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ADM - Q3 2016 Archer Daniels Midland Co Earnings Call

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OVERVIEW:

Co. reported 3Q16 reported EPS of $0.58 and adjusted EPS of $0.59.

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PRESENTATION

Operator

Good morning and welcome to the Archer Daniels Midland Company third-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, Kelly. Good morning and welcome to ADM's third-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 risk and uncertainties.

ADM has provided additional information in its reports on file with the SEC concerning assumptions and factors that could cause actual results to differ materially from those in this presentation, and you should carefully review the assumptions and factors in our SEC reports. To the extent permitted under applicable law, ADM assumes no obligation to update any forward-looking statements as a result of new information or future events.

On today's webcast, our Chairman and 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, President, CEO*

Thank you, Mark; good morning, everyone, and thank you all for joining us today.

This morning we reported third-quarter adjusted earnings per share of $0.59. Our adjusted segment operating profit was $650 million. After working through the challenging environment in the first half of the year, we capitalized on improving operating conditions in the third quarter and are positioned well for a solid finish to the year.

Ag Services results were driven by US exports that surged through the quarter, creating improved merchandising opportunities as the global market relied heavily on US exports of corn and soybeans. Results for Corn included strong performance in North American sweeteners and starches, growth from our international corn operations, and steady results for bioproducts.

Oilseeds results were impacted by significantly lower global soy crush margins, weaker origination results in Brazil, and the unusual equity loss from our Wilmar investment. WFSI results included strong growth from WILD Flavors, with mixed results from our specialty ingredients businesses.

During the quarter, we continued to execute on our strategic plan. We acquired Caterina Foods, a manufacturer of specialty gluten-free and high-protein pastas. In addition, we further invested in Asia's growing and evolving food demand by increasing our strategic ownership stake in Wilmar to 23%.

Our ethanol dry mill review has progressed, and we are targeting receipt of final proposals from a short list of interested parties by the end of the calendar year. And we have implemented nearly $250 million of new run-rate savings actions through the third quarter end expect to exceed our $275 million target by the end of the calendar year.

In line with our balanced capital allocation framework, we have returned $1.3 billion to shareholders in dividends and share buybacks through the first nine months of the year. With improving market conditions and a large US harvest, combined with the team's solid execution capabilities, we feel good about the remainder of the year and a stronger 2017.

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

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

Thanks, Juan. Slide 4 provide some financial highlights for the quarter.

Adjusted EPS for the quarter was $0.59 versus $0.60 in the year-ago quarter. Excluding specified items, adjusted segment operating profit was $650 million, down $34 million mostly on Wilmar results.

The effective tax rate for the quarter was 28%, compared to 31% in the third quarter of the prior year. Our tax rate is lower this quarter compared to last year due to the geographic mix of earnings and the tax impact of portfolio management actions taken last year and this year. Our effective tax rate this quarter is consistent with the 28% guidance for the calendar year that I provided to you at the last quarter's call.

Our trailing four-quarter average ROIC of 5.8% is 80 basis points below our 2016 annual WACC of 6.6%. The lower ROIC reflects the challenging operating conditions that we have experienced during the latter part of 2015 and the first half of 2016. We do expect our fourth-quarter trailing ROIC to improve as we move to the end of this year.

On chart 18 in the appendix you can see the reconciliation of our reported quarterly earnings of $0.58 per share to the adjusted earnings of $0.59 per share. For this quarter, we had impairments, restructuring, and settlement charges of $0.08 per share; we had losses on sales of assets about $0.02 per share. These were offset by about $0.09 of LIFO inventory credits.

Slide 5 provides an operating profit summary and the components of our corporate line. Before Juan discusses the operating results, I'd like to highlight some of the unique items impacting our quarterly results.

In the operating segments we had some small impairments and restructuring costs and loss on disposals of assets. As a reminder, the results of the equity earnings of Wilmar are reported by ADM on a one-quarter lag basis. The Asia loss in Oilseeds reflects ADM's portion of the Wilmar loss reported in their second-quarter results.

