mindful that it may look a little bit better volume into Q2, it may not be reflected completely in a significant pickup in margins for us. That's our review at the moment, Ann.

Ann Duignan - *JPMorgan - Analyst*

Okay. I appreciate the color. And then just a little bit of -- in terms of what your team is thinking for planted acres in the US, given the recent pricing movements. Are you -- is your team thinking perhaps more soybeans, more corn? Where do you stand if prices remain as is?

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

Yes, at this point in time, we're thinking a little bit more soybeans, maybe.

Ann Duignan - *JPMorgan - Analyst*

Okay. I'll leave it there and get back in line. Thank you.

Operator

Farha Aslam, Stephens Inc.

Farha Aslam - *Stephens Inc. - Analyst*

First question is for Ray. Ray, you have highlighted an $0.08 per share charge related to a JV. Do you view that as one-time in item, so we should exclude it? Or is that part of a regular kind of mark-to-market that we should include in results?

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

Yes, it means -- CIP is an investment that we've had since the late 1980's. Generally, it's actually a fairly stable equity earnings, they contribute to our results. And that's the reason why we never really highlighted in any of our quarterly earnings call. It just happens, like this time around, they actually had a significant revaluation of some of the private equity investments, which resulted in really a valuation reduction that, when translated to ADM equity earnings, resulted in the $50 million negative impact.

I view it as a unique item, because normally, it is not a factor in our earnings. And so, while we did not exclude it from adjusted EPS -- so, therefore, our adjusted EPS number includes the $0.08 loss -- I do view it as kind of a unique factor. So, when I think about run rate of earnings for this Company, I would think about it in the context of excluding the $0.08 per share.

Farha Aslam - *Stephens Inc. - Analyst*

And in terms of run rate earnings, could you just review any updates you have? Because I think that in the last call, you were talking about $2.30 in earnings, plus another $0.30 benefit from kind of your repurchase of shares and your cost savings program. So, kind of normal run rate earnings we should expect from ADM is around the $2.60 level. Is that still the right way to think about in context of the improvement in market conditions we've seen?

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

The way I kind of think about it, if you recall in the fourth-quarter earnings call, we indicated that the base earnings of the Company had been negatively impacted by the headwinds that we've seen. So, I think we outlined that probably our base, with the current headwinds, probably in the neighborhood of $2.30, $2.40 a share.

Yes. I think that, given what we've seen in the Ag services start for the first quarter of the year, and likely a continuation in the second quarter, maybe some additional pressures on this space, although, as Juan indicated, there could be some upside as it relates to where Ag services and where oilseeds may end up in the fourth quarter with the impact of the South American harvest.

And so, I guess from my perspective, Farha, I think we're in the same ballpark at this point in time. I am encouraged that, in terms of the improvements, the $1 to $1.50 of earnings improvements that we're driving over the medium-term, I am encouraged that we believe we're still on track for those $1 to $1.50. So, namely, the work that we're doing in terms of getting the accretion from our recent investments, getting the accretion from WILD and the synergies related to WILD, and getting the benefits of the operational excellence initiatives.

And as you saw, reduced share count from our capital allocation framework, which includes buying back shares. So, I'm encouraged that we're on track on the $1 to $1.50 of earnings improvements over the medium-term.

Farha Aslam - *Stephens Inc. - Analyst*

That's helpful. And my final question, Juan, you had mentioned in your prepared commentary that you've made good progress on your review of the ethanol assets. Any timeline that you are willing to place or any more color you can provide on that review?

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

Yes, the team continues, Farha, to analyze that. I mean, we made progress in terms also of carving out financials, getting an advisor. And so they are working on that. We are obviously going to manage the timing of that to maximize value for ADM on all these options. So at this point, we have nothing else to announce other than we continue to make good progress. We're getting closer to make a decision on that.

Farha Aslam - *Stephens Inc. - Analyst*

Thank you very much.

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

You're welcome, Farha.

