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ADM - Q1 2017 Archer Daniels Midland Co Earnings Call

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Co. reported 1Q17 reported EPS of $0.59.

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PRESENTATION

Operator

Good morning, and welcome to the Archer Daniels Midland Company First Quarter 2017 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 D. Schweitzer *- Archer-Daniels-Midland Company - VP of IR*

Thank you, Scott. Good morning, and welcome to ADM's First Quarter Earnings Webcast. Starting tomorrow, a replay of today's webcast will be available at adm.com.

For those following the presentation, please turn to Slide 2, the company's safe harbor statement, which says that some of our comments constitute forward-looking statements that reflect management's current views and estimates of future economic circumstances, industry conditions, company performance and financial results. These statements are based on many assumptions and factors that are subject to risks and uncertainties. ADM has provided additional information in its reports on file with the SEC concerning assumptions and factors that could cause actual results to differ materially from those in this presentation, and you should carefully review the assumptions and factors in our SEC reports. To the extent permitted under applicable law, ADM assumes no obligation to update any forward-looking statements as a result of new information or future events.

On today's webcast, our 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 Ricardo Luciano - *Archer-Daniels-Midland Company - Chairman, CEO and President*

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

This morning, we reported first quarter adjusted earnings per share of $0.60, up 43% from the prior year quarter. Our adjusted segment operating profit was $678 million. Our year-over-year results improved as a company and in all 4 of our business segments in the first quarter. And we continue to be on course for a stronger 2017.

Ag Services was up for the quarter, with higher results in U.S. grain and transportation operations. The Corn business delivered a good quarter, with improved performances across their portfolio. Oilseeds earnings were up, including solid results in global softseeds and from our equity investment in Wilmar. WFSI results were higher, led by WILD Flavors.

We are advancing our strategic plan with the pending acquisition of French sweetener company, Chamtor; the announcement of expansions to our Animal Nutrition capabilities in China; and a further investment in Wilmar. We also implemented about $50 million in run-rate cost savings during the first 3 months of the year. And in line with our balanced capital allocation framework, we'll return more than $400 million to shareholders in dividends and share repurchases during the quarter.

We are continuing to execute the long-term strategic plan that we launched in 2012, and we're seeing the results. We have strengthened our core, improved our cost positions and implementing measures to improve results where necessary. Our operational excellence initiatives have delivered significant savings and efficiencies, and we continue to grow strategically by expanding into new geographies and increasing our capabilities in food, beverages and feed. Those actions contributed to the improved results we saw in the first quarter despite still muted margin environments in some businesses. And the continued momentum in the execution of our plan gives us confidence that we will deliver sustainable value creation.

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

Ray G. Young - *Archer-Daniels-Midland Company - CFO and EVP*

Thanks, Juan. Slide 4 provides some financial highlights for the quarter. Adjusted EPS for the quarter was $0.60, up from the $0.42 last year. Excluding specified items, adjusted segment operating profit was $678 million, up $105 million from the year ago quarter.

The effective tax rate for the first quarter was 26% compared to 25% in the first quarter of the prior year. The slight increase in our tax rate is primarily due to the expiration of U.S. tax credits, including the biodiesel tax credit, partially offset by changes in the forecast geographic mix of earnings.

Our trailing 4-quarter average adjusted ROIC of 6.4% is unchanged from the end of the first quarter last year. Our ROIC has continued to improve for the third consecutive quarter following the challenging operating conditions that we experienced during the first half of 2016.

For 2017, we have established our annual weighted average cost of capital at 6.0% following a detailed review of interest rates, equity risk premiums and betas in our cost of capital model. Similarly, our long-term WACC has been updated to 7.0% based upon our review of assumptions and benchmarks.

On Chart 18 in the appendix, you can see the reconciliation of our reported quarterly earnings of $0.59 per share to the adjusted earnings of $0.60 per share. For this quarter, we had a $0.01 per share charge related to asset impairments and the restructurings, a $0.01 per share LIFO gain and certain discrete tax items of $0.01 per share.

Slide 5 provides an operating profit summary in the components of our corporate line. In Ag Services, we had approximately $7 million in impairment and restructuring charges, primarily related to our restructuring efforts in the Global Trade Desk. In corn and oilseeds, we had small impairments and restructuring charges.

In the corporate lines, net interest expense was up approximately $11 million due to higher short-term interest rates in our overall mix of short- and long-term debt following the issuance of new fixed-rate debt in August of last year.

Unallocated corporate of $132 million was up versus the prior year due to a higher people cost, including benefit accruals, as well as our increased investments in innovation, IT and business transformation, yet modestly below our $140 million per quarter guidance for fiscal year 2017 that we provided at the last earnings call.

Minority interest and other charges improved to $20 million primarily due to improved results from our equity investment in CIP.

Turning to the cash flow statement on Slide 6. We generated about $508 million from operations before working capital changes during the period, down slightly from the prior year period. Total capital spending for the period was $200 million, about similar to the prior year. Acquisitions of $90 million in the first quarter were primarily related to Crosswind Industries, a pet treat manufacturer.

The other investing activities line of the cash flow statement includes the incremental investments we made in Wilmar, bringing our total ownership stake to approximately 24.3%.

During the quarter, we spent about $248 million to repurchase shares, consistent with our prior guidance of $1 billion to $1.5 billion for the year subject to strategic capital requirements. Our average share count for the quarter was 579 million diluted shares outstanding, down 18 million from the time 1 year ago. At the end of the quarter, we had 577 million shares outstanding on a fully diluted basis. Our total return of capital to shareholders, including dividends, was more than $400 million for the quarter.

