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EDITED TRANSCRIPT

ADM - Q4 2016 Archer Daniels Midland Co Earnings Call

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OVERVIEW:

Co. reported 4Q16 reported EPS of $0.73 and adjusted EPS of $0.75.

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PRESENTATION

Operator

Good morning and welcome to the Archer Daniels Midland Company fourth-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, Lindsey. Good morning and welcome to ADM's fourth-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 and 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 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 & CEO*

Thank you, Mark. Good morning, everyone. Thank you all for joining us today. This morning, we reported fourth-quarter adjusted earnings per share of $0.75. Our adjusted segment operating profit was $827 million. We capitalized on an improved environment delivering stronger fourth-quarter performance after working through difficult market conditions earlier in the year.

Ag Services saw strong results in North America and weak results from the global trade desk. The corn business delivered a good quarter led by Sweeteners & Starches and saw solid results from bioproducts. Oilseeds results were comparable to last year despite lower global crush margin.

In WFSI, WILD Flavors continued to deliver earnings growth while some of our specialty ingredients businesses faced challenges, which we are addressing. We have continued to take important steps to advance our strategic plan by completing additional acquisitions, organic growth projects and portfolio management actions, exceeding our 2016 target for run rate cost savings and progressing in our efforts to reduce capital intensity.

In line with our balanced capital allocation framework, we returned $1.7 billion to shareholders in dividends and share buybacks during the year. With expected improvements across all of our businesses throughout the year and additional contributions from recent projects and new facilities as layered on top, we are optimistic about improving results throughout 2017. With these expectations in mind, the Board has approved an increase to our quarterly dividend rate of approximately 7% to $0.32 per share. I will provide more detail on our results later in the call.

Now I will turn the call over to Ray.

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

Thanks, Juan. Slide 4 provides some financial highlights for the quarter. Adjusted EPS for the quarter was $0.75, up from the $0.65 last year. Excluding specified items, adjusted operating profit was $827 million, up $194 million from the year-ago quarter. The effective tax rate for the fourth quarter was 32% compared to negative 2% in the fourth quarter the prior year. Our tax rate is significantly higher this fourth quarter compared to last year due to the geographic mix of earnings, as well as approximately $18 million of discrete tax expenses in 2016 compared to approximately $100 million of discrete tax benefit in 2015, which were a result of portfolio management actions taken in the year-ago quarter.

This fourth quarter also includes $18 million of additional tax expense related to truing up the first three quarters of the year to the final year-end 2016 effective rate. This true-up had a negative impact on both reported and adjusted EPS in the fourth quarter of $0.03 per share. Our trailing four-quarter average ROIC of 5.9% is down by 150 basis points from the 7.4% at the end of the fourth quarter last year. The adjusted ROIC is below our 6.6% annual WACC for 2016. Our ROIC has started to improve following the challenging operating conditions that we experienced during the latter part of 2015 and the first half of 2016.

On chart 18 in the appendix, you can see the reconciliation of our reported quarterly earnings of $0.73 to the adjusted earnings of $0.75 per share. For this quarter, we had a $0.03 per share charge related to asset impairments, restructure and some settlements, a $0.04 per share OPEB curtailment gain in corporate and certain discrete tax expenses not related to the current year earnings of $0.03 per share, including valuation allowances on net operating losses and tax credits.

Slide 5 provides an operating profit summary and the components of our corporate line. Before Juan discusses the operating results, I would like to highlight some of the unique items impacting our quarterly results. In all four businesses, we had some small charges related to impairments and restructurings. In the corporate lines, net interest expense was up modestly due to higher interest rates on short-term debt and the issuance of a new fixed rate debt in August of this year. Unallocated corporate costs of $132 million were up versus the prior year and slightly higher than the run rate for previous quarters primarily due to an approximately $20 million investment in a corporate initiative that created an equivalent offset or reduction to our income tax expense for the quarter. Minority interest and other includes a $38 million OPEB curtailment gain related to changes to the US retiree medical program.

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Turning to the cash flow statement on slide 6, we generated $2.1 billion from operations before working capital changes during the period, slightly lower than the prior year. Total capital spending for the year was $882 million, down from the prior year's $1.1 billion and consistent with our guidance last quarter that CapEx for the year would be below $1 billion. Acquisitions of $130 million in 2016 include harvest innovations, our Moroccan corn processing facility, the Medsofts joint venture and Caterina Foods.

The other investing activities line of the cash flow statement includes the incremental investments we made in Wilmar less proceeds from divestitures and asset sales such as our Brazilian sugar ethanol operation. The proceeds from our sale of the GrainCorp shares are reflected in the marketable securities line.

During the year, we spent about $1 billion to repurchase shares consistent with our prior guidance. Our average share count for the year was 591 million diluted shares outstanding, down 30 million from this time one year ago. At the end of the year, we had 581 million shares outstanding on a fully diluted basis. Our total return of capital to shareholders, including dividends, was $1.7 billion for the year.