In the corporate line, net interest expense was up slightly due to interest on $1 billion of new long-term debt issued this quarter in the absence of an interest credit related to tax provisions in the prior year. Unallocated corporate costs of $106 million were down from the year-ago quarter primarily due to lower SG&A costs and lower spending on various strategic projects.

Minority interest and other includes some impairment charges on certain investments and a settlement and related expenses. I'd also like to highlight that our prior-year numbers included a charge of $198 million related to buying back higher-cost US debt and issuing lower-cost euro-denominated debt.

Turning to the cash flow statement on slide 6, you can see the cash flow statement for the first nine months ending September 30, 2016, compared to the same period the prior year. We generated about $1.6 billion from operations before working capital changes during the period, slightly higher than the same period last year.

Total capital spending for the period was $621 million, down from the prior year's $819 million. Capital spending has been lower during the more challenging first half of 2016, and we do expect to finish up the year spending below $1 billion.

Acquisitions of $136 million to date includes Harvest Innovations, Medsofts, the Moroccan Corn Processing operation, and Caterina Foods. Included in the other investing activities line is our increased investment in Wilmar to a 23% level.

During the current period, we spent $754 million to repurchase approximately 20 million shares. We're heading towards repurchasing about $1 billion this calendar year.

Our average share count for the period was 589 million diluted shares outstanding. Our total return of capital to shareholders including dividends was about $1.3 billion for this nine-month period.

Slide 7 shows the highlights of our balance sheet as of September 30, 2016 and 2015. Our operating working capital of $7.3 billion was down about $0.6 billion from the year-ago period.

Total debt was approximately $7.1 billion, resulting in a net debt balance -- that is, debt less cash -- of $6.1 billion, up slightly from the 2015 net debt level of $5.6 billion. Earlier in the third quarter we issued $1 billion of US 10-year debt at a coupon of 2.5%, the lowest-cost US long-term debt portfolio.

Our leverage position remains comfortable, with a net debt to total capital ratio of about 25%. Our shareholders equity of $17.6 billion was down from the $17.9 billion level last year due primarily to shareholder capital returns in excess of net income and a decrease in the cumulative translation account.

We had $6.1 billion in available global credit capacity at the end of September. If you add the 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 and drivers.

Juan Luciano - *Archer Daniels Midland Company - Chairman, President, CEO*

Thank you, Ray. Please turn to slide 8.

In the third quarter, we earned $650 million of operating profit, excluding specified items, down from the $684 million from last year's third quarter. As we explained last quarter, some of the challenging conditions we saw in the first half of the year began to subside late in the second quarter. This led to a more favorable environment in the third quarter. As a result, we were able to execute well and capitalize on the more favorable environment.

Adjusted segment operating profit was up about 13% versus last quarter, but down about 5% versus the year-ago quarter. It is important to note that the unusual loss related to our equity earnings of Wilmar negatively impacted us this quarter. Excluding Wilmar, our third-quarter operating profits would have been up about 8% year-over-year.

Following are some of the brief highlights. In Ag Services, we saw improving market conditions, particularly increased competitiveness of US corn and soybeans, especially late in the quarter as we were able to export record volumes. Results for Corn included continued strong performance in sweeteners and starches as the North American business continued to perform well with solid demand, production efficiencies, and improved raw material costs.

Oilseeds results were impacted by lower global soy crush margins, lower origination volumes due to the reduced Brazilian soybean and corn crop, and the Wilmar results in Asia. Excluding the startup items, WFSI operating profit was up slightly compared to the year-ago quarter.

Now I'll review the performance of each segment and provide additional detail. Starting on slide 9, Ag Services results benefited from record export volumes, as crop shortages in South America accelerated this year's seasonal shift in global demand to North America. In addition, as a record North American harvest started in the quarter, we saw improved merchandising, warehousing, and storage opportunities as well as improved margins.

Our global trade desk results were lower in the quarter as some commodity prices declined, causing global buyers to draw down their inventories, which limited merchandising opportunities.

