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ADM - Q2 2016 Archer Daniels Midland Co Earnings Call

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OVERVIEW:

Co. reported that 2Q16 reported EPS was $0.48.

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CORPORATE PARTICIPANTS

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

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

Ray Young *Archer Daniels Midland Company - EVP & CFO*

CONFERENCE CALL PARTICIPANTS

Adam Samuelson *Goldman Sachs - Analyst*

Tom Simonich *JPMorgan Chase - Analyst*

Evan Morris *Bank of America Merrill Lynch - Analyst*

David Driscoll *Citigroup - Analyst*

Farha Aslam *Stephens Inc. - Analyst*

Ken Zaslow *BMO Capital Markets - Analyst*

Robert Moskow *Credit Suisse - Analyst*

Eric Larson *Buckingham Research - Analyst*

Mike Henry *Cleveland Research - Analyst*

PRESENTATION

Operator

Good morning and welcome to the Archer Daniels Midland Company second-quarter 2016 earnings conference call. (Operator Instructions). As a reminder, this conference call is being recorded. I would now like to introduce your host for today's call, Mark Schweitzer, Vice President, Investor Relations for Archer Daniels Midland Company. Mr. Schweitzer, you may begin.

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

Thank you, Stephanie. Good morning and welcome to ADM's second-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 response 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 Chairman and Chief Executive Officer, Juan Luciano, will provide an overview of the quarter. Our Chief Financial Officer, Ray Young, will review the financial highlights and corporate results. Then, Juan will review the drivers of our performance in the quarter, provide an update on our scorecard and discuss our forward look. Finally, they will take your questions. Please turn to slide 3. I will now turn the call over to Juan.

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

Thank you, Mark. Good morning, everyone. Thank you all for joining us today. This morning, we reported second-quarter adjusted earnings per share of $0.41. Our adjusted segment operating profit was $573 million. After a challenging start of the year, general market conditions began to turn at the end of the second quarter, providing us with improved opportunities for the second half of the year.

Weak grain handling margins and merchandising results continued for Ag Services. Results for corn, included strong performance in sweeteners and starches, offset by lower ethanol results. Our oilseeds operations leveraged their flex capacity to crush record volumes of soybeans in the second quarter as global protein demand continues to grow. WFSI saw strong growth in flavors and systems with operating profit in line with the year-ago quarter.

During the quarter, we continued to advance our strategic plan acquiring full ownership of Amazon Flavors, a leading Brazilian manufacturer of natural extracts, emulsions and compounds. We added soybean crushing capability to our facility in Straubing, Germany allowing us to utilize flex capacity while also meeting growing customer demand for non-GMO soybean meal and oil in Western Europe.

We continued to invest in Asia's growing and evolving food demand by further increasing our strategic ownership stake in Wilmar from 20% to 22%. In addition, we continue to make progress in the strategic review of our ethanol dry mills. We have implemented almost $150 million of new run rate savings actions in the first half of the year and remain on track to meet our $275 million target by the end of the calendar year. Also, we repurchased about $500 million of shares in the first half as we continue to execute on our balanced capital allocation framework.

The first half of the year was very challenging. However, with improved fundamentals, we anticipate a more favorable second half of the year. I will provide more detail on our scorecard progress later in the call. Now I will turn the call over to Ray.

Ray Young - *Archer Daniels Midland Company - EVP & CFO*

Thanks, Juan. Good morning, everyone. Slide 4 provides some financial highlights for the quarter. Adjusted EPS for the quarter was $0.41, down from the $0.60 in the year-ago quarter. Excluding specified items, adjusted segment operating profit was $573 million, down $151 million. The effective tax rate for the second quarter was 29% compared to 27% in the second quarter of the prior year, largely due to $20 million of unique discrete tax items in the quarter that negatively impacted our effective tax rate, as well as our second-quarter EPS by approximately $0.03 per share. Note, we did not impact our adjusted EPS for these $0.03 of discrete tax items. Although our full-year tax rate will largely depend on a number of factors going forward, at this point, I would expect our calendar year tax rate to be about 28%. Our trailing four-quarter average adjusted ROIC of 5.7% is 90 basis points below our 2016 annual WACC of 6.6%. Our objective for the full year 2016 remains to earn an ROIC equal to or in excess of our cost of capital.