Slide 7 shows the highlights of our balance sheet as of December 31, 2016 and 2015. Our balance sheet remains strong. Our operating working capital of $7.4 billion was up slightly from the year-ago period. Total debt was about $6.9 billion resulting in a net debt balance that is debt less cash of $6 billion. Our leverage position remains comfortable with a net debt to total capital ratio of about 26%. Our shareholders' equity of $17.2 billion was down slightly from the $17.9 billion level last year due to returns of capital and changes in the cumulative translation account. We had $5.8 billion in available global credit capacity at the end of December; if you add available cash, we had access to $6.7 billion of short-term liquidity.

Before I turn it over to Juan, I would like to comment on some of the key corporate assumptions for 2017. We expect net interest expense to average about $80 million per quarter due to slightly higher interest rates. Unallocated corporate costs should average about $140 million per quarter as we invest more in R&D, innovation and business transformation. We expect our tax rate to be between 27% and 29%, consistent with our normalized rates in recent years. Share repurchases should be in a range of $1 billion to $1.5 billion subject to strategic capital requirements which means our average share count for 2017 should be somewhere between the 565 million and 570 million shares. And we are planning capital spending to be in the range of $1 billion to $1.2 billion.

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

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

Thanks, Ray. Please turn to slide 8. In the fourth quarter, we earned $827 million operating profit, excluding specified items, up from $633 million in the last year's fourth quarter. On the third-quarter earnings call, we talked about how some of the challenging conditions we saw in the first half of 2016 have begun to subside. That trend continued in the fourth quarter and we saw the benefits of our actions we have been taking to improve operational performance in certain parts of the business. As a result, fourth-quarter adjusted segment operating profit was up over 30% versus the year-ago quarter.

Looking at our full-year results, our adjusted segment operating profit is down just over 10% from 2015. Therefore, when we look at our earnings trend compared to 2015, we have seen our results improve throughout the year due to a combination of market conditions and the benefits of our actions. Now, I will review the performance of each segment.

Starting on slide 9, Ag Services results were up year-over-year as the business continued to benefit from the competitiveness of US crops. Merchandising and handling results were up over the prior-year quarter. The North American team capitalized on strong global demand for US commodities in an improved margin environment. Our global trade desk reported a loss for the quarter. The transportation team performed well showing the benefits of good execution and the strength of our integrated transportation model in a challenging market environment where North American freight rates were low.

Milling and other had another strong quarter driven by solid product margins, including wheat merchandising and handling income and sales volume. As previously mentioned, the global trade desk had a disappointing quarter and we are executing a vigorous series of additional actions to improve the results of our international merchandising. We created the global trade desk in 2015 to better align our international merchandising and help drive higher merchandise volumes and we saw a solid 2015 as a result.

Since then, we have seen some changes in the marketplace that require us to adjust our approach. In late 2016, we exited energy trading, consolidated in certain regions and made some personnel changes as well. We believe this will lead to a strong and focused operation that will yield improved results as we move through 2017.

Please turn to slide 10. Corn processing again showed strong results. The Sweeteners & Starches team turned in a strong performance with results up as the group capped off an exceptionally strong year for the business. Growth in volumes both in North America and internationally, ongoing production efficiency improvements and lower raw material costs all contributed to good margins for the quarter.

Our actions to expand the corn business's global footprint are continuing to show results. The former Eaststarch assets that we acquired in Central and Eastern Europe were a strong contributor. We are continuing to expand geographically. This quarter, we announced significant expansions at our facilities in Turkey and Bulgaria. The bioproducts team also ended the year strong, up significantly over the year-ago quarter due to production efficiency improvements, strong domestic and export ethanol demand that drove volumes and solid margins through most of the quarter. Animal nutrition posted improved results in part due to operational improvements in the Company's lysine production processes, which were implemented primarily in the first half of 2016.

Slide 11, please. Oilseeds results were relatively weak for the fourth quarter, which is typically one of the strongest quarters of the year. Our crushing and origination results declined from the year-ago quarter. While global soybean crush margins were more stable throughout the fourth quarter of 2016 compared to 2015, we continue to see ample supplies of alternative proteins competing with soybean meal in the global market, keeping margins constrained despite the relatively healthy global demand environment.

In Brazil, we continued to deal with a short crop limiting volume flowing through our assets as well as margins. Farmers were less aggressive selling their new crop soybeans, which resulted in lower new crop ownership versus last year. Softseeds performance improved due to higher volumes and margins driven by more favorable seed supply and better demand for oil, as well as utilization of our flex capacity.

Refining, packaging, biodiesel and other results were comparable to the year-ago quarter. However, it is important to note that the prior-year quarter includes $34 million in blenders tax credit attributable to previous 2015 quarters. Biodiesel demand was strong globally, particularly toward the end of the quarter and margins were healthy ahead of the expiration of the blenders credit at the end of the year. Results in Asia significantly improved over the prior-year quarter reflecting increased ownership and improved results from Wilmar, which recovered well from a second fiscal quarter loss.

On slide 12, WFSI results were down for the quarter. The WILD Flavors team turned in a solid quarter. Strong earnings growth in North America, Asia-Pacific, EMEAI and from Eatem Foods offset weaknesses from the Latin Americas business.