Operator

David Driscoll, Citigroup.

David Driscoll - *Citigroup - Analyst*

Wanted to ask a few questions. On ethanol, is the business expected to be profitable in the second quarter, given what you are seeing on margins?

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

Margins -- as I said before, I think margins have -- inventories have been reduced over the quarter, and margins have improved a little bit. So, we would expect it to be profitable, yes, at this point, David.

David Driscoll - *Citigroup - Analyst*

And then, Juan, could you frame up kind of your bigger picture assessment of the ethanol S&D right now? I mean, I think you made some comments about exports and so forth that were good, demand was good. How tight do you envision the S&D in totality in 2016?

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

Yes. We look at -- export markets continue to be strong. We've seen exports to China continues to be strong, other than the traditional destinations, because of the significant growth, versus last year, of China. And domestic demand is probably up in the range of maybe 2% to 3% for the year.

So when you take domestic demand plus the strong exports, we're thinking something in the range of 15 billion gallons, and maybe we think that the capacity is slightly above 15 billion gallons. So, I think a lot will be determined by the strengths of this driving season we are going to be heading into now with the summer, and how some of the producers react.

I think that you have seen some of the shutdowns, mostly due to plant maintenance in anticipation of the driving season. That has cleaned up part of the inventory backlog that we have built over this year, but we're still [above] 4% higher than inventories of last year. So, although we are getting better at that, there is still a significant amount of product out there, and that's why we've been a little bit more cautious.

We continue to run for margins in trying to optimize our operations. And we will continue to do so. So -- but we saw the development of second quarter as a positive one versus how we started the year.

David Driscoll - *Citigroup - Analyst*

Okay. That's helpful. On the crush margins, in January, we saw crush margins that were down in the low-$0.30 per bushel. Recent margins are, like, I don't know -- in the $0.70 per bushel, so it's like a big rally. However, on your comments, I take away that you really don't feel all that optimistic on crush margins in the second quarter, and that it was only this movement on the board crush that gives you optimism on the third and fourth quarter. If I've said that all correctly, maybe could you just say why don't the improvement in crush margins filter into 2Q?

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

No, David, I just mentioned that, normally, when these crush margins expand, like the way they did, we normally take a negative mark-to-market in that quarter. So I was just saying for your modeling purposes, if you will, it is a positive development for us for the rest of the year, so we feel good about it. Maybe I didn't express myself with the right amount of enthusiasm about it.

It's obviously a positive for us. It's just in the short-term, I want to make sure you remember that we normally take a negative mark-to-market to that, and we still don't know the magnitude of that. That is obviously evolving. But I will say, as I said in my initial remarks, we are more optimistic now than we were at the beginning of the year about the forecast for oilseeds for the rest of the year.

David Driscoll - *Citigroup - Analyst*

That's super helpful. And just one last one. Ray, on the cost savings, you gave this run rate number. Can you say what the realized savings were in the first quarter? And what the realized savings will be in 2016, as opposed to run rates, if they are different?

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

Yes. I mean, just because of the timing issue, right? So, roughly half, we would say that it's been realized. But the reason why we give run rate, David, is just to -- I mean, that's how we kind of evaluate ourselves in terms of getting towards a -- yes, how much earnings power operational excellence is contributing towards the Company.

And so, as you know, we set the objective [at] $275 million, and so we track it in order to determine -- you know, based upon all the initiatives that we've actually got executed in the first quarter, what does that translate on an annualized basis? So that's the reason why we provide that number to you.

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

David, to give you some reference, when we said in the strategy that we count on $0.10 of accretion every year, so last year when the run rate savings were about the $220 million, $250 million, the actual savings for the year were about $90 million. So if you think that this year we are planning $275 million, depending on how these projects are implemented, but you think about half of that, or something in the range -- $200 million, $220 million, that's where they should land for this year.

David Driscoll - *Citigroup - Analyst*

Terrific, guys. Thank you so much.