In transportation, results were up due to increased utilization, strong exports, and improved freight rates. Milling and other had another solid quarter, with results consistent with the third quarter last year on strong product margins related to seasonal demand.

Please turn to slide 10. Corn Processing results were up sequentially and year-over-year. Sweeteners and starches results improved as the North American business continued to perform well, with solid demand in the US and Mexico, continued production efficiency improvements, and lower raw material costs.

The Company's international corn operations performed very well in the quarter. We continued to integrate our European Eaststarch operations and are tracking well on fully capturing the identified synergies.

Our ALMEX joint venture in Mexico also performed well in the quarter. Bioproducts results, excluding last year's Brazilian sugar impairment charge, were essentially flat, with improved operational performance and margins from animal nutrition offset by slightly lower ethanol results compared to last year.

Slide 11 please. Oilseeds results were down in the third quarter versus a strong quarter one year ago. Crushing and origination results declined significantly versus a strong year-ago quarter due to lower soybean crushing margins as competing proteins such as DDGs and feed-wheat displaced soymeal in some feed rations. We also saw some period of increased competitiveness of Argentine meal.

Oilseeds results were also impacted by weak origination in Brazil due to the smaller soybean and corn crop, which created a high cost structure in our silo and transportation network during the quarter. In addition, producer commercialization of next year's soybean and corn crop decreased due to lower commodity prices and the continued strength of the Brazilian real.

Refining, packaging, biodiesel, and other results were up from one year ago, mainly due to good performance in biodiesel and specialty fats and oils. In addition, our refined oils business continued to have strong performance supported by solid food demand and strong biodiesel volumes.

Our Golden Peanut and Tree Nuts business had a good quarter, benefiting from the facility expansion at our plant in Dawson, Georgia. We also saw the results from the operational efficiency improvements we made in our procurement and shelling operations throughout our network.

Oilseeds results in Asia for the quarter declined from the year-ago period due to the impact of ADM's share of Wilmar's unusual loss in the second quarter. In fact, it was Wilmar's first-ever quarterly loss. ADM reports its share of Wilmar results on a one-quarter lag basis and recorded $48 million of equity losses in the third quarter versus a $36 million gain in the third quarter of 2015.

On slide 12 please, WFSI results were up slightly compared to the third quarter last year. We saw strong operating profit growth for WILD Flavors and good performance from Eatem Foods, offset by mixed results from our specialty ingredients business. In protein, we saw strong overall demand led by functional concentrates and textured concentrates.

Results for the quarter included operational startup costs for Tianjin and Campo Grande. Also in the quarter, we again added to our capabilities with the acquisition of Caterina Foods, a leading toll manufacturer of specialty, gluten-free and high-protein pastas. Having the Caterina business helps us as we continue building our portfolio to meet the needs of health-conscious consumers.

WILD Flavors saw an 8% increase in revenue, with a 20% increase in operating profits. However, the challenges we've highlighted in recent quarters with some of our specialty ingredients business -- SCI, edible beans, and hydrocolloids -- have continued. Our fibers business has been subject to industry oversupply issues that have kept pricing down. Partially offsetting these negatives has been some strength in our specialty proteins business in the quarter.

Our SCI business has experienced some operational issues that have resulted in inventory write-downs and some lost sales over the past year. We are addressing these issues aggressively.

As we continue to work with customers and other businesses within ADM, we've recognized that we can be more effective at meeting customer needs and driving performance by aligning SCI's businesses into other areas of the Company. We believe that we can more easily achieve synergies and improve top-line sales under a new organizational structure. I have teams working through those details right now.

Now on slide 13, I'd like to update you on how we continue to strengthen and grow our Company. We've highlighted some of the areas in which we've made significant progress; I'll discuss a few.

We recently expanded and streamlined operations at our Golden Peanut and Tree Nuts crush facility in Dawson, Georgia, and we're already seeing the results of these operational efficiency improvements. We have progressed our ethanol dry mill review. We are targeting receipt of final proposals from a short list of interested parties by the end of the calendar year.