On chart 18 in the appendix, you can see the reconciliation of quarterly earnings of $0.48 per share to the adjusted earnings of $0.41 per share. For this quarter, we had gains on sales or asset revaluations of $0.17 per share, asset impairments of approximately $0.01 per share and LIFO charges of approximately $0.09 per share.

Slide 5 provides an operating profit summary and the components of our corporate line. I'd like to highlight some of the unique items impacting our quarterly results. In the Ag Services segment, there was a net gain of $43 million reflecting the collection of the final deferred proceeds from the sale of Gruma shares in 2012, offset by some small impairment charges. In the Corn Processing segment, there was a net gain of $63 million related to the sale of our Brazilian sugar assets, partially offset by $6 million of small impairment charges.

In Oilseeds Processing, we did not have any material items that impacted adjusted EPS. Over the course of the second quarter, we did have unprecedented volatility in the soybean crush margins. Earlier in the second quarter, we had expected to run up in the board crush margins to have a significant negative mark-to-market impact on our second-quarter results. In June, however, margins fell dramatically and the net impact from a mark-to-market perspective ended up being minimal for the second quarter. We did have some negative timing effects related to soft seed crush and biodiesel hedges and these negative impacts should reverse themselves in the second half of the calendar year.

As a reminder, the results of the equity earnings of Wilmar are reported by ADM on a one-quarter lag basis. To note, Wilmar issued a profit warning in the middle of July announcing that it expects to report net losses of approximately $230 million for its second quarter. As a result, we expect to pick up about $50 million of equity losses in our third-quarter results compared to the prior consensus estimates of about $50 million of equity earnings for the third quarter, or about a $100 million swing in ADM's expected third-quarter results. The tax rate we applied to Wilmar equity earnings is 0%; hence, the EPS impact of this $100 million swing will be about a negative $0.17 per share for our third quarter.

In WFSI, there was a $12 million revaluation gain related to our acquisition of the remaining interests in the Wild-Amazon joint venture.

In the corporate lines, net interest expense was down due to lower interest rates, the favorable effects of the debt restructuring from last year and a revaluation of our liability to purchase the remaining stake in Harvest Innovations. Unallocated corporate costs of $116 million were down from the year-ago quarter primarily due to strong cost management.

Turning to the cash flow statement on slide 6, here's the cash flow statement for the six months ended June 30, 2016 compared to the same period the prior year. We generated over $1 billion from operations before working capital changes in the first half, slightly lower than the first half of last year. Total capital spending for the first half was $396 million down from the prior year's $540 million. Capital spending has been lowered during this more challenging first half of the year.

Acquisitions of $120 million during the first half of 2016 included Harvest Innovations and WFSI, Medsofts in Ag Services and Morocco in Corn Processing. Included in the other investing activities line is our increased investment in Wilmar to a 22% level. During the first half of 2016, we spent about $487 million to repurchase approximately 13.5 million shares of ADM. 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 first half of the year was 594 million diluted shares. Our total return of capital to shareholders, including dividends, was about $800 million for the first half of the year. We can see that there was a balanced use of cash between CapEx, M&A and capital returned to shareholders.

Slide 7 shows the highlights of our balance sheet as of June 30. Our operating working capital of $8.2 billion was down $0.1 billion from the year-ago period. Total debt was approximately $7.4 billion resulting in a net debt balance of $6.7 billion, up from the 2015 net debt level of $5.7 billion. Our leverage position remains healthy with a net debt to total capital ratio of about 27%. Our shareholders' equity of $17.7 billion was down from the $18.6 billion level last year due primarily to capital returns in excess of net income and a decrease in the cumulative translation account. We had $4.9 billion in available global credit capacity at the end of June. If you add available cash, we had access to $5.6 billion of short-term liquidity. Our balance sheet remains very, very solid. Next, Juan will take us through a review of the business performance. Juan.

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

Thanks, Ray. Please turn to slide 8. In the second quarter, we earned $573 million of operating profit, excluding specified items, down from the $724 million from last year's second quarter. In Ag Services, weak grain handling margins and merchandising results continued. Results for corn were down slightly compared to the second quarter last year with continued strong performance in sweeteners and starches offset by weaker bioproducts results.

With continued strong global protein demand, our oilseeds operations were able to utilize flex capacity to crush record volumes of soybeans in the quarter. Excluding the startup items, WFSI operating profit results were in line with the year-ago quarter. As a result, adjusted segment operating profit was flat versus last quarter and down 21% versus the year-ago quarter.