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

You're welcome.

Operator

Rob Moskow, Credit Suisse.

Rob Moskow - *Credit Suisse - Analyst*

I guess these questions will be around the edges, but I don't know if you mentioned the reason for the financial results being so much higher than a year ago. Is there something happening in terms of your relationships with farmers that's giving you stronger results there? And how sustainable?

And then also on lysine, do you expect those losses to persist for the rest of the year? And are they significant enough, I guess, to kind of offset the -- or fully offset the modest margin positive you expect in ethanol?

THOMSON REUTERS

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

So, I'll take the first one, Rob. So, on other financial was stronger than usual. A couple reasons. I mean, we actually had some strong results from our ADM investor services. And it's just like higher volatility in markets translates into higher volumes, and so that's been a benefit.

The big one is there was another investment that we've had over in Asia that actually had a distribution of earnings. And so we were able to capture that in this quarter. That's kind of a -- again, I would view that as kind of a positive. Would it be reoccurring in the future? Probably not, but it's been -- it was a positive result for us in the first quarter.

Rob Moskow - *Credit Suisse - Analyst*

Got it.

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

Yes, Rob, on the lysine front, there are market conditions that there is overcapacity in that industry, but then the results were also aggravated by some problems that we had in our own operations. We have addressed those through a project that we are implementing. That project will be onstream by late Q3.

So we are going to see, from our own self-help, better forecasts for results for lysine in the second half. And then we were encouraged by some of the price increases we have seen. So, we think that the impact of negative lysine economics in the second-half will be less than in the first-half. I can't quantify whether it's going to be positive at this point in time. It depends on the project we're implementing, but significantly better than what the first-half will be.

Rob Moskow - *Credit Suisse - Analyst*

Okay. And just a quick follow-up. When I'm looking at the USDA's estimates on grain exports, it seems like there's more good news lately, after a very slow start of the year. Is what you are saying that you might participate in that good news, some increased volume, but maybe you've bought the grain itself at higher levels, and therefore, your cost basis is just not -- is too high to -- in order to make a good margin on that export volume? Is that another way of saying it?

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

No, no. What I was referring, Rob, was that the elevation margins, the export margins, are a function of the capacity utilization of the export terminals, if you will. And there is still export capacity available in the US. So, what I was cautioning in is that a small increase in export volumes may not create an exponential increase in the margins. So, I just wanted to cautious on that, that it will not be a big multiplier effect. First of all, you need to fill the capacity. And since we are coming from very depressed levels, it would take a while.

So we are encouraged by the more competitiveness of US exports, and we expect that that will flow through our normal market share of that. We just don't expect a significant improvement in Q2. We expect Ag services probably to have a better scenario after Q3, after we have a strong potential US harvest.

Rob Moskow - *Credit Suisse - Analyst*

Okay. Thank you.

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

You're welcome.

Operator

Michael Piken, Cleveland Research.

Michael Piken - *Cleveland Research Company - Analyst*

Thanks for the color. Could you walk us through a little bit more about the savings -- quarterly about some of your cost savings programs, and which segments or subsegments we might expect them to show up in, in future quarters?

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

Yes, Michael, sure. Traditionally, this -- given the corn business is the business with the biggest plans and the biggest units, that's where most of the work tend to happen. So I will normally think that between 50% and 60% of all our savings should show in the corn segment.

You have to understand, though, that part of these savings are related to energy savings. And obviously, with low energy prices, some of that shifted a little bit versus maybe what they used to be a couple of years ago.

There is a lot going on also in terms of optimization of logistics. There is better software now that we can use to reduce shipments, to reduce storage. So -- and then there is the issue of the contribution of purchasing, and I would say the contribution of purchasing in reduced raw material costs and consolidation of supplier and SKUs, that normally shows in oilseeds and in corn, where they both buy chemicals.