We have implemented nearly $250 million of new run-rate savings actions through the end of the third quarter and expect to exceed our $275 million target by the end of the calendar year. During the third quarter, we completed the successful deployment and "Go-Live" of our 1ADM business transformation with our Ag Services US elevators system covering more than 200 locations. Our 1ADM program is our multi-year global investment that will help the Company improve and standardize our business processes and deliver greater efficiency and effectiveness in our activities.

I am proud that this significant deployment was delivered on time and under budget and with quality levels of execution, providing us confidence as we move to the next phases of the 1ADM program.

We also during the quarter acquired Caterina Foods, a manufacturer of specialty, gluten-free and high-protein pastas, to continue meeting the needs of health-conscious consumers.

And our Stratas Foods joint venture recently acquired Supreme Oil, a US-based manufacturer and distributor of edible oils and related products. Stratas Foods is our joint venture with ACH Food Companies and its North America's leading supplier of fats and oils to the food service, food ingredients, and retail private-label markets.

Adding Supreme Oil's provides the JV with manufacturing locations in Tennessee, Alabama, and New Jersey. The Northeast presence is important and is one of the largest consumption areas for edible oils, and one where Stratas lacked a presence. This acquisition provides Stratas with entry into the growing seasonings, sauces, and condiments category, and its products and operations offer good opportunities for both costs and revenue synergies.

These are just a few of the highlights from the quarter. We'll continue to update you on our progress each quarter.

And now before we take your questions, I wanted to offer some additional forward perspectives. As I indicated last quarter, the first half of the year presented some challenging conditions. However, we are seeing an improving operating environment in the second half of the year that we believe sets the stage for a stronger 2017.

For Ag Services, the North American harvest is progressing well, and we're seeing record yields and production for both corn and soybeans. We expect this to translate into continued solid results for export volumes, and better global merchandising and handling opportunities as we finish out the year. Export origination margins, while good -- and improved versus last year -- are not at the same levels we realized in 2014.

For Corn, while fourth-quarter volumes are expected to be down due to normal seasonality, we are optimistic in 2017 for our sweeteners and starches business, with global sugar prices up significantly year-over-year and the ongoing progress of our operational excellence initiatives. Ethanol margins are currently being supported by strong domestic and export demand. As in the past, margins will be a function of the supply/demand balance and the impact of net inventory levels.

As I mentioned earlier, we have made progress with our ethanol dry mill review. We had seven original parties express interest and we have now narrowed that list to a smaller number. We are having these parties undertake some additional due diligence prior to them submitting final proposals, which we are targeting for the end of the calendar year.

For Oilseeds, with ample soybeans from the record US harvest along with solid domestic demand, crushing volumes are expected to be seasonally high in the coming months. Crush margins could experience some short-term resistance from competing global proteins.

South America grain origination margin will be depending on new crop volumes. At present, new crop origination volumes are slow and behind plan. However, we do anticipate ultimately procuring the crop.

The fundamentals of increased global protein consumption point to a long-term, sustainable trend which supports higher soymeal demand and higher industry capacity utilization into the future.

For WFSI, the fourth quarter is traditionally our low-volume quarter, as WILD Flavors experiences some typical seasonality from the beverage industry. We expect continued strong results from protein in the fourth quarter.

We will incur continuous startup costs for our Tianjin and Campo Grande plants as they began their first phases of production late in the quarter.

So with that, operator, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) David Driscoll, Citi Research.

Cornell Burnette - *Citigroup - Analyst*

Good morning, this is Cornell in with a few questions for David. Just wanted to start off -- there were a lot of negative headlines, I guess, in the third quarter, early surrounding the poor environment in South America, but things seem to have turned out a bit better than perhaps we were expecting. Did that environment change drastically, perhaps in the last month of the quarter, such that a strong September, providing a boost to 3Q numbers relative to how things were looking previously?

Juan Luciano - *Archer Daniels Midland Company - Chairman, President, CEO*

Yes, Cornell. This is Juan. Yes, I think your assessment is correct.