Late in the quarter, market conditions began to turn, lining up a more favorable outlook for the second half. Now I will review the performance of each segment and provide additional detail.

Starting on slide 9, we indicated last quarter that Ag Services in the second quarter will be challenged, and as it turned out, adjusted results were down significantly compared to one year ago due to compressed U.S. grain handling margins. In the U.S., we saw limited merchandising, warehousing and storage opportunities due to reduced grain carries.

International merchandising results remained weak overall, but were up versus one year ago due to the strong origination results in Argentina and the addition of destination market in Egypt through our Medsofts joint venture. Net timing effects did not have a material impact on results.

In transportation, results declined due to weak barge demand and lower freight rates. In milling and other, ADM Milling had a strong second quarter driven by product margins and merchandising results.

Please turn to slide 10. Corn Processing results were up sequentially, but down slightly versus the second quarter last year. Sweeteners and starches results were higher as the business continued to perform well with higher volumes and pricing and improved margins from optimizing product grind in our corn wet mills. In addition, the integration of the recent Eaststarch and Morocco acquisitions has gone better than planned contributing to our global sweeteners and starches portfolio and results.

Bioproducts results were down in the quarter. With high industry ethanol inventory levels coming into the quarter, we decreased production. While ethanol margins have improved modestly and demand for both domestic consumption and exports continued to be strong, margins remain very volatile and extremely sensitive to industry production rates and inventory levels. Lysine results continued to be pressured by large global production, particularly early in the quarter. However, results improved in June as global inventories declined and a strong demand continued.

Slide 11, please. Oilseeds results were solid for the second quarter, but were down versus the strong quarter one year ago. Crushing and origination declined from last year's high levels primarily due to weak canola margins, as well as lower soy crush margins, which were historically high last year. Strong global demand for protein meal and the continued weak economics for soft seed allowed us to flex the capacity of our end-market crush plants in Europe. This added positive contributions to our network and allowed our North American and European crush operations to set new second-quarter soy crush volume records. During the quarter, the team effectively managed unprecedented board crush movements that were caused by South American crop uncertainty. By the end of the quarter, supply/demand fundamentals stabilized crush margins.

Earlier in the quarter, we had expected significant soybean crush negative mark-to-market impacts for the second quarter due to a significant increase in board margins, but the actual net impact turned out to be quite minimal as board crush margins fell in June. Refining, packaging, biodiesel and other results were down from one year ago mainly due to negative biodiesel timing effects despite strong results in specialty fats and oils and Golden Peanut.

Oilseeds results in Asia for the quarter improved partially due to Wilmar's first-quarter earnings. As Ray indicated earlier, Wilmar had issued a second-quarter profit warning in July that we expect will have a negative impact for ADM's third-quarter results.

On slide 12, excluding startup costs, WFSI results were in line with the second quarter last year with strong growth in flavors and systems, offset by slower separate individual ingredient sales. In the quarter, we added to our ingredient capabilities in South America with the full ownership acquisition of Amazon Flavors, a leading Brazilian manufacturer of natural extracts, emulsions and compounds. This gives us the full capability of flavors and systems in Brazil with boots on the ground to develop systems and provide customers with rapid prototype delivery to meet local tastes.

Results included about $4 million in operational startup costs for Tianjin and Campo Grande. We expect Wild Flavors to have an extremely strong second half of the year, which should result in year-over-year operating profit growth of more than 20%. However, continuing challenges with some of our legacy ingredients businesses, demand factors in the case of hydrocolloids, near-term pricing pressures in the case of fibers and some inventory management issues at SCI, will limit overall WFSI segment operating profit growth this calendar year to lower double-digit percentages.

Now on slide 13, I would like to update you on how we are strengthening and growing our Company. We've highlighted some of the areas in which we made significant progress recently. I will discuss a few. In Ag Services, in the second quarter, we started operations in our Medsofts joint venture in Egypt as we continue to expand our distribution value chain through our destination marketing capabilities and an asset-light approach. The Medsofts joint venture helps us diversify and expand our merchandising footprint, grow our logistics services and gets us closer to our customers as we deliver products directly to them.