Slide 7 shows the highlights of our balance sheet as of March 31, 2017 and 2016.

In summary, our balance sheet remains strong. Our operating working capital of $7.4 billion was down $280 million from the year ago period. Total debt was $7.2 billion, resulting in a net debt balance, that is debt less cash, of $6.5 billion. Our leverage position remains comfortable, with a net debt-to-total capital ratio of about 27%.

Our shareholders' equity of $17.1 billion was slightly down from the $17.9 billion level last year, due to returns of capital and changes in the cumulative translation account. We had $5.1 billion global credit capacity at the end of March. If you add available cash, we had access to $5.8 billion of short-term liquidity.

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

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

Thank you, Ray. Please turn to Slide 8. In the first quarter, we earned $678 million of operating profit, excluding specified items, up from $573 million in the last year's first quarter. In 2017, we are seeing some improving market conditions as well as benefits from the actions we have taken and continue to take as we execute our strategic plan.

First quarter adjusted segment operating profit was up more than 18% versus the year ago quarter despite muted margin environments persisting for some of our businesses.

Now I'll review the performance of each segment. So starting on Slide 9. Ag Services results were up year-over-year. Merchandising and handling results were down versus the prior year quarter. In North America, demand for grain exports remained strong, and the business benefited from good execution volumes and improvements in grain carries. The improved results in North America and grain operations were offset by lower results in international merchandising.

As expected, results from international merchandising remained muted in the first quarter. This substantial global supply of crops continues to limit merchandising opportunities. In addition, the group was impacted by some mark-to-market timing effects, restructuring charges and low volumes at 4 facilities, which negatively impacted our results in Argentina.

We are beginning to see the benefits of our aggressive actions to improve our international merchandising performance and continue to expect that results will improve as we move through the year.

Transportation was up substantially. Our North America barge and stevedoring operations saw increased loads, and our stevedoring operations reported record volumes. Milling and other had a solid quarter but with lower sales volumes and product margins.

And finally, just yesterday, we completed the sale of our Crop Risk Services business to Validus Holdings, which advanced our strategy by freeing capital for strategic redeployment while allowing ADM to partner with Validus to offer customers a full array of ADM's grain marketing products and services.

Please turn to Slide 10. Corn Processing had a strong quarter. In sweeteners and starches, strong demand drove sales volume and margin growth. A key component of our plan is the strategic growth, and the Corn business exemplifies the benefits of executing that strategy. We are continuing to see higher volumes and margins from our European business. The results out of our new sweetener complex in Tianjin, China also improved over the year ago quarter.

Another important driver of success for corn was bioproducts. Export demand for U.S. ethanol is high. Ethanol margins were better than the year ago quarter due to exports as well as solid domestic demand.

Our lysine business had better margins versus the year ago period, thanks to better pricing and improvements in production cost. Lysine improvements helped Animal Nutrition overall achieve a better quarter despite warmer weather that limited overall sales volumes.

Lastly, the Corn business was impacted by about $10 million due to unplanned repairs to a large water pipe in the Decatur complex.

Turn to Slide 11, please. Oilseeds delivered one of its strongest recent quarters, with overall results up year-over-year. Our crushing and origination results were largely flat. As expected, despite good global demand for protein meal overall, global soybean crush margins remained pressured as alternative protein meals continued to impact the market. We expect feed wheat supplies to largely clear the market by the end of the second quarter and demand for soybean meal to increase in Europe.

Our global softseed processing footprint and flex capacity have continued to be positive factors. Canola and cottonseed results were both significantly higher than the previous year as we capitalized on margin opportunities both in North America and Europe.

In Brazil, margins have been compressed as farmer selling hasn't kept pace with export demand due to weak commodity prices and the strong Brazilian real. Refining, packaging, biodiesel and other results were down for the quarter.

In Europe, food oils were lower as a solid performance from the team was offset by timing effects. North American biodiesel volumes and margins were down. South American packaged oils and biodiesel were up for the quarter on better volumes and margins. Golden Peanut and Tree Nuts was up on improved margins and a strong plant productivity.

Results in Asia improved significantly over the prior year quarter, reflecting our increased ownership and improved results from Wilmar. Our team in India also delivered higher results as well.

On Slide 12, WFSI results were higher for the quarter. The WILD Flavors team delivered another great quarter. The Europe -- European, Middle East and Africa WILD Flavors group had a very strong quarter, with good sales volumes in Africa and the Middle East.

In China, WILD Flavors is aggressively pursuing new business with good results. And WILD Flavors in North America continues to be solid and growing. We have seen a consistent pattern of double-digit growth in the WILD Flavors business and remain excited about its continued and expanding contributions.

Results from Specialty Ingredients were mixed. Specialty proteins were up overall, with the strength in North America offsetting weaker results in other regions. Results in proteins were impacted by start-up costs related to the Campo Grande facility, which started to sell soy flour and continues to move toward full commercial operations later this year.

Fibers were down for the quarter due to start-up cost in our Tianjin complex and continued competitive price pressures.

Now on Slide 13, I would like to update you on how we continue to implement our strategic plan. Since we launched our plan in 2012, we've made some important progress toward becoming a more efficient company, a more global company and a company that is extending further along the value chain. We still have much to do, but I'm gratified by the commitment to the plan that our team has demonstrated.