I think that the quarter got increasingly stronger, August and September, especially in the Ag Services and I would say in sweeteners and starches as well. So those.

But increasingly in terms of exports from the US in August and September. Those were very strong months.

Cornell Burnette - *Citigroup - Analyst*

Then, one last quick one is just, what's the anticipated effect -- I think you're starting to touch on it a bit -- of the large US harvests on the business going forward? Specifically, as you look at each segment can you explain what record US crop production and record US exports will ultimately mean over the coming quarters?

Juan Luciano - *Archer Daniels Midland Company - Chairman, President, CEO*

Yes. Of course, we're going to have better volumes and better margins in Ag Services. We are seeing probably an export window all the way to -- extending not only in Q4 but also into Q1 for North America. And we have very good ownership, so we have the pipeline filled. We think that we're going to have strong crush margins in Q4.

And the demand, particularly in sweeteners and starches and ethanol, continues to be solid. And we're going to have the product to supply that demand, so we feel very strongly about the following quarters.

Cornell Burnette - *Citigroup - Analyst*

Okay. Thanks a lot; I'll pass it on.

Operator

Ann Duignan, JPMorgan.

Tom Simonitsch - *JPMorgan - Analyst*

Good morning. This is Tom Simonitsch on behalf of Ann. Just one question on China. How do you expect China's current trade policies to impact each of your businesses in the balance of 2016 and into next year?

Juan Luciano - *Archer Daniels Midland Company - Chairman, President, CEO*

Yes, thank you for the question. Obviously, we are studying that, and you've seen many changes in China recently, not only the change in the way they handle their reserves or internal subsidies, but also some import duties for DDGs. So certainly it will impact some of the exports in that, whether it is barley, whether it is corn, whether it is DDG, as they reduce their inventories.

But demand continues to be pretty strong so we still believe in very strong imports of soybeans from that perspective. But we're watching the corn and the sorghum and the DDGs export that has been reduced.

Tom Simonitsch - *JPMorgan - Analyst*

That's helpful, thank you. And in terms of US ethanol exports as well, I think you mentioned last quarter that you are expecting 850 million to 900 million gallons. With China absent from that market, is that expectation still intact?

Juan Luciano - *Archer Daniels Midland Company - Chairman, President, CEO*

Yes, it is. We've seen several destinations. I think the world market is consuming a lot of gasoline, and certainly ethanol is a very good octane enhancer and oxygenate. As you think about some countries trying to reduce pollution created by automotive usage, we think that ethanol continues to be a very strong product for export.

We've been exporting very heavily to Canada. We've been exporting much more than last year to Brazil. China has been there, but we also have new destinations showing up. So we feel strong about export will grow into next year.

Tom Simonitsch - *JPMorgan - Analyst*

Thank you very much. I'll pass it on.

Operator

(Operator Instructions) Sandy Klugman, Vertical Research.

Sandy Klugman - *Vertical Research Partners - Analyst*

Good morning. Could you discuss the outlook for pricing in your sweeteners and starches business? We have pretty tight capacity utilization rates, elevated sugar prices; but do lower corn costs impact your ability to get pricing through in any way?

Juan Luciano - *Archer Daniels Midland Company - Chairman, President, CEO*

Listen, we have already concluded this year's negotiation for 2017 liquid sweeteners contracts, and we are very satisfied at the way things are evolving into this industry. As you describe, volumes have been strong and the industry has been very tight.

Contracting season did start earlier than normal this year, and so that's normally a good sign for us for expanded margins. So I would say in terms of specifics, we will try to stay to our traditional timeline to discuss in this outlook.

Although we have finished some contract negotiations, as our portfolio continues to broaden there are other product lines that we're still wrapping up those negotiations. So I would rather address the more specifics to these in the next quarter's call.

I would just say at this point in time we are optimistic about that. It has been a positive negotiation so far.