So I would say the operational efficiencies, 50%, 60% in corn. The rest is probably split between corn and oilseeds, with the smallest part going to Ag services, which is mostly a storage business; have less opportunities to improve cost of operations.

Michael Piken - *Cleveland Research Company - Analyst*

Okay, great. And from a timing perspective, I mean, is it going to be more back-half weighted, most of these cost savings?

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

Yes, because they are all related to projects that, some of them imply some spending. So, yes, normally they ramp up over the year, so it's a more second-half loaded.

Also, in the first-half, we normally take most of the nondiscretionary investments. So the maintenance we do in our plants in the first-half. So a lot of the activity of operations and engineering in the first-half is mostly to maintain the plants. So the projects to improve, they tend to happen later in the year as we give priority to the maintenance plants.

Michael Piken - *Cleveland Research Company - Analyst*

Okay, great. And then lastly, if you could talk a little bit about the longer-term outlook for WILD Flavors, and specifically when you think you might be able to hit your return targets? And what would be a good revenue run rate growth to use for 2016 and 2017? That would be great.

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

Yes, Michael, we are very proud of our acquisition of WILD Flavors. Think about this: I think a lot of people have doubts how a specialty company like WILD Flavors will be handled by a perceived commodity company like ADM. And we are very proud to say that in the first year of operation, WILD Flavors actually had all-time record profits. So, I mean, we think that the integration went very, very well. We provided a great home and we assimilated all that talent. And we are very happy working together.

You have to realize that that unit, that ended up being WFSI, went through a lot last year. It was their first year of operations, and they not only had to integrate WILD with the Specialty Ingredients, but also they need to integrate SCI, they need to integrate Eatem Foods, and now they are integrating Harvest Innovations. So, we are creating something for the future, a long-term powerhouse in terms of ingredients and for food and beverage.

But in the meantime, we are delivering on the quarterly results on our goals. So, if you think about cost synergies, when we thought at the beginning they were going to be around $40 million, we're talking now about $70 million. And revenue synergies are also going very well. So, we really feel very good. We still believe we are going to hit our three-year target for ROIC for the business. And the business should grow revenue in the range of about 5% to 6% per year. We are thinking growing profits in 15%, 20% for WFSI. So, we feel very good about that.

But again, I just want to make sure people are reminded we are building this for the future. There are a lot of things that we are bringing onstream. We are bringing a Fibersol plant onstream right now. We are bringing a huge vegetable protein complex in Brazil -- more than $200 million of expense, many units of operation. So all that bring a lot of noise to the P&L, because we have permissioning permitting costs, we have all those things. So -- but we're just very happy the way the team is delivering and the way the customers are reacting to that, so.

Michael Piken - *Cleveland Research Company - Analyst*

Thank you very much.

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

You're welcome.

Operator

Ken Zaslow, Bank of Montreal.

Ken Zaslow - *Bank of Montreal - Analyst*

Just a couple questions. One is in this kind of unusual environment, how come it doesn't net-net get you back to your normal level? And what would it take in this environment for you to go back to [3.50 -- 3, 3.50] level to grow off? Because it seems like it kind of reestablishes the global picture and it gives you a little bit more dislocation opportunities. So, what do you see that doesn't get you to that [3, 3.50], what do you need to have happen to get you to that [3, 3.50] number?

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

Yes, I think as you describe, we have probably over the last -- I don't know, month -- a little bit of a better news that may potentially impact oilseeds and potentially Ag services in that sense. So probably maybe the things that have happened recently, but I'm less sure the sustainability of it, is maybe the ethanol margin improvement.

Because it was really an event in which a lot of the industry plants took maintenance shutdowns in preparation for the driving season. Are we going to go back to the previous practices in producing more than we need? Difficult for us to predict. So I would say, from a macro perspective, that's probably, Ken, the issue where I'm more cautious about.

The other things, I think that we are going in the right direction. And with these dislocations over time, oilseeds and Ag services should come back to the normal levels.