As you all know, our industry has faced some significant market headwinds over the last 2 years. And I'm really proud that we faced those headwinds and had the discipline to continue to execute our plan. We worked to deliver cost and process efficiencies, and we invested to grow through acquisitions and plant expansions, and we continue to deliver dividends and share repurchases. We worked the levers under our control, putting us further along the path to creating long-term value for our shareholders.

In 2017 specifically, we continue to execute in our 3 primary areas of focus. In the area of optimizing the core, we have already discussed how our aggressive actions to improve performance have started to show results. As mentioned earlier, we have completed the sale of our Crop Risk Service businesses, which includes a grain marketing agreement with the buyer, Validus. We have achieved more than $200 million of monetizations in 2017, and we continue to be on track to achieving our $1 billion monetization target over 2 years.

In the area of operational excellence, we implemented about $50 million of new run rate cost savings actions through the first quarter and are on pace to meet our target of $225 million for the year. And we continue to advance our One ADM business transformation project.

In the area of strategic growth, we are planning on adding to our European sweetener and starch footprint with the pending acquisition of Chamtor in France. We also acquired a 90% ownership stake in Biopolis, a leading provider of microbial technology with a strong portfolio of novel food ingredients. We are continually expanding our capabilities throughout the value chain. And with Biopolis, we are once again enhancing our ability to meet the needs of health-conscious consumers.

We announced the construction of a new feed-premix facility in Xiangtan, China, which we will be our fifth in the country. We also announced our entry into the growing Asian aquafeed market with the construction of an aquaculture production line at our Nanjing complex. We continue to grow our capabilities in the Australia and New Zealand region with the opening of our new flavor creation and customer service center in Sydney. And we once again expanded our equity holding in Wilmar, which continues to help us benefit from Asia's consumer growing and evolving demand for food.

These are just a few of the recent highlights, and we'll continue as always to update you on our progress each quarter.

So before we take your questions, I wanted to offer some additional perspectives on the next quarter and the balance of the year. In Ag Services, we do anticipate a slightly better second quarter than year ago period with stronger grain carries, better results in Argentina and continuing improvements in global merchandising. In the back half of the year, we'll be watching how the large South American crop impacts North American export competitiveness. Absent any major dislocation event, we expect it will be a very competitive global environment. We believe global demand will remain strong for the year, and we expect international merchandising to contribute more as we move through the year.

Looking at the whole year. We continue to expect performance in Ag Services for calendar year 2017 to be significantly better than 2016, although likely weaker than what we have thought at the beginning of this year and more similar to 2015.

In corn, we're expecting a significant improvement in the second quarter versus the prior year. In sweeteners and starches, we believe we'll continue to see a tight North American market with solid demand, and our international business will continue to grow. We expect to see continued, very strong demand for U.S. ethanol in the second and third quarters, with demand normalizing in the fourth quarter.

Looking at the second quarter for oilseeds, we expect flat to lower results compared to the year ago quarter. Soybean crush margins in the second quarter will continue to be challenged in some geographies due to ample global soybean supply and a competitive protein meal environment. The significant increases in crop production in Brazil will lead to better year-over-year export volumes. However, in the near term, slower producer commercialization could continue to weigh on margins.

In refining, packaging and biodiesel, we're expecting a steady to improved results as food and biodiesel demand improves seasonally. In WFSI, we expect that the second quarter of 2017 will show better results than the year ago period, and we believe that WILD Flavors will continue to sustain strong performances throughout the year.

So our full year outlook for the company has not changed since our last call, although the mix of earnings may be slightly different across our business segments, with Ag Services maybe slightly weaker for the year and corn and oilseeds maybe slightly stronger. Taken together, as we continue to execute our plan, we'll remain confident that the actions we are taking will yield a solid year-over-year increase in profitability and returns for 2017.

With that, Scott, I open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of David Driscoll with Citi.

David Christopher Driscoll - *Citigroup Inc, Research Division - MD and Senior Research Analyst*

So I wanted to spend my time on Agricultural Services. And the first quarter results of $88 million, they're still well below the 5-year average for Q1 results, which we calculate at around $160 million. Previously, you guys used to give guidance for the whole segment, something like -- Ray, correct me if I'm wrong, was it, like, $850 million to $950 million? So can you just update us a little bit more here? I mean, Juan, I appreciate your comments you just made on this thing, but I still find this is a very hard segment to model. So just a little bit more detail on what you expect going forward. And then the longer term, I think, is a fairly critical question that we get from a lot of investors.

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

Yes. Thank you, David. Of course, we're -- you have heard us, we're working very hard in Ag Services to continue to improve our operations. We have been seeing or facing a couple of years of very strong headwinds into that business. We are expecting improvements, and we've seen it in the first quarter. We still expect an improvement in the second quarter. First quarter was characterized by strong exports out of the U.S. We export significant volumes. The margins were okay, were not spectacular but were solid margins. And we have some headwinds in international merchandising. There is a very -- with ample stocks around the world, there is a very subdued environment for us to make profitable international trades, if you will, in the international merchandising business. So we've been working very hard to reduce our fixed cost, if you will, in that area, whether we shut down our office in South Africa, whether we consolidated offices in Argentina and reduced a little bit our manpower there. We have made some changes in personnel where we needed to do. So it's been our improvement into that business. We still believe that over time, we're going to continue to grow our earnings. We are very pleased with our destination marketing business. We continue to grow 10% our volume there. Our acquisition in Medsofts is doing well. We have opened several offices around the world. So I would say we continue to make progress. It's still short of the range we used to hit, and we're not going to hit it this year. But this year will be better than last year, and we expect again our trend to continue in the second quarter. So I hope that satisfies, David, a little bit the outcome for -- the outlook for Ag Services?