Results from specialty ingredients continued to be weak. We saw ongoing market softness in hydrocolloids and fibers who were dealing with the effects of a short crop in edible beans and we continued to address operational challenges in the specialty commodities business. When I look at the second full year of our WFSI business, I continue to see encouraging progress as we are building this new integrated platform. We have been very pleased with the performance from the WILD Flavors business during 2016 with revenue growing around 9% on a ForEx-adjusted basis and with operating profit growing more than 20% versus 2015, resulting in another record year in profitability. Our specialty proteins and polyols groups were solid contributors to the business as well.

We saw some weaknesses in a few of our businesses for the year -- weaker demand for fibers and hydrocolloids, lower results in our edible beans business and disappointing performance in our SCI business. And we did have some significant startup costs related to the Campo Grande, Tianjin Fibersol and Omega-3 project this year that also impacted earnings.

On our last call, we discussed our plans to reorganize SCI into other areas of the Company. Since then, we have moved aggressively to advance those plans. The products we gain with the SCI acquisition represent important additions to our portfolio and as we said last quarter, we believe these realignments will result in a business that is more effective at meeting customer needs, achieving synergies and improving performance in 2017.

Now, on slide 13, I would like to update you on how we continue to strengthen and grow our Company. We've highlighted some of the areas in which we made significant progress; I will discuss a few. In the area of optimization, we achieved almost $700 million of monetizations. Included in that total is $285 million resulting from the December sale of our 19.9% equity stake in GrainCorp. And just last week, we announced the sale of our Crop Risk Services business for $127.5 million, which we expect will close in the first half of the year. Thanks to these and other actions, we are well on our way to achieving our $1 billion target over two years.

With respect to our ethanol dry mills, we have evaluated the proposals received to date and I have determined they will not deliver enough value for our shareholders. We continue to talk with interested parties and evaluate our various options. In the area of operational excellence, we implemented more than $300 million of new run rate cost savings actions through the fourth quarter, exceeding our target of $275 million for 2016.

Some of our most significant accomplishments in the area of operational excellence include energy efficiencies, processing technology improvements, yield improvements and important procurement and maintenance initiatives. In the area of strategic growth, we completed the expansion of our oilseeds facility in Ukraine, almost doubling the plant's sunflower seed processing capacity. We have completed our acquisition of pet treat manufacturer, Crosswind Industries and also announced in the fourth quarter the construction of two new state-of-the-art plants for our animal nutrition business. We are completing the construction phase of our Campo Grande complex and Tianjin fiber facilities and expect to see increasing contributions from them over the course of 2017. These are just a few of the recent highlights and as always, we will continue to update you on our progress each quarter.

So before we take your questions, I wanted to offer some additional forward perspectives. As we look forward, what is clear is that some of the most important drivers of future performance are in our own hands. We are aggressively implementing measures to improve results through 2017 and we are expecting increased contributions from new facilities and projects as they ramp up during the year. Combined with our current outlook for market conditions, we are optimistic that we will see improvements across all of our businesses in the year, which give us confidence for much stronger results in 2017.

We anticipate significantly improved performance from Ag Services versus the year-ago quarter. Unlike the first quarter of 2016, we expect US exports for both corn and beans to be competitive throughout the first quarter. Low freight rates compared to the year-ago period will contribute to a challenged environment for North American transportation. In addition, global trade desk results will remain muted in the first quarter due to lack of merchandising opportunities.

More broadly for 2017, we expect an improved operating environment for Ag Services over 2016. Grain carries are developing in North America; global demand for grain is strong and we are continuing to implement changes for the global trade desk to improve performance throughout the year. In addition, we are continuing to drive increased volumes by expanding our supply chain direct to the customer. Overall, we expect performance in Ag Services in calendar year 2017 to be significantly better than 2016 and better than 2015.

We see a significant year-over-year improvement for corn in the first quarter, particularly in our ethanol and lysine businesses. Sweeteners & Starches will continue to benefit in the first quarter from solid demand on flexibility of our wet mills, as well as increased pricing. For 2017 as a whole, we will see increasing contributions from the investments we have made, including our international operations in Europe and China, as well as recent acquisitions such as Crosswinds. We believe ethanol margins are likely to improve throughout the year resulting in average margins for the calendar year similar or slightly better than 2016. And the operational improvements we have made in our lysine business should contribute to results despite a continued challenging lysine pricing environment.

For the year, we anticipate our corn segment results to be significantly higher than 2016 and potentially approaching the billion level that we achieved in the past. As part of diversifying our corn grind, we are continuing to look at innovative ways to expand our portfolio. Consumers today are increasingly turning to novel ingredients to strengthen immunity and prevent disease and we are continually exploring opportunities to add such ingredients to our portfolio.

When we look at the first quarter for oilseeds, we see similar results to the year-ago quarter. Despite the early plantings, the timing of the Brazil harvest will not be as early as some had expected. Competing proteins on a global level are continuing to impact soybean meal for the quarter and softseed margins are improved from the first quarter of 2016.

For the year, we expect to see stronger results from South America with anticipated larger soybean and corn crops in Brazil, as well as increasing global demand for protein meal and feed wheat clearing by the second quarter. We do have potential risks related to the US biodiesel business with uncertainty around the renewal of the tax credit. Assuming a more normal earnings contribution from our increased ownership stake in Wilmar, we expect oilseeds performance for 2017 to be much stronger than 2016, though likely not as strong as we saw in 2015.