In corn, we completed the sale of our sugarcane ethanol operations in Brazil. We began operation of our Casablanca, Morocco-based corn wet mill as we continue to expand the geographic footprint of our sweeteners and starches business. We expanded our sweetener portfolio by entering into a partnership to offer low-calorie non-GMO Stevia and monk fruit ingredients.

Within our Animal Nutrition business, we introduced new products and announced plans to expand and modernize facilities. In our lysine business, we made process improvements that should improve yields in the second half of the year, and we are advancing on the strategic review of our ethanol dry mills assets. We have made management presentations to seven parties that have indicated interest in our dry mill assets. We will await all the proposals to determine what is the best value-maximizing strategy for ADM. We anticipate receiving bids back by the end of August and will then evaluate and determine our next steps in the process.

In Oilseeds, we completed the canola crush expansion project at our plant in Lloydminster, Canada and we added soybean crushing capacity at our facility in Straubing, Germany allowing us to meet growing customer demand for non-GMO soybean meal and oil in Western Europe. And in WFSI, we built out additional synergy projects and now have more than 1,300 projects in the pipeline. Our latest forecast for the end of 2017 is shifting to about two-third cost synergies and one-third revenue synergies due to revenue synergies taking a little longer to realize.

We added to our ingredient capabilities in South America with the full ownership acquisition of Amazon Flavors and we had another productive IFT just a few weeks ago highlighting recent additions in SCI, Eatem Foods and Harvest Innovations. Together, we showcased the industry's broadest and deepest ingredient portfolio, giving customers access to innovative products, extensive technical expertise and best-in-class service.

These are just a few of the highlights from the quarter. We will continue to update you on our progress each quarter and over time, you should expect to see the results of this.

Before we take your questions, I wanted to offer some additional forward perspectives. As I indicated earlier, both the second quarter and the first half of the year were challenging. Throughout this period, we continued our ongoing focus on costs and importantly, we continue to execute on our strategy, which includes additional geographic diversification by moving further downstream in the value chain.

Now looking ahead, with recent improved market dynamics, we anticipate better opportunities. The outlook for the large U.S. crop and some of our businesses experiencing the improved margin conditions creates a platform for a more favorable environment in the second half of the year and some optimism as we start to move into early 2017. For Ag Services, current U.S. crop conditions indicate the growing season is progressing very well. This is expected to translate into improved export volumes and margins, higher utilization of our transportation network and better merchandising and handling opportunities for the second half of the year.

For corn, the strategy and flexibility of our wet mills, along with continued operational excellence achievements and high capacity utilization rates, should support improved margins for our sweeteners and starches business for the second half of the year. Into the future, as global sweetener and starch demand continues to grow, our product and footprint expansions will provide diversification of both geography and starch sources to help maximize cost positions and drive value creation.

Ethanol margins have improved since the beginning of the year and the forward demand environment from domestic consumption and exports would appear favorable. However, the future margin environment will remain dependent upon industry production levels relative to demand and the resultant inventory levels. We have seen this inventory to margins relationship over the years and we have seen the margins being somewhat volatile as well.

In Oilseeds, the outlook for the second half of the year has improved due to continued strong global protein demand leveraging our flex capacity and improved crush margins. Looking ahead, on trend, complex consumer demands are creating value for our oils portfolio and oilseeds network.

For WFSI, increased innovation in natural health and nutritional products and leveraging our industry leadership in plant-based proteins, powders and specialty grains all are positive support for the future progress of WFSI. With organic growth, synergy execution and small bolt-on M&A, we continue to build this business for the future.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Adam Samuelson, Goldman Sachs.

Adam Samuelson - *Goldman Sachs - Analyst*

I guess, first, would like to talk about the second-half opportunity and, Juan, you laid out some thoughts on drivers of better performance, particularly in Ag Services. And I'm just trying to think about some of the range of outcomes or some of the bigger variables in that Ag Services outlook as we think about, I guess, the fourth quarter specifically. Is it the export cadence of corn and soy trying to go through the ports at the same time? Is it farmers selling? Is it the magnitude of carrys in the corn and the wheat market, other factors? Help band the bigger opportunities or the risks there.

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

Sure, yes, thank you, Adam. So, as I said before, the outlook for U.S. exports is much better and quarter-end elevation margins are much higher than the last two quarters. Export elevation margins are likely to continue higher in the back half of the year. So as you said, demand continues to be strong and the U.S. is competitive now for the future months.