David Christopher Driscoll - *Citigroup Inc, Research Division - MD and Senior Research Analyst*

It does.

Operator

Your next question comes from the line of Sandy Klugman with Vertical Research Partners.

Sandy H. Klugman - *Vertical Research Partners, LLC - VP*

Could you discuss your views on the near-term ethanol market outlook? You'd mentioned that you expect strong demand to emerge in the near term, but margins have compressed pretty meaningfully on lower-than-anticipated driving demand. And you also have emerging risk from Brazil potentially implementing a 16% tariff. So I was wondering if you could provide some more color on your near-term ethanol market outlook and then comment on how some of these uncertainties may have impacted negotiations for the dry mill assets.

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

Oh, sure, Sandy, yes. So the short term, I will say, were very bullish in terms of ethanol margins. We think we're going to have a very strong Q2 and Q3. We've had very strong exports in the first quarter. We expect Q2 exports to remain very strong. Even without any China in our forecast, we are still expecting the industry to export about 1.1 billion, 1.3 billion gallons. This is the time of the year in which we're going to see domestic demand accelerate as the driving season gets better, if it ever stops raining and the weather improves. And we're going to see a draw in inventories by May. So we expect strong Q2 and Q3 and volumes more normal into Q4. So all in all, we expect a good year. Brazil, we think that it's going to put a lot of export in our books, in the industry's books by the whole first half. They've been very strong in Q1. We're going to see some of that continue into Q2. But there are other geographies, whether it's India and Canada, that continue to grow, and we continue to develop new export markets. So we're thinking 14.5 billion, like give or take, in terms of domestic demand plus 1.1, 1.3 of exports, billion gallons, I mean. So we think that there's going to be very good balance for the rest of the year. Second part of your question was to what extent this is impacting our dry mills considerations. It hasn't. We continue to have the same strategic question about what we want to do with the dry mills. We haven't found any option at this point in time to execute on that was giving us the value creation that we wanted for our shareholders. So we continue to look, and we continue to keep an eye on the developments on the tax reform in the U.S. that could impact some of the options or could value some of the options in different ways. So we continue to discuss with a couple of interested parties but probably, as I said, looking with -- look inside with a little bit to the tax reform progress that the Trump administration may do this year or in next year.

Operator

Your next question comes from the line of Farha Aslam with Stephens Inc.

Farha Aslam - *Stephens Inc., Research Division - MD*

Just some more color on your oilseeds business. Could you share with us kind of color around the Brazilian harvest, farmer selling and what we should look for in that Oilseed Processing earnings year-over-year for '17 versus '16?

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

Yes, sure, Farha. So as it has been widely publicized, obviously, Brazil will have a very large crop. We expect soybeans to be up in production maybe 20% versus last year. Corn, maybe 40%. So at this point in time, obviously, the dynamics in Brazil have been about farmer selling, farmers not liking the prices, not liking the currency at this point in time. So crush margins have been maybe breakeven at best as everybody fights for soybean origination. Especially difficult may be the Mato Grosso area with the pull of beans from the north ports as -- and Santos as the industry has tried to satisfy export commitments. The crushing environment should improve in July forward that the export program loses competition to the U.S., and some of the export capacity will shift probably to corn to try to deal with this maybe 93.5 million tonnes crop that Brazil is going to harvest. The oil balance sheet would probably tighten next year as the biodiesel blend goes to 9% -- to be 9% is implemented. And so that's kind of what we see Brazil at the moment. There's a lot of the balance between how much China is going to be importing versus how much the seller -- the farmers will be selling and to what extent they want to keep some carryover for next year or commercialize it before they get to the corn crops.

Farha Aslam - *Stephens Inc., Research Division - MD*

And the outlook for your oilseed business, how should we think about that year-over-year?

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

Yes. I think it will be better than last year. So we expect biodiesels and others to pick up seasonally, and we expect crush margins to still be a little bit subdued because we need to fight with the DDGs produced from this record ethanol and also some of the still wheat feed that is in the market for Q2. We've seen already encouraging signs in Europe that demand is coming back to soybean meals, so we know that we are going through those inventories of wheat feed. So overall, we are positive into ending 2017 much better than 2016.

Ray G. Young - *Archer-Daniels-Midland Company - CFO and EVP*

Farha, if you recall, last year 2016, 2 major factors dragged down oilseeds results: one, the Wilmar equity earnings; and two, the lack of volumes in South America in terms of origination. And those 2 factors, as we look into 2017, should not be negative factors. And you've seen the strength in terms of the Wilmar equity earnings that got translated into our results in the first quarter. And then with the large crop in Brazil, particularly the -- what is expected to be a significantly improved corn crop, origination volumes in South America should be significantly higher, which will contribute towards an overall positive delta '17 versus '16. So again, we expect '17 to be a lot better than '16. Again, we don't expect it to approach the 2015 levels. But nevertheless, 2017 for oilseeds will be a far better year than 2016.

Operator

Your next question comes from the line of Eric Larson with Buckingham Research.