We are anticipating a slight improvement in our WFSI business results in the first quarter of 2017 versus the same quarter last year, including an improved performance from the former specialty commodities business. Both the Tianjin and Campo Grande facilities will be in a startup mode in the first quarter and we will have some startup-related costs impacting our first quarter. For the year, we see ongoing improvements due to the specialty commodities reorganization, as well as increased contributions as production at our new Campo Grande and Tianjin facilities ramp up throughout the year. Thus, in 2017, WFSI is expected to show very strong year-over-year growth and exceed its performance in 2015.

So in looking forward, we also of course take into account external factors. We are evaluating how the new administration's policies are likely to impact us and we are encouraged by such priorities as regulatory and tax reform and infrastructure investment. Ultimately, we remain confident about the year. Taken together, the actions we have taken across all businesses and the contributions from new facilities and acquisitions, along with improving market dynamics, will yield a significant increase in profitability and returns in 2017.

With that Lindsay, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Eric Larson, Buckingham Research.

Eric Larson - *Buckingham Research - Analyst*

Thank you for taking the question. I will start off with a question that I think is on everybody's mind and would appreciate any of your thoughts. The question is, so there is a lot of talk coming out of Washington with regarding trade mostly with Mexico, but then it also goes to China and other places. And could you give us a brief insight as to how ADM would scenario plan if the borders were closed in any way, shape or form with Mexico or other countries? And then maybe even specifically with that, Juan, what that might have as impact on HFSC pricing in that scenario planning if those borders seem to shut down in one way, shape or form?

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

Thank you, Eric. So obviously, there is a lot of speculation here and it is rather premature. When you look at the cabinet and the appointees who are working through their confirmation process, little has happened and most of it is speculation until we can gauge at the technical level with the different offices.

Going to your specifics about high fructose corn syrup, let me say that we are very optimistic still about our outlook for Sweeteners & Starches in 2017. We are very pleased with our strategy. Our strategy, Eric, if you remember about geographic expansion that we've been into in Eastern Europe, North Africa and China, the fight for the grind and the operational excellence gives us plenty of optionality and we feel very good about that.

So I spend time in Washington. I spend time in Mexico. I can tell you, obviously, NAFTA has served the agricultural industry well for the last 20 years, but I would argue that both teams will recognize that, after 20 years, there is room for improving NAFTA and there are some considerations that could be taken. So from there to closing the borders that maybe you refer, we think that is a big leap.

But in our scenarios as you described, if we were to have a lot of disruptions at the border, the way we tend to think about again based on our optionality are three ways, if you will. The first one is there are 2 billion pounds of high fructose corn syrup going south into Mexico, but there are also 3 billion pounds of sugar coming north into the US. So you will argue that if that very permeable border were to stop, we would have an opportunity to reposition some of the high fructose corn syrup not going into Mexico to replace some of the sugar not coming into the United States.

The second thing that we have is our ability to shift some of the production in our wet mills through the fight for the grind that we started four or five years ago. You notice that the Sweeteners business this year had grew volume, revenue and profits versus last year and is part of that because of the operational improvements, but also because of the fight for the grind. So we feel good about our ability to shift and redeploy some of that.

The third one is we always have the ability to rebalance our supply and demand. So I would say we don't think that an imminent trade war is there. We think that we are going to talk with our partners in Mexico and we are probably going to modernize NAFTA. But even if the worst came to happen, we think that we still have a very positive 2017 ahead of us and we have many levers from our strategies that provide optionality for us. So continue to be positive about 2017 in high fructose corn syrup.

Operator

David Driscoll, Citi.

David Driscoll - *Citigroup - Analyst*

Wanted to ask my question to focus on ethanol. Can you comment just with a little bit more detail on your views on ethanol in 2017 and specifically, can you just address a couple of things? Can you address your thoughts on supply and demand balance and how tight does 2017 look to you? Could you give us your export forecast for ethanol? And then on ethanol margins, Juan, I think you gave some very good color in your concluding comments, but just to be clear, I think you said ethanol and lysine would be up significantly in the first quarter, but you then said that ethanol margins might be similar to better versus 2016. Could you just explain that a little more? The first half of 2016 was very weak for you guys, so I'm surprised that there is a condition where ethanol margins could be similar.

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

Let me take the several parts of your question. So we feel good in general about 2017 for ethanol. We are expecting total demand in the mid-15 billion gallons range with continued strong domestic demand. Probably we are thinking gasoline up 1%, 1.5% for the year, so that's about 144 billion to 145 billion gallons give or take. Our forecast for exports into 2017 is in the range of 1 billion to 1.2 billion gallon level. So 1 billion to 1.2 billion. Ethanol continues to be competitive and continues to be open in markets. And certainly, we don't see any imports from Brazil this year. So if you want to build a scenario, it's about 14.5 billion domestic amount, 1 billion to 1.2 billion in exports.