Ken Zaslow - *Bank of Montreal - Analyst*

And then the one thing you said about Ag services which caught my attention is, the Ag services going forward -- was there a capacity addition or something like that in the industry that has created the overcapacity? Because it seems, over the last couple of years, you guys have been saying it hasn't been much growing. It seemed like your language might have changed a little bit.

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

It was not from our side, but there is a little bit more capacity in the Gulf Coast. And that, plus the fact that we've been exporting less. And I think the issue sometimes, Ken, is how those exports come, whether they come at the same time and we can expand elevation margins, or whether they come over time, and then capacity or margins don't climb that much.

And we had a couple of years in which we had that event, and we had very big expansions on margins. And we haven't seen that recently. And again, we don't expect to see it in Q2.

Ken Zaslow - *Bank of Montreal - Analyst*

And my very last question is on the high fructose corn syrup, in your commentary, you referenced low-cost environment, then capacity utilization rate. With corn prices going up, does that change the back-half of the year at all? Or do you still feel comfortable? Just because the wording just seemed like it was more lower cost environment rather than the higher high fructose corn syrup prices.

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

No, Ken, I would say we feel very good about high fructose corn syrup and the whole sweeteners and starches portfolio for the rest of the year, and probably I would say even for 2017 as well. So, no new issues --.

Ken Zaslow - *Bank of Montreal - Analyst*

Perfect, thank you.

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

Thank you, Ken.

Operator

Eric Larson, Buckingham Group.

Eric Larson - *Buckingham Research Group - Analyst*

A couple questions. I'd just like to drill down a little bit on your Ag services, your global desk trading losses in the quarter. They were unrealized. Are those mark-to-market losses that will reverse in the second-half?

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

Yes. I think, Eric, some of it are mark-to-market and will reverse. Some of it will be a function of where prices are when those contracts settle.

Eric Larson - *Buckingham Research Group - Analyst*

Okay. So it's a combination of the two of those?

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

Yes.

Eric Larson - *Buckingham Research Group - Analyst*

And then getting back to your second quarter, the outlook for your oilseed business. And I know that Juan cautioned on the size of the mark-to-market loss, but as far as I'm concerned, the bigger the loss, the better. That's just an accounting function, non-cash charge. The larger your mark-to-market loss in Q2 -- or your accounting change in Q2, would just mean that reverses off in the second half at a larger profit rate. Is that an accurate statement?

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

Well, it just means -- as you know, Eric, we typically kind of lock in certain amount of margins.

Eric Larson - *Buckingham Research Group - Analyst*

Right.

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

And we use the Board in order to lock that in.

Eric Larson - *Buckingham Research Group - Analyst*

Yes.

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

And so we believe we lock in at attractive rates. To the extent that margins actually improved over the quarter, it just means that we have to mark that contract to market. And that's the reason why, as Juan indicated, we will take effectively a mark-to-market loss at the end of the second quarter related to our Board crush hedges there.

But you're right; fundamentally, with an improving margin environment, in means like for the future sales that are unhedged, that's actually very positive for us. And that's the reason why we're a lot more positive for the third and fourth quarter, assuming the cash margins converge to the Board margins there.

Eric Larson - *Buckingham Research Group - Analyst*

Right. Because -- I mean, you've had a real nice appreciation in your basis. You've got your July meal contracted at [350] a ton, and your cash prices haven't appreciated at that rate. So you've got a positive spread in your basis, which improves your outlook.

So the final question that I have -- can you talk a little bit again about your lower tax rate guidance for the year? You had been at, I think, 28% to 30%; it's coming in lower. It sounds like it's more of a geographic mix as to where you are sourcing your earnings. Is there anything more to it than that?

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

No, it's primarily a geographic mix. I mean, as you know, Eric, the United States is one of the highest tax countries in the world. And so, unfortunately, with weakness in terms of US ethanol margins and weakness in terms of US Ag services exports, the amount of US earnings relative to our total earnings has come down. And that actually results in a lower tax rate.