We also are seeing wheat carriers and basis gains that have returned to the market. We expect in the same area of the destination marketing continue to increase for us, the impact of that, and we expect an even more impact in 2017. Milling volumes normally get into our high season in Q3, so we expect another pickup from there. And in general, transportation results are expected to improve on increased loads and higher freight rates. We expect southbound volume probably increase in the range of 30% in Q3. So all in all, we are optimistic by the picture we are seeing in Ag Services after many months of subdued performance, if you will.

Operator

Ann Duignan, JPMorgan.

Tom Simonich - *JPMorgan Chase - Analyst*

This is [Tom Simonich] on for Ann. Could you discuss your expectations for U.S. ethanol exports for the remainder of 2016, in particular given that China has been a major importer year-to-date, if China were to stop importing ethanol, are there other markets you would expect to absorb U.S. production?

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

Yes, thank you, Tom. Our expectation for net exports is in the range of 850 million to 900 million gallons and obviously China is the second-largest market of ethanol in the world and we have seen both in China and in India the imports picking up and that has been a boost obviously for U.S. exports. Your concerns are probably driven by the change in corn policy in China and to what extent that will reduce the imports. We believe in that range, in the 850 million to 900 million, we continue to see other markets coming on again strongly like India. We believe China may or may not reduce there. We believe Canada will be there. We believe Mexico will join.

So in general, we feel strongly about it and we could argue China may dedicate several platforms to make ethanol, but also there are questions about the quality of those reserves and how much of that can actually be turned into ethanol. So again, when we look at the forecast and without having a significant amount of China exports in the second half, we believe in the 850 million to 900 million gallon range for net exports for the U.S.

Operator

Evan Morris, Bank of America.

Evan Morris - *Bank of America Merrill Lynch - Analyst*

I guess just following on on Adam's question then, just had a quick follow-up. Just on the optimism about the second half, there's been a lot of moving pieces, a lot of volatility in the first half and your view has changed as you've moved through the year. So just getting a sense, has your level of optimism now about the back half of the year today relative to let's say a month ago, what's changed? And within that, you talked about a favorable third quarter. Should profits be up year-over-year? If you can frame your outlook, where it is today versus a month ago and some of your broader expectations.

Ray Young - *Archer Daniels Midland Company - EVP & CFO*

The way we look at it this year second half compared to let's say the second half of last year, there are several variables that have moved in our favor. First of all, the U.S. dollar actually has stabilized compared to where we were last year. In fact, you've seen that relative to other crop growing regions, the dollar has actually become a lot more competitive. And that's a favorable factor for Ag Services as we look towards exports in the back half of the year. And frankly that's being reflected in terms of elevation margins, forward elevation margins, that we are seeing right now compared to what we saw last year.

Secondly, if you recall, last year, there was this overhang regarding Argentina, remember? When we went into the second half of the year, there was a lot of concern that with the change in the government that there was going to be a flood of Argentinian products entering world markets and that actually depressed margins significantly. What we've seen this year is in fact due to some weather issues down in Argentina and Brazil, this overhang doesn't exist. In fact, a lot of the surplus corn and wheat that was in Argentina actually moved to the world markets already and hence, you don't have the Argentine overhang and that's going to be favorable in terms of how U.S. exports are going to look like.

Thirdly, global demand remains very, very strong in terms of what we are seeing in terms of demand factors. And then as I indicated, there has been, due to weather factors, shortages that have occurred out of South America that's actually helped in terms of global supply/demand balance that we are seeing right now and that's a favorable with respect to U.S. exports in the back half of the year.

Then lastly, you take a look at the U.S. crop, the USDA numbers are very, very healthy, but expectations are that potentially the crop could actually be bigger than what the USDA is predicting. So the supply environment and the opportunity to look for basis opportunities in the U.S. actually becomes a lot real as we move into the back half of this year compared to where we were last year.

So in general, that's the reason why we are seeing a lot more optimism, particularly for the Ag Services division, as we move into the back half of this year compared to where we were last year.

Operator

David Driscoll, Citi.

David Driscoll - *Citigroup - Analyst*

Wanted to ask a little bit more about Wilmar and just what's going on right there. Juan, I think you are on the Board -- one of you guys are on the Board over there and I'm just curious as to the risk management failure over there and has it been corrected? I believe this relates to soybeans and businesses you guys know extremely well, so I'm just curious on what's going on.