Eric Jon Larson - *The Buckingham Research Group Incorporated - Analyst*

So Juan, the interesting question that I have, and this is really -- we've had 4 consecutive years of global grain production that really has only had one kind of interruption, which was last year in South America. We could potentially produce a normal crop again this year. I mean, obviously, we got good moisture, good planting. It seems like this malaise could last for a while in Ag Services, yet we know it can change quickly. But the real question I have is, we've had fairly depressed commodity prices now globally for, oh, 18 months, 2 years, yet we still see global production going up, whether it be the Ukraine and Russia and elsewhere. I mean, maybe there are some geopolitical issues there, but where does -- and it seems like the U.S. is losing share. Where does all this kind of wash out at the end? And does it keep the competitiveness in Ag Services out longer than we might expect?

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

Yes. Thank you, Eric, for the question. I think, listen, I think the world continues to be -- to have a strong demand for grains. And I think that as long as we have -- as long as we have goodwill and we have good inventories, that the usage is very strong. And I think that we need to continue to plant and to create production because one of these days, we're going to have a surprise, and you will see how the pendulum will swing dramatically. So -- but in terms of adjusting for this scenario of depressed prices and ample stocks, if that were to continue, you see what we're doing in Ag Services. Again, we are reducing our fixed cost in Ag Services to make sure that we keep our returns. That's where you see our reduction in invested capital with the announcement that we did this morning in crop risk. But we continue to keep the commercialization, that relationship with the farmer, but we don't own those assets anymore. We take that invested capital out. So again, we continue to keep our share. We continue to expand outside the U.S. You heard about our investment in the Port of Santos. You heard about our investment in the Port of Barcarena in the northern part of Brazil. We have been -- invested last year in the Port of Constantza in Eastern Europe. So we think that the production will continue to grow. And to the extent that we're going to have every now and then a dislocation, while we have this strong demand, I think that the industry will be fine, and I think Ag Services will come back to the levels we used to see.

Eric Jon Larson - *The Buckingham Research Group Incorporated - Analyst*

Okay. Then just one quick follow-up question. The 2 things that are in your control in the Ag Services division is, number one, your management. And I'd like a little update where you sit with all your kind of management disruption in Ag Services, your international -- your trading desk, but then also a quick update on your destination marketing, which -- that's something you can control. You can pick up a higher margin as you pick up customers and pull support. So can you talk a little bit about those 2 issues?

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

Sure, Eric, yes. Listen, in international merchandising, what we've been trying to do is, again, is to reduce our cost per tonne of units traded. So we consolidated offices in Argentina. That is something that we needed to do. That created some redundancy in personnel, and we have some reductions there. We closed our office in South Africa. That was a strategic decision. And we will continue to analyze other offices whether it makes sense. At this point in time, I think that probably most of our restructuring has been done, so we wouldn't expect anything further. In terms of personnel, as you described, some of these things were very well planned, like the head of Toepfer -- the Global Trade Desk, I'm sorry, the former Toepfer unit. That has been planned for more than a year in which one very experienced trader was basically grooming his succession, and now he is retiring. And we have -- every year, for you to have an idea, we get an input of about 250 people in our commercial merchandising systems, and we continue to develop them and grow them. And over time, they all grow into bigger positions, and some of our most experienced people retire. So that was -- I think you shouldn't read that much into that. That was a very planned succession, and then nothing reflects the issues that we have with the performance of the Global Trade Desk. So again, the Global Trade Desk is just trying to reduce their cost per tonne of traded materials since the margins are a little bit lower than before. You have a second part of that, I guess, in the Global Trade Desk. Do you have another one?

Ray G. Young - *Archer-Daniels-Midland Company - CFO and EVP*

Destination marketing.

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

Yes, destination marketing.

Eric Jon Larson - *The Buckingham Research Group Incorporated - Analyst*

Yes. Well...

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

So destination marketing has been doing very well. Listen, we are doing a dual approach. When we can, we go and acquire some vehicles out there to improve our share. Medsofts was part of that. We acquired half of that, and it's been growing very nicely and giving us very good profit growth. Volume is growing. I think it grew 10%, the volume that we have in destination marketing this quarter. So we are happy with that. And when we don't find units like Medsofts where we can increase our equity stake or ownership, we go and open offices. And we have been opening offices in Central America, and we have been opening offices in Southeast Asia. So it's a lot of work. It's slow work at times. But we have been seeing the pickup in margins, and we've seen the increase in share. So we are continue to relentlessly implement on that.

Operator

(Operator Instructions) Your next question comes from the line of Brett Wong with Piper Jaffray.

Brett William Sprinces Wong - *Piper Jaffray Companies, Research Division - Principal and Senior Research Analyst*

I know it's still early. There's a lot of uncertainty, but we're hearing more and more discussion around NAFTA recently, specifically last week. Wanted to know if you can comment on anything your people are hearing in D.C. And then as we've seen more pressure on relationships, what are you kind of doing, looking at the potential risk there?

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

Sorry, Brett, you mentioned about NAFTA?

Brett William Sprinces Wong - *Piper Jaffray Companies, Research Division - Principal and Senior Research Analyst*

Yes.

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

Yes, thank you. You came very low. So listen, there are many issues in the news, and you can obviously have confidence that our teams are deeply involved both in the U.S. and in Mexico on these. I think we are heading towards a discussion about NAFTA. NAFTA has been in place for 23 years. And whether you discuss with the U.S. administration or you discuss with the Mexico administration, there are issues on both sides that they would like to update and modernize NAFTA on. NAFTA, from our perspective, obviously, is a very important customer, whether we export to Canada, whether we export to Mexico. And I think the administration understands that. And we have a very balanced sweeteners supply and demand, if you will, that needs open trade. And I think that on both sides, whether it's sugar coming this way or high-fructose corn syrup going their way, both industries are very healthy. And it's in the best interest of both countries and both industries to continue to negotiate and have discussions. So again, we are at the table. We are helping with data and with our opinion on both sides. And I think that both sides will continue to make progress. And I can't disclose any more at this point in time.