Now, to the extent that, in the back-half, US exports pick up dramatically beyond what we're expecting, and to the extent that US ethanol margins improve dramatically relative to what we expect, and that could actually drive our tax rate a little bit higher. But I guess what I'm saying right now is I think that we're going to be at the lower end of the 28% to 30% range, and maybe even slightly below that range.

Eric Larson - *Buckingham Research Group - Analyst*

Okay. And then the final question on your return on invested capital. Obviously you had a bit of shortfall below WACC this last quarter, obviously because probably some of the more difficult conditions we've had in the Ag business in some time. Is there any sort of range of where that spread could -- you'll probably fall short of your 200 basis point goal for the year, but can you give us a little bit of flavor where you think your ROIC could potentially be for the full year, given all the other things you are doing with your cost savings programs and other things such as that?

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

Yes, just a reminder, I mean, this is a four-quarter trailing average calculation, so if you recall, Eric, we had a very weak Q3, very weak Q4, and a very weak Q1. So, it all kind of accumulates together here. Our expectation is, by the time we get to the end of the calendar year, we should be above our annual WACC again. Because our earnings will be back-half towards the second half of this year, based upon our views in terms of how Ag services, how oilseeds, and how ethanol will perform for the rest of the year.

Eric Larson - *Buckingham Research Group - Analyst*

Okay. Thank you.

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

Thank you, Eric.

Operator

Sandy Klugman, Vertical Research Partners.

Sandy Klugman - *Vertical Research Partners - Analyst*

The outlook for US corn exports has obviously improved, given the depreciation of the dollar and the weather issues in Brazil, but are you seeing any potential offsets from China's decision to end its corn stockpiling program?

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

Yes, Sandy. Of course, China is the speculation about how much product do they have and when they are going to start. But certainly we feel that, over the next year, they are going to start having these options and bringing some of that product to the market. So certainly could impact barley, sorghum, DDGs, some of those -- and as well as corn, yes.

Sandy Klugman - *Vertical Research Partners - Analyst*

Okay. Great.

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

It's difficult to gauge how much, to be honest, at this point in time.

Sandy Klugman - *Vertical Research Partners - Analyst*

Okay, that's fair. Just a follow-up question on the storage capacity. So there's been a lot of bins built in the last five to eight years on farm and at commercial elevators. What are your thoughts as to whether we will see additional storage capacity coming online? And then to what extent are growers getting created in terms of storing corn when these bins are full?

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

Yes, we don't foresee at this point any more storage capacity being built. I think also the economies of the farming, I mean, will not allow for that to happen. We don't believe that a lot of the off-farm storage have created -- or on-the-farm storage has created a problem for us. I think that the issue is that, over time, especially with the development of the ethanol industry, the industry may be -- didn't need as much storage, because a lot of the corn was locally consumed, if you will, by some of the ethanol plants.

So, the environment in the agro industry and Ag services changes every year. And with that, our business continue to adapt, and sometimes we shift storage capacity, sometimes we shut down storage capacity, or we move it around in the US. I don't think that there has been anything unusual to that.

Sandy Klugman - *Vertical Research Partners - Analyst*

Thank you very much.

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

You're welcome.

Operator

Vincent Andrews, Morgan Stanley.

Vincent Andrews - *Morgan Stanley - Analyst*

Juan, just want to make sure I understand your thought process on the potential large US crop that we might have, based on planted acreage. I just wanted to understand why you think that would be helpful, just given that there's ample stocks around today and we've had a couple large crops in a row. So, what's going to be different this year?

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

Yes, well, you are correct in the sense that we are still going to need some dislocations into that. My point is that we have better opportunity when the US has a larger crop, because we have -- our footprint is skewed more to our US assets and North American assets. So, hopefully, if the US gets the dislocations and get the opportunity to export that, and we get to handle a big crop, if the crop is large and it comes early, maybe we get drying income and all that. So, I was just talking from the perspective that a bigger crop is probably better for us, given the skewed nature of our footprint towards North American assets.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay. Thanks very much. Appreciate it.