Sandy Klugman - *Vertical Research Partners - Analyst*

Okay, thank you. And just a quick follow-up. You mentioned the increased competitiveness of Argentine meal in world markets. Is any of this related to increased sales following the confirmation that subsequent cuts to the soy export tax would be delayed until 2018?

And how do you see this dynamic evolving going forward, particularly if growers are incentivized to increase plantings of corn and wheat at the expense of soy?

Juan Luciano - *Archer Daniels Midland Company - Chairman, President, CEO*

Yes. So, many aspects to your question. Certainly there was some discussion about the ability of the government to continue to reduce these export taxes in Argentina. The government finally announced that it will not have the ability to honor that promise. But they also created some reductions for some provinces in the north, to kind of balance the people that are farther away from the ports.

So I would say this is going to be a fluid situation. As you describe, the intentions of the farmer has been to shift to corn some acreage in Argentina; but early planting conditions are maybe making it a little bit more difficult to do that, and some people have started to plant some soybeans.

So I think it's a fluid situation. And for the time being, we're going to expect North America to be the competitive sourcing of soybean meal in the world, until we have the next South America crop.

Sandy Klugman - *Vertical Research Partners - Analyst*

Thank you very much.

Operator

Adam Samuelson, Goldman Sachs.

Juan Luciano - *Archer Daniels Midland Company - Chairman, President, CEO*

Okay, Kelly; maybe we go to the next question?

Operator

Farha Aslam, Stephens.

Farha Aslam - *Stephens Inc. - Analyst*

Hi, good morning. First question is on refining, packaging, and biodiesel. Your results were quite strong in the current quarter.

Is there anything in particular that was one-time in nature? Or how should we think about that going forward?

Juan Luciano - *Archer Daniels Midland Company - Chairman, President, CEO*

No, I think that the team have done a terrific job, especially in Europe, of improving some of our specialty fat and oil business that maybe didn't quite perform last year. And they made some modifications to that, so you have an improvement.

But I will not call it a one-off. It's an improvement versus last year on good performance.

And overall, we saw strong demand for oil and a strong volume for biodiesel, and that drove the better performance. But there's nothing unusual in those results.

Farha Aslam - *Stephens Inc. - Analyst*

And we can model that going forward? Is this a new sustainable run rate?

Juan Luciano - *Archer Daniels Midland Company - Chairman, President, CEO*

I think you should -- obviously, we depend on biodiesel. You know biodiesel is rather volatile. But I think the other businesses -- refined oils, bottled oil, and specialty fats -- and I think those businesses, you should expect this kind of performance going forward.

Farha Aslam - *Stephens Inc. - Analyst*

That's helpful. Then longer-term, if we look at ADM as a Company, how should we think about the earnings algorithm for ADM? And how would the divestiture of the ethanol assets impact that long-term earnings algorithm?

Juan Luciano - *Archer Daniels Midland Company - Chairman, President, CEO*

Yes, let's talk a little bit about that. We said before that we were expecting this strategy that we put together a couple of years ago to give us over the next three years $1 to $1.50. And we continue to be committed to that and expecting those results.

At the same time, we saw our base being impacted by some of these headwinds, going down from maybe a $3.00 level to maybe a $2.40 level. Obviously we're coming back from that, as you can see in this quarter and as you're going to see in Q4 and hopefully with a stronger 2017. It's still difficult to quantify, given that we have only one quarter of that, how much of that base deterioration are you going to recover.

With regards to the ethanol dry mills, as you heard me saying in the prepared remarks, we are waiting for the second round of bids before the end of the year. And at that point in time, Farha, we will sit down and assess the offers that we have in front of us and we will make a decision based on that.

So I think it's a little bit premature to speculate on how the dry mills should factor in our next year's earnings.

Farha Aslam - *Stephens Inc. - Analyst*

Okay. This is helpful. Thank you.

Operator

(Operator Instructions) Ken Zaslow, Bank of Montreal.

Ken Zaslow - *BMO Capital Markets - Analyst*

Hey, good morning, everyone. I will actually stick to one question. How's that?