Today, with the current prices of ethanol, ethanol is about $0.15 per gallon cheaper than MTBE or other oxygenates, so we see no competition that we can think of from Brazil from the sugarcane ethanol and we are starting the year with a strong export program. So I would say exports going to Canada, Brazil, India, UAE, even if you consider China questionable about exports because that is probably that is the follow-up question, we think that that could impact about 100 million gallons and we still don't see that changing the forecast.

When we look at the first quarter, certainly look at first quarter better than the first quarter last year. When we look at the whole year maybe, it's maybe a little bit less visibility and we wanted to reflect that overall we see an improvement in margins over the previous year, but a lot of things happen. If you look at 2016, it was a tale of two halves. The first half was significantly different to the second half. We expect some of that to happen as well, but this is a very volatile environment. So we are positive about ethanol in 2017 for the reasons I described. I think that supply/demand will be tightened.

Operator

Heather Jones, Vertical Group.

Heather Jones - *Vertical Group - Analyst*

Going back to your comment about as far as the potential sale of the ethanol assets, do you think that is something you would revisit once there becomes greater clarity on the regulatory front?

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

Yes, indeed. We are still talking with different parties regarding these ethanol assets. We are also looking at some different structures. Frankly, as we think about tax reform coming in the United States, it does actually open up some different considerations as well in terms of how to structure the transaction because we've been looking at effectively at some tax restructures and if there's tax reform and if the corporate tax rate does come down, it does open up the avenue for us to look at some other mechanisms in order to look towards monetizing these assets.

Operator

Rob Moskow, Credit Suisse.

Rob Moskow - *Credit Suisse - Analyst*

Ray, can I ask about the forecast for the corn segment to be up I think you said $1 billion this year, which would be a big increase? Is it your expectation that your pricing on corn sweeteners is higher year-over-year and have you seen any reports of reductions in tolling rates just over the last month or so that would potentially impact the pricing that you have in your business or your ability to negotiate prices at the end of the year? Thanks.

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

As I said before, we feel very strong about our 2017 sweeteners and starches. We had a strong 2016 and when we look at the pricing scenario, at least that happened to us, what we can report after the negotiations, is that we have been single-digit up versus 2016. Our forecast for 2017 is for improved margins and improved overall operating profit in the whole sweeteners and starches business. So still positive about it and we haven't seen any evidence in our own business of any decline in prices as you describe.

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

Yes, and when we think about approaching and we talk about approaching $1 billion and we see improvements in Sweeteners & Starches both in North America, as well as international. We see improvements in the lysine business based on the operational improvements that we have and we also do see improvements in price, some small improvements in terms of the ethanol as we talked about earlier. So when you add it altogether, that's the reason why we are fairly constructive about our outlook for the corn segment in 2017.

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

If I can add, I think something that will surprise people is volume has been strong for us. If we look at what happened to us in Q4, volume is up 4% versus last year and overall, in 2016, our volumes are up 6%. So this is a tight industry and our volumes continue to grow. So you see that in the pricing. So we really are very positive about it. The whole Sweeteners & Starches business is strong with many, many products, including the sweeteners.

Operator

Evan Morris, Bank of America.

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

Just a question on the outlook and, Juan, I appreciate a lot of the color and certainly the context that you've put around framing better than one year or better than another year for the particular segments. I guess if I think about this in totality as the year shapes up as I look at the components, is 2017 shaping up to be similar to let's say 2014 from an operating profit standpoint? If you can just frame in totality how you see the year shaping up and again using a reference point of another year like you did with some of the segments.

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

If I have to handicap, obviously, I gave it to you by segment. If I need to put everything together in my head, certainly 2017 will be better than 2016, not a big achievement. Certainly, we think it's going to be better than 2015. We may not get to the levels in 2014.

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

Okay. Perfect. That's helpful. Thank you.

Operator

Ann Duignan, JPMorgan.

Ann Duignan - *JPMorgan Chase - Analyst*

Could you talk about just the general changes that are being discussed with the new administration? As you look internally, I know a lot of it is speculation and I don't want you to comment on speculation, but as you contemplate your businesses, is there anything that is really concerning to management versus anything that would be really positive like a border tax might be great or a stronger dollar would be negative. And then if you talk about -- would there be any impact to your outlook, especially for Ag Services, if we get a big swing in planted acres to beans this spring and away from corn? Thank you.

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

As I mentioned, there's a lot of speculation; early days. But we see some undeniable positives potentially for ADM in the new administration, which, in partnership with a Republican Congress, if it carries through with their plans for tax reform, for investment in infrastructure, sensible regulations, so if they do what they say, at least what we hear in those areas, it will significantly benefit ADM and our shareholders probably the economy as a whole in that sense.

On the other hand, we have been watching carefully as everybody, the administration statements, whether they are on trade and we are optimistic that, in the end, the President Trump and his senior advisers, whenever they are confirmed, will recognize that trading agricultural commodities has tremendous benefit for farmers and other businesses in the Heartland states. And so when we are looking at employment and all that, we are a big part of that. So in balance, we are cautiously optimistic given their priorities that the government has designated in the early days.

Operator

Farha Aslam, Stephens.