Operator

Paul Massoud, Stifel.

Paul Massoud - *Stifel Nicolaus - Analyst*

I just wanted to dig a little bit more on the second quarter. I mean, I didn't get a sense of what it is that you're expecting for the second quarter, specifically for Ag services. You've got -- I mean, you mentioned the potential for some volume increase, but we have seen crop prices rally, we have seen some marketing and farmers selling crops. I mean, is there still a significant amount of crops still left in a bin, if -- on-farm storage? And if we keep seeing the dollar weaken or even just stay at these levels, I mean, is there a potential for both volumes and margins to surprise in Ag services in the second quarter?

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

Paul, I guess the main driver is going to be kind of volume. Traditionally, for Ag services, the Q2 is a lower-volume quarter compared to Q1. And that's just simply because of -- for Ag services, the more US centric nature of the footprint. And so, as Juan indicated, exports generally are 20% to 30% lower from a volume perspective Q2 versus Q1.

So, even though -- I mean, there is some macro variables out there, which would suggest the global environment may be improving. All we're saying is for Ag services specifically, our expectation is the earnings for Q2 will be actually fairly similar to where we ended up in Q1.

Paul Massoud - *Stifel Nicolaus - Analyst*

It makes sense. I guess what I'm having trouble reconciling is that part of the reason -- at least I've always thought that Q2 was lower was because farmers did all their selling in the fourth quarter and into the first quarter. And this year -- or rather in this season, we didn't see that, so there's a lot more sitting on the sidelines that never got moved. Or is it more of a demand issue, in your mind, where the demand is just not there, and so you have to wait until the second-half to see the volumes move?

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

No, I mean, I think with the recent rise in the Board, you are seeing some of the farmers actually being more aggressive in terms of selling. The issues, in terms of our movement through an entire system, particularly our export system, that is going to remain very weak in Q2.

Paul Massoud - *Stifel Nicolaus - Analyst*

Okay. And then maybe a little bit on some of the global competitors. I mean, I think you said specifically with Argentina -- they've got a lot of soybeans that could last throughout the year, but corn and wheat, as far as exports go, they may very well run out of some of that excess supply mid-year. Is that still the view, I mean?

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

Yes. Yes, generally, the Argentine farmer has been selling their corn and their wheat. And that's, again, a function of the fact that the export taxes have been reduced down to zero.

Paul Massoud - *Stifel Nicolaus - Analyst*

Okay. And then I guess just lastly, I think we saw some news reports come out recently that some industry groups based in DC representing some of the grain handlers were pushing back on some of the new soybean seeds that were being sold. Do you have any comments on that? I mean, could you maybe add a little bit of color from experience, when the last time there was a seed that was approved domestically but not approved by a buyer?

I think this time, we are talking about Europe not having accepted a new soybean seed. I mean, can you talk a little bit about what's going on there? Maybe add some color to that?

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

Yes, Paul, I mean, you mentioned it. We've seen this before and we've seen the impact that that causes to us, grain handlers, and also to the farmers. And because of the importance of exports to American agriculture and American farmers, our policy is not to accept any commodity that contains a trait that is approved here but not in the major markets. And we continue to do so. And I think that you heard that the industry is very aligned in that sense and it's set to protect the competitiveness of US exports.

Paul Massoud - *Stifel Nicolaus - Analyst*

All right. Well, appreciate all the color, guys. Thanks a lot.

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

Thank you, Paul.

Operator

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

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

Okay, thank you very much. So, thank you, everybody, for joining us today. Again, slide 15 notes some of the upcoming investor events where we will be participating soon. So, as always, feel free to follow up with Mark if you have any other questions. And have a good day and thank you for your interest in ADM.

Operator

Thank you for your time and participation today. This concludes today's conference call. You may now disconnect.