On the high-level side, when you think of 2017, is there anything in the operating environment that you would consider abnormal, that we would not be able to start to get the typical type of results that you would expect from your Company, given the improvement in the operating environment as well as the cost efficiencies and all the stuff you've done? So is 2017 a critical year to show all your progress?

Is there anything that would limit you from being able to do that?

Juan Luciano - *Archer Daniels Midland Company - Chairman, President, CEO*

Yes, Ken, I think that that's the way we're thinking about it. We think that 2017 should provide an opportunity for us, in a more normalized environment, to demonstrate all the earnings power that we made through the cost improvements or through all the investments.

There are risks, as we face every year. Obviously, you have the potential China grain reserve, a significant release, and how they manage that, and how many years do they want to achieve that. That could be a risk.

Obviously ethanol, the way producers will manage supply/demand and inventories is another one.

But I think in general, we feel strongly about everything that we have done over the last few years to improve our Company and position our Company to take advantage of these market conditions. So we feel good about 2017.

Ken Zaslow - *BMO Capital Markets - Analyst*

Great, thank you.

Operator

Rob Moskow, Credit Suisse.

Robert Connor - *Credit Suisse - Analyst*

Hi, this is actually Robert Connor on for Rob Moskow. So, it looks like your soy crush margins have been weak globally, but you expected that to improve. Could you just maybe expand a little bit upon why they've been so weak, and then what are the forces that are going to improve margins?

Juan Luciano - *Archer Daniels Midland Company - Chairman, President, CEO*

Yes. I would say from our perspective, first of all, you were comparing with a very strong quarter last year. So if you look at the underperformance of Oilseeds, 60% of that is explained by the Wilmar results, which is a very unusual result.

So when you look at the performance of Oilseeds per se, we have origination inside Oilseeds for Brazil. And the farmer in Brazil, that was 40% sold by this time last year; it's only 20% sold now, so we have less volume going through our operations.

And if you think about the crush margins in the US, we didn't have some of the pressure that exports of meal brought maybe last year to the US. So obviously, with a big run-up in meal prices by mid of the year, by June or something like that, other things became more competitive, whether it is a low-quality feed-wheat or whether it's DDGs or corn, got a little bit into the Russian.

So we think that demand is very strong. Still we're thinking about 5% meal consumption growth for next year. And we believe that the US will have high crush margins, and we feel good about the potential expansion of that crushing margin.

It just could be a little bit restrained by the fact that we need to fight with some substitution maybe over the next quarter. But we feel good in general about Oilseeds.

Operator

Eric Larson, Buckingham Research.

Eric Larson - *Buckingham Research Group - Analyst*

Yes, good morning, everyone. Thanks for squeezing me in here. In the last week or so we've seen the basis on soy work very favorably toward you guys or toward the processors. A lot of supply out there. Thank goodness we have a lot of exports or we'd be swimming in grain.

But can you talk a little bit about the near-term impact of that, and then the elevation margins that you are seeing? And we're seeing some transportation issues on the Mississippi. Can you pull all of that together?

It looks like storage is also pretty full. So it looks like the near-term environment for your crush margins could be quite strong if export demand stays as strong as it is.

Juan Luciano - *Archer Daniels Midland Company - Chairman, President, CEO*

Yes, thank you, Eric. Let's take your questions in parts.

There is a big crop coming, and certainly the pipeline and the storage is becoming fuller and fuller. So you see that reflection a little bit in the basis.

So that is good for ADM. We have good ownership, obviously.

In terms of the exports, we said before that 2014 was an unusual year, because with all the fracking that was basically taking a big part of the rail system in the US, there was a little bit of a glut going into the New Orleans area. This year, although maybe you were reflecting on some recent issues with transportation, in general if you compare to 2014, rail velocity has been so much better. Rates have been lower.

So in general, we didn't get to the same level of elevation margins that we got in 2014. So volumes are good; volumes continue to be very strong into Q4.

And margins are okay. They are not just the record they maybe used to be in 2014. I don't know, Ray, is there anything that you would like to add to this?