The question specifically then relates to is this a third-quarter effect only? Would their losses persist into other quarters? Were there opportunities in the second quarter in terms of crushing margins that ADM might have been able to lock in that could be a big offset to these problems that Wilmar is going to generate in the P&L in the third quarter? Thank you.

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

Thank you, David. So, yes, I am on the Board of Wilmar. Listen, the significant loss was triggered by extremely volatile movements in soybean future prices and board crush margins in Q2 caused by rapidly evolving crop conditions in Argentina. The Wilmar risk management, to the extent that I can comment on that, they are going to be releasing earnings next week, so I need to be prudent here, but the Wilmar risk management process includes having risk limits and loss limits and having stop losses on positions, like every risk company. And with the abrupt movements in prices, these stop losses were triggered in Q2.

Without going into the details of their performance, we do believe this being a one-off situation and if you think about Wilmar that participate in a very -- they are a very large crusher and they participate in a very volatile part of the world, this is the first quarterly loss since their IPO in 2006. So it's not that this is a common occurrence and as unfortunate as it is, we do believe that hopefully it's a one-off. But again I will relate you to their earnings call that were going to happen I think on August 12.

Regarding our ability to offset some of this with Q3 performance in Oilseeds, obviously, this is a $100 million delta in Q3, which is difficult. We are optimistic about our Oilseeds performance in the second half and we believe that, for the U.S., will be a center stage for exports in the second half of the year. So at this point in time, we believe that Oilseeds will be able to have a very good performance in Q3 even despite the $100 million that you will have to adjust for the Wilmar impact.

David Driscoll - *Citigroup - Analyst*

Really appreciate the comments. Thank you.

Operator

Farha Aslam, Stephens Inc.

Farha Aslam - *Stephens Inc. - Analyst*

My question focuses on Ag Services. There's been a lot of volatility in the grain market, so could you help us benchmark what that earnings range and earnings on a normal year we should think about Ag Services, and going forward what are the key drivers of just fundamental growth in that business?

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

Yes, Farha, I think you describe it correctly. Given the last couple of years that we've had with a lot of volatility, I would probably refrain from issuing a statement on the range until we see us going through these more normalized conditions, if you will. We certainly are very optimistic for the

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second half of the year in Ag Services with several components, as I talked a little bit about exports and we feel very confident about that. We have a big book on already with strong elevation margins.

We see strong demand continues, and the combination of strong demand with certainly large crops in the U.S. will bode well for Ag Services in order to be able to handle a lot of grain. Wheat carriers are there and I think with a little bit of softening on the dollar, plus the big crops, the U.S. is competitive in soybeans, certainly it is competitive in corn, it is competitive in soybeans and it is getting competitive in wheat. So I think that bodes very well for our Ag Services business.

Farha Aslam - *Stephens Inc. - Analyst*

Thank you.

Operator

Ken Zaslow, BMO Capital Markets.

Ken Zaslow - *BMO Capital Markets - Analyst*

Can I take a picture of 2017 and beyond? If I think about the increased protein consumption out there, I think about increased chicken production, hog production, cattle production, increased soybean meal demand, can you make a case that your crush margin outlook should actually be structurally higher going into 2017? And how are you positioned to take advantage of that, or are you not positioned to take advantage of that?

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

I think we are, Ken. We tend to agree with you. We think that with the growth rates that there are out there, it's going to continue to tighten capacity until the point at which it makes sense to start expanding capacity. So we believe in growing margins going forward and we believe that we are in excellent position to do that. You heard me saying several times about our flex capacity and how we have added to our plants the ability to crush more soybeans and we have done that in several parts of the world, not only in North America, but also in Europe.

And there has been the bottlenecks. We reported this quarter record soybean crush in both Europe and North America and that's the fruits basically of our operational excellence efforts in which every plant has been able to turn a little bit more of a bigger output as the market demands. So we think we are very well-positioned and we think that the market requires that. So we tend to agree with you. We think that 2017 and forward could be good years for us.

Operator

Robert Moskow, Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

I was hoping you could give us a sense on that subject about where forward crush margins are today in the second half. You said they had come down from very high levels. Would you consider those forward margins better than average, average? How would you describe them?