Operator

Your next question comes from the line of Rob Moskow with Credit Suisse.

Robert Bain Moskow - *Credit Suisse AG, Research Division - Research Analyst*

Juan, I was hoping you could help us understand the order of magnitude as to the growth of destination marketing and its contribution to Ag Services, and maybe offset that with, I suppose, the lower cost per trade that you pointed out in your trading operations because you're restructuring and reducing personnel. It's very hard for me to understand, like, how much each of these elements contribute to the business, number one. And number two, like, is -- are you adding costs in destination marketing that are offsetting the savings in -- that you're getting from the trading?

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

Yes. Let me give you some perspective, Rob, and thank you for the question. On the Global Trade Desk, I wouldn't like to disclose my dollars per tonne of fixed cost because that's competitive information, and we benchmark that, and I don't want the number out there. I will say, at this point in time, our reductions are in the tens of millions of dollars, if you will, in terms of the restructuring of that. In terms of destination marketing, when we put together the plan, as you may recall, we describe that about 15% of our global trade were going into destination marketing, were reaching the final customer. And we were planning to move that over 5 years to 30%, so to kind of to double that, the amount that we were sending there. That was going to increase margins from about, let's say, $2 to $4 per tonne to maybe something like $8 to $10 per tonne. We saw last year the increase in our volume. What was the increase to volume last year? I don't have it top of mind.

Ray G. Young - *Archer-Daniels-Midland Company - CFO and EVP*

Roughly 1 million tonnes.

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

I think 1 million tonnes? Yes. And we are seeing this year an extra 10% as of the first quarter growing. So that's kind of the pace, if you will. To the extent that it's adding cost, it's adding cost that is included in this $8 to $10 per tonne. So we shouldn't double count that extra cost, I will say. So I think you should think about adding earnings from the destination marketing volume that is growing and hopefully picking up something like $6 per tonne versus our original FOB trade. And then you have another source of earnings, which is a slight reduction of structural cost in the Global Trade Desk as we improve our footprint there, as we optimize our footprint there. So those will be the 2 basically, the 2 numbers you keep in your head.

Operator

Your next question comes from the line of Ann Duignan with JPMorgan.

Ann P. Duignan - *JP Morgan Chase & Co, Research Division - MD*

Rather than beating a dead horse on Ag services. Maybe I'll ask about the recent weather in the Midwest. There is some discussion out there that we might have lost as much as 20% of our wheat crop. We've got parts of Illinois with significant flooding. I know it's only been the past weekend, but could you comment on what this recent weather might or could do and what kind of conversations you're having with your farmers in the region? Any change in planting intentions? What might be the outcome of all of this in your view?

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

Yes, thank you, Ann. Yes, I was flying yesterday across the area here, and you realize how much standing water is there. So very saturated, the fields out there. So I guess, from a corn perspective, we see we have planted about 34% so far, which is about on top of the average of the last 5 years. And I'm not sure how much progress we'll be able to make this week until the weather improves. But I think the farmer in the U.S. have proven that with new machinery, they can plant pretty much a lot of crop in a week. In terms of wheat, I think that we'll receive probably some damage over the weekend. And I don't know how to quantify it other than there is the annual wheat tour underway this week, and I think that there, people will be assessing damage. Obviously, wheat is very sturdy crop for drought and dryness, but I'm not sure about the wind and the flooding that -- or the rain that we have over the last weekend. In terms of corn planted and soybean planted, as I told you before, about 34% in terms of corn, maybe 10% in terms of soybeans. And I think it's too early to determine any change in acres. So at this point in time, we're sticking with the same numbers than before until we get new information from the field if there are -- if there is some new information from the field.

Ann P. Duignan - *JP Morgan Chase & Co, Research Division - MD*

And no change in planted acres on the decline in soybean prices since the initial planting intentions?

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

Not from our perspective, Ann, no.

Operator

Your next question comes from the line of Adam Samuelson with Goldman Sachs.

Adam L. Samuelson - *Goldman Sachs Group Inc., Research Division - Lead Analyst*

Wanted to go to something you'd alluded to in the prepared remarks about lowering the long-term WACC to 7% from 8% previously. And maybe does that change the -- is the long-term target still 200 basis points over WACC so that we're now thinking ROIC can get to 9%, not the 10% previously? And if so, does that imply kind of, I mean, any change in the longer-term kind of implied earnings kind of outlook for the business? And maybe the correlation there is the weakness -- and we talked a lot about Ag Services on this call already. But has the performance in Ag Services this quarter and through this crop year made you revisit kind of the embedded Ag Services earnings that contributed to that $230 million that's in your kind of base EPS Ag growth?