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

No, I mean I think, elevation margins clearly did improve as we went through the third quarter. So that's been very, very encouraging.

Again, as Juan indicated, I don't expect it to get back to 2014 levels, which really resulted in an Ag Services operating profit, some very, very strong results. But we are going to have good results in the fourth quarter; there's no doubt about it.

Eric Larson - *Buckingham Research Group - Analyst*

Okay. Thanks, everyone.

Operator

(Operator Instructions) Michael Piken, Cleveland Research.

Mike Henry - *Cleveland Research Company - Analyst*

Hi, good morning. It's Mike Henry in for Mike Piken. Quick, just a question. I was wondering if you guys could talk about any potential cost-savings plan in 2017, any potential magnitude on that, and what areas or what buckets that could potentially fall into.

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

Yes, Mike. Clearly we've been on a multiyear plan in terms of driving operational excellence within the Company. We set a target of $275 million this year, which we'll exceed. We haven't set our targets for next year, but you should expect us to actually continue to have some good targets in terms of operational excellence because -- well, there's still more opportunities to be had.

One thing I do want to point out. As Juan indicated, we talk about the 1ADM program whereby we are actually implementing this business transformation program within the Company. It does cost money.

For example, this year on 1ADM we're spending about $100 million as part of that project. Some of it's capital. Some of it's operating expenses.

This program is ramping up, so therefore I do expect next year our spending will increase as we ramp up this program. We'll provide more context in the fourth-quarter call because we're still working through what the actual spend will be.

But what we're doing is we're actually taking some of these cost savings that we've had and we're going to reinvest in the Company. So we're going to reinvest in terms of whether it be business process improvements, or we're going to reinvest in R&D and innovation as well.

So again, we'll give more context of this will be get to the fourth-quarter call, but I'm very pleased that these savings are coming, but we are going to reinvest some of these savings in order to make this Company stronger for the future.

Mike Henry - *Cleveland Research Company - Analyst*

Okay, thank you.

Operator

Adam Samuelson, Goldman Sachs.

Adam Samuelson - *Goldman Sachs - Analyst*

Yes, thanks; good morning, everyone. Maybe a question on Ag Services for the fourth quarter, and this has been touched on in some respects. But I'm wondering.

We all see the North American export environment is very strong. We've got a record crop. At this point we're a month into the quarter.

Can you help us frame the range of outcomes that you could think of for Ag Services in the current environment? And what would be drivers to the upside and towards the lower end of that range? Thanks.

Juan Luciano - *Archer Daniels Midland Company - Chairman, President, CEO*

Yes, thank you, Adam. Listen, I think we will continue to see strong exports. We see that; and in that sense Q4 should be stronger.

We expect higher utilization of our storage and transportation assets, although maybe freight rates may be pressured a little bit due to higher transportation equipment availability. I think I address that when I addressed Eric's question before.

But in general, we will continue to see a stronger Ag Services performance as we finish the year.

Adam Samuelson - *Goldman Sachs - Analyst*

And that relates into the first part of 2017, is it really just as visibility in the South American crop increases, that drives the variability in the outcomes for Ag Services? Or anything else there that you're mindful of into the first half?

Juan Luciano - *Archer Daniels Midland Company - Chairman, President, CEO*

Yes, to give you some perspective, we're expecting 2016 to end between 2014 and 2015. Obviously higher than 2015 and not as high as 2014.

But I think that when you think about 2017, we expect some of these exports to overspill into Q1. So the window obviously will depend a lot on what's happening in South America. There are still three months of weather ahead of us.

But we still believe that the US will be very full in the pipeline and will be exporting corn and soybeans well into Q1 next year.

Adam Samuelson - *Goldman Sachs - Analyst*

Great. Thanks very much.

Operator

This concludes the Q&A portion of today's call. I now pass the call back over to Juan Luciano for closing remarks.

Juan Luciano - *Archer Daniels Midland Company - Chairman, President, CEO*

Thank you, Kelly. Thank you for joining us today. Slide 15 notes 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.