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

I think at this point in time in the U.S., the plants are running at mid-80%s capacity and we believe that the margins are solid margins, strong margins for North America. So without giving you any specific numbers, it came down from an exceptional position, if you will, but we still believe that they are strong. The global customers have not come to the market that aggressively yet, so at this point in time I will say our export book trails a little bit the one of last year, but we believe that that's going to be corrected soon.

Operator

Eric Larson, Buckingham Research.

Eric Larson - *Buckingham Research - Analyst*

I've got two questions, both pretty brief. Third-quarter Ag Services, we've all seen the USDA export numbers that they have for this crop year, which we only have four weeks left or four-and-a-half weeks, and it seems like -- I don't know if we will get that all shipped in this quarter -- but it seems like, on a sequential quarterly basis, we should see an improvement in your Ag Services business, whether you get to a year-over-year positive in Q3 is questionable. But would you expect to start seeing some improvement in Q3 with the majority mostly in Q4 for the year?

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

Yes, Eric, we expect Q3 to be significantly better than the quarters that we've been posting in Ag Services and certainly with the potential for Q4 obviously to be even bigger. But we will see the improvement already in Q3 and I will say it should be a strong improvement.

Eric Larson - *Buckingham Research - Analyst*

Okay, good. And then, Juan, one of the things that's actually been a bit of a surprise to me -- really I think it started in the fourth quarter last year -- can you give us a little flavor for the soft seed business? I think in Q4 last year it was about a negative $50 million operating profit swing in soft seeds, which was a big number and it continues to be pretty soft. Can you talk about the canola side of it for a minute and does that have a chance of coming back? And that would be, I think, as good an improvement in your oilseed crush -- in your oilseed profits for the second half as probably anything else.

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

Yes, it's been weak so far, as you refer to it, Eric. But at this point in time, Canada is looking at a very good crop and China have been drawing down some of the oil stocks. We think that a good story may be brewing out there for our Canadian crush business. So we have become recently more positive about that business and the perspective of that business for the second half.

Eric Larson - *Buckingham Research - Analyst*

Okay, great. Thanks.

Operator

Ken Zaslow, BMO Capital Markets.

Ken Zaslow - *BMO Capital Markets - Analyst*

Just a quick follow-up. Can you talk about your progress -- when you talk about the ethanol options that you have, can you give us a wide range of what you are looking at and what the timing is of that?

Ray Young - *Archer Daniels Midland Company - EVP & CFO*

As we indicated, we've already done management presentations to seven potential interested parties. We've been very open-minded in terms of what alternatives we would consider, whether it be a sale, whether it be joint ventures or whether it be some other structures there. We are going to evaluate all these options. We expect first indications back to us in the month of August and we will look at what makes sense from a value maximization perspective for our Company here.

Ken Zaslow - *BMO Capital Markets - Analyst*

Is there an option that you would actually want to keep more of the business than you previously expected given the progression of the ethanol margins?

Ray Young - *Archer Daniels Midland Company - EVP & CFO*

If we get fair value for the assets, I think that's highly unlikely.

Ken Zaslow - *BMO Capital Markets - Analyst*

Great. Thank you.

Operator

Michael Piken, Cleveland Research.

Mike Henry - *Cleveland Research - Analyst*

This is Mike Henry in for Mike Piken. Thank you for the question. Going back to ethanol, just curious if you guys could give some color on the current run rate or capacity that you were utilizing during the second quarter, what that should look like going forward and any commentary on what level you would potentially bring capacity back online or run production a little bit harder? And then just second question, if you could give some more color around the biodiesel impact in the second half on timing and the potential for that to provide some incremental upside in oilseed. Thank you.

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

So the issue, when you think about the ethanol industry, when we came into the Q2 in April, ethanol inventories were basically very high, running about 8% above last year. So obviously going into the driving season, we took some shutdowns, and at the end of July, inventories are about 3.4% above last year, so a more normal, if you will, inventory situation. So at this point in time, we will continue to titrate that, whether we run for yield, as I describe sometimes, or we run for volume. I think that given the volatility of the ethanol results, we would probably always keep an eye on running for yield. We probably don't see the need right now to slow down like we did in Q2 where we took a hit for the volume that we didn't move.