Farha Aslam - *Stephens Inc. - Analyst*

A question about the earnings power of ADM. Can you share with us, Juan, what you think a base earnings level is for ADM and perhaps what some of your projects could add, for example, Tianjin, Eaststarch, specialty starch restructuring, kind of the doubling of capacity in your Eastern European plants that you discussed? If you could lay out your growth projects and what you expect that to deliver over time, that would be really helpful.

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

Sure. We haven't deviated from our original framework that we defined to our investors maybe a couple of years ago with the $1 to $1.50 and the four pillars. Let me walk through some of those four pillars. One were operational excellence and you hear us every year put a target out there. Last year, we put a target of $275 million run rate and we delivered north of $300 million. So we've been beating those and we may continue to make our Company more efficient, more productive in that sense. So that bucket, I would say, we continue to achieve that bucket.

The second bucket is coming from WILD Flavors. WILD Flavors have been spectacular over the last two years. The things I'm looking to WILD Flavors, the things in which I look to control that we are doing a good job is they need to grow faster than the industry. Last year, revenue growth was about 9%. So I would say if you look at the food and beverage industry, it is very difficult to find even a customer that grew at that level. So they have done very well.

Then when we look at EBITDA margin on sales, they increased EBITDA margin from sales from one year to the other. And they basically grew profits by 20%, setting a second consecutive record. So my second bucket -- so the first bucket, operational excellence, we have demonstrated expertise. Second bucket, WILD Flavors, we demonstrated two consecutive years of record double-digit OP performance and growing faster than the industry, so we feel good about that.

The third bucket was about many of these projects that you hear us launching or coming to operations every quarter. Now we have two, one very large specialty proteins project in Brazil to provide globally to the growth in the specialty proteins and vegetable proteins worldwide. We used to have only one source of product from the United States and sometimes when the US dollar was very strong, restricted our ability to be competitive in export markets. Now with another leg of our strategy in Brazil, that will provide over time significant profitability.

We have also expanded the corn business from being mostly a North American business to now having a big position in Europe with Eaststarch and that has been very, very robust and very good profits in 2016. And we are expanding both of those facilities. And we also created that plant in Tianjin, China. So we have in that bucket more than 10 projects. I am just highlighting some of them. So we feel good about these projects.

Listen, some of the projects may be a little bit more in the tail end of our forecasted period just because you need to ramp up. Normally, the first year in a project, you are driving for capacity utilization, so what we call selling out the plant. So Tianjin, for example, last year, it ran at about 50% as we qualified all the customers. This year, it is going to run more about 75% or north of that and as we finish that with sellout, if you will, in 2018, we are going to bode more into the sellup going into higher margin. So you have that rampup.

But we feel good about the projects. We finished overall most of the projects under budget, slightly maybe delays because of some of the geographies that were complicating geographies for us, but all of them under budget. So we feel good about the projects. We feel good about that bucket in general.

And the fourth bucket was basically buybacks and some growth opportunities and we continue to redeploy funds to shareholders, to return funds to shareholders, something in the range of $1 billion, something, $1.5 billion. So we feel good about those four that will provide $1 to $1.50. And we are looking at the base that we always talk about that base and that base shrunk in the past and we have seen some recovery and at this point, we probably think we are going to recover something around 70% to 80% of that base on the same basis and there are other products, other initiatives that are going to bring further improvements or drive earnings into the business.

So I think we have a very rich platform of initiatives of self-help. So when we look at 2017, we always face the year with a lot of uncertainties because it's a volatile environment, we are a global company and we are exposed to a lot of things, but our plan for 2017 is very rich in things that are under our control. So are we going to be able to, with these things, offset every potential scenario? Probably not, but we feel very comfortable that we have enough weapons there to predict that we are going to grow earnings over 2017 and probably over 2016 and probably over 2015 as well. I hope that helps.

Farha Aslam - *Stephens Inc. - Analyst*

That is helpful. I just want to confirm, so your last comment was that your base earnings was $2.30 to $2.40 and that you plan to add about $1 to $1.50 to that base by late 2017, early 2018 run rate. Are you reaffirming that today?

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

What I said was that we still believe in the $1 to $1.50 adding to the base. What we saw in the base is that the base growth was that level that you described and what I see is that, in the medium term, that base will recover probably 70% of what we lost in that base. And then to that recovery over time you need to add the $1, $1.50 in a couple of years and that creates the picture of what we are looking in the future.

Farha Aslam - *Stephens Inc. - Analyst*

That's very helpful. Thank you.

Operator

Brett Wong, Piper Jaffray.

Brett Wong - *Piper Jaffray - Analyst*

I was wondering, farmers have been holding more grain (technical difficulty) clearly seeing from the [grain] stock report. Can you just talk to us about grain movement in 2017, what you expect there and why farmers in the US will need to move grain this year?

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

I couldn't hear very well, but I think it's about farmers selling. If it's about farmers selling, I will try to answer that.

Brett Wong - *Piper Jaffray - Analyst*

Yes, exactly.

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

So farmers selling, let me tell you what we are seeing. Certainly, if I look at Argentina, Brazil -- in South America, we are seeing farmers being reluctant sellers. They are betting on their currencies to drop. We had this past week actually decent selling in Argentina, but, in general, I would say they've been reluctant sellers. We will probably see more selling as harvest picks up. In Brazil, I would say, if you were in Mato Grosso, the farmers that are farther ahead in collecting their crops are more concentrating on harvesting the crop between rains. It has been raining a lot, so every time there is a good day, they do that, more than just in commercializing the crop. But as I said, I think the farmer selling will be tough with the harvest as it usually does.