Ray G. Young - *Archer-Daniels-Midland Company - CFO and EVP*

Adam, we reviewed basically the underlying cost of capital model over the past several quarters. And so we took a hard look at long-term interest rates, equity risk premiums, betas in our model. If you recall, when we established the 8% long-term WACC, that was done back in 2012, 2013 and looking back historically over 20 years. And so some of those assumptions, frankly, were outdated as we kind of look through these assumptions. We did some benchmarking. And so once we kind of updated our model for, like, long-term interest rates, recent long-term interest rates, recent equity risk premiums, we determined that it made sense to update the long-term WACC to 7% from the 8%. And a big driver of that was really equity risk premiums, which have come down over time. In terms of what it means, our long-term objective still remains 200 basis points over long-term WACC. So that -- the spread has not changed in terms of how we're targeting the organization for results. In terms of your comment on Ag Services, I mean, naturally, when we set projects, when we look at projects that we're evaluating across all the businesses, there's clearly a spread above even the 200 basis points over our long-term WACC. So our hurdle rates are -- remain significantly higher in the double-digit areas. And we -- frankly, we are not going to really adjust those hurdles rates because we still believe it makes sense to really drive all the businesses to achieve strong earnings and strong returns. But at least from our perspective, as we kind of think about, longer term, what makes sense for our company over a cycle, we do believe, like, 7% plus the 200 basis point spread gets you to 9% that over a cycle, we should be achieving about a 9% type of return for this company.

Adam L. Samuelson - *Goldman Sachs Group Inc., Research Division - Lead Analyst*

So -- but I just want to be clear on that. Arithmetically, right, you've taken 100 basis points of ROIC, which, on your current invested capital basis, is like $240 million of NOPAT, which is like $0.40 of EPS. In theory, off the table, I'm trying to understand what -- like, how that has actually changed, if at all, or it's just the messaging, and I'm comparing apples and oranges here.

Ray G. Young - *Archer-Daniels-Midland Company - CFO and EVP*

No, we haven't changed, I mean, our assessment in terms of long-term earnings for the company. And so from our perspective, we still believe that it is important for us to kind of drive this 200 basis point spread over our long-term cost of capital.

Operator

Your next question comes from the line of Heather Jones with The Vertical Group.

Heather Lynn Jones - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

I have a 2-pronged question on farmer selling. Just wondering, given the recent rally in corn and the devaluation of the real, we've been seeing reports of meaningful acceleration of farmer selling both here and in Brazil. And was just wondering if you could comment on what you've seen in recent days in that area.

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

Yes. I think -- Heather, thanks for the question. Yes, what we have seen in both places in South America is this equation. I think that when farmers see a rally or when farmers see a change in the currency, that's when we're seeing the sale. Other than that, they are holding to the products. Of course, with these big crops, at one point in time, they will have to think about how full their storage bins are. And as we get further into the harvest, they might prompt more farmer selling. But at this point in time, there, we get to one of the weakest farmer selling rates that we have seen in maybe 6, 7 years. So they are just -- sales are picking up at rallies or change in ForEx, yes.

Heather Lynn Jones - *The Vertical Trading Group, LLC, Research Division - Research Analyst*

So to be more specific, like in the last week or 2 weeks, we've seen roughly a 2% to 3% increase in corn prices and about a 3% devaluation in the real. So I mean, I know we're still behind a year ago and the 5-year average, but has there been a meaningful pickup in selling there or just -- or would you call it a slight increase?

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

We've seen an increase, but I would not call it meaningful, Heather.

Operator

Your next question comes from the line of Michael Piken with Cleveland Research.

Michael Piken - *Cleveland Research Company - Equity Analyst*

Just wanted to circle back a little bit to the ethanol side of the business. And just you talked about an optimism on exports. And really, do you see that carrying into the outer years? And really, I guess, what is sort of the longer-term impact of this Brazilian tariff given that historically, it's been a strong market? So just wanted to circle back there, longer-term thoughts on ethanol.

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

Yes, Michael. Well, Brazil has been a strong market at times and a strong exporter to the U.S. at times. So we've seen everything in Brazil. I would say, from a long-term perspective, we continue to see markets that really need ethanol for environmental reasons, whether they are some of the Asian countries. And we still see ethanol more than maybe $0.45 per gallon cheaper than MTBE and other alkylates. So I would say, I think that as long as the U.S. is perceived as being a reliable supplier, we will continue to incorporate new markets. And whether -- we haven't touched much of Japan yet. We haven't touched much of Mexico yet. So I think we still have a long ways to go, and we've seen growth in our existing countries, whether it's Canada and India, as I said before. And Brazil has been a nice counterbalance for China this year. So it's dynamic, and every year, it changes a little bit. But the reality is this is the cheapest [effitionate] in the world, and it will continue to find a place. And we've seen that as the U.S. grows a little bit domestic demand, and we've seen that this 1.1 billion to 1.3 billion gallon type of ratio that we have today is creating good margins. And we think, as I said in my previous question, that Q2 and Q3 will be very strong. And we do believe that maybe a situation like this with the same seasonality may repeat itself in 2018.

Operator

Your next question comes from the line of Ken Zaslow with BMO.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food and Agribusiness Research and Food and Beverage Analyst*

Just a quick question. When you're thinking about high-fructose corn syrup and the negotiations, how important is it the -- how much is the exports to Mexico over the last couple of years really tighten up the utilization rates in the U.S.? And if that were to slow, how would that impact you guys in negotiations?