Ray Young - *Archer Daniels Midland Company - EVP & CFO*

On the question regarding just the timing effects, I've indicated in prior calls that, in the Oilseeds division, we normally have some level of timing effects. In this quarter, it was really related to soft seeds and biodiesel. In the past, I've indicated this normal range, it could be anywhere up to $40 million to $50 million, plus or a minus, and so in this particular quarter, it was more of a negative timing effect that we expect to reverse out in the second half this year. So we didn't call out a number. It's within our normal ranges, so it's within the normal $40 million to $50 million type of number that we would normally have.

Mike Henry - *Cleveland Research - Analyst*

Great. Thank you.

Operator

Robert Moskow, Credit Suisse.

Robert Moskow - *Credit Suisse - Analyst*

Juan and Ray, can you comment a little bit more about the legacy businesses in the WFSI division and what's causing the underperformance? And I think you said that there were slower-than-expected revenue synergies? Was it in that division and if so, can you explain why?

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

Yes. So some of the legacy businesses, one of the businesses is, for example, hydrocolloids. Hydrocolloids go like about half of it to food applications and that continues to go very well, but about half of it goes to drilling fluids, and as you can read, the industry has basically reduced significantly the drilling in the U.S., so that market has been significantly impacted. So nothing to do with our food strategy, if you will, but it happens that we will report it in that segment.

The second is related to fibers. The fibers market has a little bit of overcapacity so prices have been soft there and we have some more competition. And one of the businesses that we acquired, SCI, have had some issues with inventory that we needed to write off or sell it at a discount because they may not have been in the greatest of condition. So all those three things basically impacted the WFSI business.

On the other hand, Wild Flavors is growing significantly and is going to post growth of about 20% year-over-year basically on innovation that has happening at the customer level. So when we talked about the revenue synergies being a little bit slow, it's because obviously, first of all, you need to think about how to combine all these products into a new solution and then you create the prototypes, and then you present those to the customer and the customers create a marketing campaign and also look at the potential for that product and look at the stability of those products. So that approval process takes a little bit longer, especially in some of the companies that are very much focusing nowadays on cost and productivity and they may not have that many people to take care of these products. So that's why we tried to ramp up a little bit more the cost synergies to make sure we don't fall behind in our promises. But, as I said, the Wild Flavors business is going strong and having again probably a 20% increase in profits versus already a record year like it was 2015. So we are extremely proud of the business.

Robert Moskow - *Credit Suisse - Analyst*

Thank you.

Operator

Farha Aslam, Stephens Inc.

Farha Aslam - *Stephens Inc. - Analyst*

Thanks for taking the follow-up. It relates to sweeteners and starches. Do you think that the profits you are seeing in that business are sustainable going into next year, and could you discuss your shifting of the grind to higher value-added products? Is there any measures we can put against that?

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

Yes, Farha, I wouldn't like to describe a number or talk about the number for 2017, but certainly the dynamics at this point in time in the industry calls for a little bit of a continuation of the supply/demand fundamentals we are seeing now. Certainly exports to Mexico have been better than expected. Certainly there has been a flattening of the secular decline of the U.S. domestic market, if you will. And what we continue to do, which we like and it bodes well for the future of the business is we continue to introduce new products, and some of these products are more at the developmental stage, if you will, but some you can see in the press releases that we continue to launch these products.

At this point in time, I cannot give you top of my head something that you can look at to track the progression of that portfolio, but traditionally -- five years ago, we looked at trying to replace 10% of the grind, if you will, just in case high fructose corn syrup were going to decline 2% per year, which it hasn't happened, so we haven't needed to bring all those products, but we have all those developments. And as we are trying to sell up our capacity and bring products at higher margins, we continue to introduce some of that.

So probably we will get together with our businesses and we will try to come up with some kind of indication that at least you can track on the progress of that initiative. We haven't done it, as I said, because of the strength of sweeteners and starches; we didn't feel that we needed to communicate anything for that.

Ray Young - *Archer Daniels Midland Company - EVP & CFO*

One thing too though, Farha, is we have purchased the remaining interest in Eaststarch. That is something different and that is an increment compared to where we were before, so that clearly is a positive. And as we indicated in prior calls, the Eaststarch acquisition was about $0.04 per share accretive to our overall earnings going forward.

Farha Aslam - *Stephens Inc. - Analyst*

That's helpful. Thank you.

Operator

That was our last question. I turn the call back over to Juan Luciano for closing remarks.

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

Thank you. Thank you for joining us today. Slide 15 shows some of the upcoming investor events where we will be participating. 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.