In North America, we estimate that the farmers have sold something in the range of 80% of the old crop beans and about half of that, 40%, of the old crop corn. So the farmer is holding to his corn probably thinking that it's a little bit cheap. Also sometimes they see that corn tends to spike a little bit in price traditionally maybe in April and May when people get concerned about the weather.

I would say our sample in the US, farmers seems to be relatively okay from a financing perspective. They have sold their beans, maybe getting a check from the government and they are holding to their corn to be sold later on. That's probably how I would characterize farmer selling at this point.

Operator

Kenneth Zaslow, BMO Capital Markets.

Kenneth Zaslow - *BMO Capital Markets - Analyst*

Good morning, everyone. I just wanted to look at Ag Services a little bit. So since the Analyst Day, Ag Services may not have delivered exactly as expected relative to your expectations. Over the last couple weeks, last month or so, we've seen a fair bit of changes in personnel. Can you talk about what actions ADM is actually taking? Can you talk about what the earnings potential is and how will the shift towards trade to South America affect the outlook for this year and beyond?

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

So, listen, Q4 for Ag Services was -- we saw good volumes actually, good loadings from the US assets. Margin was okay, not great. I would say the biggest trades on, that's why we highlighted on that, was the global trade desk and the global trade desk is suffering from the recent environment of very ample stocks. So on the supply side, there are, as I said, ample stocks and margins have been squeezed. We do have a lot of dislocations to play with and so when you have an environment of very low margins, you don't have enough profitability to offset some issues in execution and you need to tighten up what you are doing. So we have been looking at a potential good weather for 2017 that creates that building stock. So we foresee that probably the lack of opportunities could continue into 2017 and we wanted to make sure that we are equipped to handle that better than we did in 2016.

So we've been refocusing the team. We've been touching about everything. When we look at our businesses and we analyze, and I have said this before, we look at industry structure, we look at our competitive position and we look at our own execution based on the team. So we are trying to address all those things. So we have not narrowed our focus. So we exited energy for example trading late last year. We've been looking at our competitive positions, our costs. We've been consolidating offices. We've been looking at trading more around our assets. That's something that we can defend our profitability a little bit more and certainly as we look at reducing our costs and reducing our people in general, we've taken decisions on people across the scale and some of those were more higher-level people and others more general in terms of cost reductions.

So we think that we have addressed the focus on trying to stay in the places where we can have the strongest competitive advantage. We think that the team is more focused, more competitive and we have addressed the team itself. So we believe that heading into 2017, the team is more confident about their focus, their strength, their competitiveness and we should obtain better results than 2016.

We've done this before. If you look at 2015 numbers, after we made some adjustments, we had a very good 2015. But then as I said before, some of the margin squeeze that's helping in 2016 put in evidence some of the issues we had in terms of execution. We also have to remember that part of the Ag Services business is looking at destination marketing focusing on end-to-end businesses from the farmer to the end customer. We had nice growth of that activity in 2016 and we are expecting to extend our value chain we did Medsofts and we did many other opening of facilities or offices and we are expecting to grow that volume in 2017 by another 10%. So overall, we feel good about all the things that Ag Services is doing to come back from a period of low profitability for a couple of years.

Operator

Vincent Anderson, Stifel.

Vincent Anderson - *Stifel Nicolaus - Analyst*

I just wanted to dig into capital allocation for 2017. With your outlook for an improving base earnings across your operations, share price is reasonably strong. The decision for $1 billion to $1.5 billion of shares buybacks, when you expect global processing to be at a trough, walk me through why maybe not more M&A and more specifically what your priority is for increasing your stake in Wilmar.

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

Yes, I think if you recall the $1 billion to $1.5 billion range is all subject to strategic capital allocation. So in that respect, to the extent that we find that there are opportunities for us to redeploy capital for our shareholders, that makes more sense in terms of a strategic transaction, then we will. We will reduce the amount that we buy back and we will redeploy that amount towards acquisitions. Remember, our capital allocation framework was roughly 30% of the cash flows would go towards CapEx and about 70% will go towards strategic M&A and/or buybacks. So therefore, we are going to follow that framework.

With respect to Wilmar, you've seen us increase steadily our stake in Wilmar. We've been opportunistic about that. We've increased our stake and taken advantage of pullbacks in terms of share price. We haven't paid consistent with book value, so we've been very careful in terms of how we increase our stake in Wilmar, which we believe is a very important strategic partner and frankly a very important part of our Asia and emerging market place.

So at the current level, which is about 23.9%, we feel fairly comfortable. Will we increase further in 2016 will be a function of whether we believe there's an opportunity for us to pick up the shares at an attractive price. So again, we will just monitor the market, take a look at our cash flows, take a look at how we are deploying capital and then make decisions as we move through the course of the year.

Operator

Michael Piken, Cleveland Research.

Mike Henry - *Cleveland Research - Analyst*

This is Mike Henry in for Mike Piken. Thanks for taking my question. Just was wondering if you guys could talk through a little bit of the impact, if you saw any, from the higher US dollar in each of your businesses and how that is baked into your expectations going forward into 2017 as well. Thank you.

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

Yes, so we saw it in our export business. Obviously, we saw it early on in 2016 in Ag Services and we also saw it in specialty ingredients. One of the businesses that grew a lot in exports over the previous year has been the specialty proteins business. Remember I have reflected on the fact that we had only one plant in the US while we are bringing Campo Grande in Brazil and that business was impacted by the strong dollar. So at this point in time, we have planned for a strong dollar to continue, if you will, in our assumptions going forward. So we don't expect a big reprieve from that.

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

You also have to remember that when you talk about strong dollar, you have to talk about what the currency pair is because a lot of people kind of focus on the dollar versus the euro, but when you actually look at versus the Brazilian real or the Argentine peso, a year ago at this call, the real was trading up 4. Right now, it is trading at 3.1, so the real has actually strengthened.

When you take a look at versus the Russian ruble or Ukrainian hryvnia, again crop-growing regions, those currencies actually strengthened versus the dollar. So we just have to be careful when we talk about the strength of the dollar. Yes, generally, there is a trend towards strengthening the dollar, but relative to a lot of the crop-growing regions of the world, over the past 12 months, we've actually seen those currencies strengthen relative to the dollar. So I just want to make sure there is a balanced perspective when we talk about the currency here.

Mike Henry - *Cleveland Research - Analyst*

That's helpful. Thank you.

Operator

Adam Samuelson, Goldman Sachs.

Adam Samuelson - *Goldman Sachs - Analyst*

Maybe going to oilseeds, the market environment in the fourth quarter and the outlook for the first quarter is fairly sluggish. And I'm just trying to maybe get some regional differentiation there, US, Europe, Brazil, soy versus softseed. And then also in the refining biodiesel business, can you talk about how much of 2016, how much biodiesel blenders credit was in the 2016 numbers and your thoughts on that portion of the business into 2017, which seems like a much more uncertain outlook? Thanks.

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

So when we look at -- since we haven't spoken about oilseeds yet, if I talked about Q4, Q4 we saw in North America probably a little bit better than our forecasts, Europe in line and South America a little bit worse. So remember that South America for us includes the grain part and obviously we suffered a little bit with lower volumes as they didn't have a big crop.

When we look at Q1, in general, going back to Q4 last year, our volumes were normal, were solid. Our margins dropped in Q4 and mostly because we were making room for all these alternative proteins, whether it's feed wheat or whether it's DDGs. So we expect the feed wheat will probably be competitive until second quarter and we will be eliminating all those stocks as the year goes by.

When we look at Q1 and 2017, we continue to see good demand. We see US utilization in the mid-80%s. We still see gross margins have weakened maybe to $15 to $20 per ton. Softseed right now still not great. This is a slow time of the year for biodiesel traditionally. In Brazil, we see crush margins $10 to $20 per ton for domestic margins. Margins should pick up as the harvest picks up this time of the year.

In Europe, mill consumption remained slow, if you will and there is a lot of cheap feed wheat, so we shifted now to using more rapeseed in our crush. You know that we have that swing capacity. So I would say we've seen better margins in general in rape. Obviously, there is a smaller rape crop that may lead to overall lower crush in general, but the food demand has been okay. We've seen some increase in biodiesel mandates in Europe in 2017, whether it is in Germany or in Spain. So that's how I see it globally and I don't know, Ray, if you want to talk a little bit about the biodiesel that was in our P&L.

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

Yes, I think the biodiesel tax credit, I think we've indicated over the years it's been roughly around $50 million plus or minus. And so, therefore, that's a number that -- it's in our plan. We believe there's a good chance the biodiesel tax credit is getting renewed, but don't forget it's very possible that the biodiesel tax credit may get wrapped up in the whole aspect of corporate tax reform as well and from our perspective, we believe that any type of corporate tax reform would be positive for ADM because, as you know, in the agricultural sector, being a US domiciled company, we pay the highest tax rates in the industry.

So bringing our statutory tax rates from a 35% level to either the 15% level that Mr. Trump has talked about or the 20% level that the Republican blueprint is talking about is very, very positive. And then they have also talked about a border adjustment tax, which, for agricultural exporters like ADM, that would be a positive too for us. So there's a lot of dynamics when you think about implications of tax reforms, the biodiesel tax credit. We are all monitoring this very, very carefully, but in general we feel very positive about the direction that the administration is heading towards looking at improvements to our corporate tax system.

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

And if I can summarize in oilseeds. We continue to see demand growth. We continue to see strong demand and we are more positive this year about canola and rape to be bigger contributors than last year and remember that we don't foresee to have the same issue in grain in Brazil that impacted us in 2016 because we are going to have a bigger corn crop and we are going to have a bigger soybean crop than we had last year. So overall, all those things I think will make oilseeds have a better year next year than in 2016.

Operator

And there are no further questions at this time. I will turn the call back over to Mr. Juan Luciano for closing comments.

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

Thank you, everybody, 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.