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

Yes, Ken. So think about it, I think that when -- over the last couple of years, the industry has been, maybe from a demand perspective, losing 1% per year or sometimes flat. It has been like that. And about 5% of capacity has been taken out because the industry there has tightened up. The U.S. sends about 11% of the total volume to Mexico. But it is also true that the U.S. gets about 1 million tonnes of sugar, which is about 18% of the sugar Mexican market. So at this point in time, it's kind of very balanced there. And I was mentioning the 1% decline in demand because 5 years ago, we decided that just in case demand decline will accelerate, we will start an aggressive program of what we call Fight for the Grind, so finding new uses for the grind. And we have seen growth in our portfolio of other products, different than just high-fructose corn syrup, that has helped also to tighten the market even further because they have given us options, whether it's product for cardboard or other industries that are different than just sweeteners. So I think we feel that we have optionality if some of this will be impacted. We don't believe that both countries will go into a trade war, if you will. We think that there's going to be a negotiation. And we think, as I said, that, that flow over the border is very balanced, again, with 2 billion pounds of high-fructose corn syrup going south and 1.1 million tonnes of sugar coming north. So it could impact us. We have optionality. We don't think it's very likely. That will be my summary, Ken.

Operator

Your next question comes from the line of Vincent Andrews with Morgan Stanley.

THOMSON REUTERS

Vincent Stephen Andrews - *Morgan Stanley, Research Division - MD*

I want to ask something about Chinese soy oil consumption. And a dynamic that was raised was that consumer concerns over GMO have sort of gotten to the point where regular soy oil is starting to just decline in terms of supermarket sales, and the consumers are moving towards non-GMO alternatives, whether it's sunflower, peanut, sesame or what have you. And so I'm just wondering -- I guess 2 things. One, to what extent is that impacting margins or demand for regular soy oil there from your perspective? And two, what opportunities does it provide for you to service the market with those alternative products, which apparently are selling at pretty good premiums?

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

Yes, Vince. There are 2 dynamics here. One is maybe the creation of a little bit of a premium market for non-GMO products, maybe like it's happening everywhere. And that provides an opportunity both for ourself and maybe for some of our partners in the area. On the other hand, there is a big emphasis in the government to try to educate the people about GMO not being an issue. If you are in China and you need to feed the population, you understand that with 6% of the water on 8% of the arable land and 22% of the population, you need all the productivity you can get. And that's one of the reasons that the government is trying to educate the population on the benefits of GMO. So I think that at this point in time, it's a little bit of a niche market. We will take advantage of that. I think that over time, GMO will be pervasive in Asia and in China as they need it to feed the population.

Operator

Your next question comes from the line of Vincent Anderson with Stifel.

Vincent Alwardt Anderson - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

I just wanted to switch gears quickly and ask about the opportunities you see in sort of biomass-based substitutes for traditional petrochemicals. I know it's not new technology, and we have seen some smaller producers stumble recently in trying to get this market off the ground again. But from your perspective, are the major hurdles here more of a scale and reliability-of-supply issue that somebody of Archer-Daniels' size could address? Or is it feedstock economics, relative value with your other corn products? But -- is this more of a blue-sky research effort in terms of your overall portfolio? Or is there meaningful contribution that could come from this over the next 3 to 5 years, call it?

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

Yes. Thank you for the question, Vincent. I think the biggest factor in this is to get a sponsoring customer on a sponsoring application. I think the technology works. I think the economics could be made to work at these levels of both oil and corn prices. I think that ADM is always in the conversation because of our enormous fermentation available capacity. So we can bring things to the market faster than other people. So we are engaged with people that are looking for those optionalities as they try to attach their brands to more renewable products. This is something that, as I said from a technology perspective, is not an issue. You got to get the timing right. You don't want to be too early into that, and we have seen what happened with that. So we've been prudent into that. And we try to align ourselves, as I said, with large accounts. And you heard our relationship with DuPont in that space. And we have others in the fire that if those accounts feel that there is a time to launch renewable products into the market, we could do so with our fermentation capacity absolutely. And it's a little bit of what I described before, our efforts into Fight for the Grind. There are things that are more immediate that we're doing right now. There are things, like plastics or biomass replacing petroleum plastic, that are maybe more hypothetical or in the future, but they are still being looked.

Vincent Alwardt Anderson - *Stifel, Nicolaus & Company, Incorporated, Research Division - Associate*

Great. And would -- just quickly, would there be -- as you think about the most immediate opportunity, would there be any kind of significant capital requirements behind that? I know we're talking hypotheticals here, but...

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

Yes. There are capital mostly in terms of pilot plants and, I think, adjusted some things. But we have some units that, as we have from the times of the PHA, original things that are available if we wanted to bring them into production. And I don't think they will take a massive amount of capital.

Operator

Your next question comes from the line of David Driscoll with Citi.

David Christopher Driscoll - *Citigroup Inc, Research Division - MD and Senior Research Analyst*

I have 2 follow-ups. The first one is just on second quarter ethanol. Juan, you said several times on the call your optimism. As I look at spot margins right now, they don't actually look very good. So I'm curious about your confidence in the second quarter. Is ADM hedged, and somehow this is why you've got such good confidence? Or is it fundamentally, you expect a pickup in the spot ethanol margins from here for the factors that you've previously talked about?

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

So that's the first one or those were the 2, David?

David Christopher Driscoll - *Citigroup Inc, Research Division - MD and Senior Research Analyst*

That's the first question, and then I have a follow-up to Ray.

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

No worries, no worries. So let me address a little bit of both. I mean, we hedge a little bit, as we always do. But it's in our confidence about the program we have forward in terms of the orders that we see coming, the export demand that we see. And we believe that May, we will see a significant drop in inventories. And so it's a little bit of both, if you will. But we feel that -- or we see in our forecast that Q2 in ethanol will be significantly better than last year, the Q2 last year. David, you said you have another one? Please -- have we lost David?

Operator

Your next question comes from the line of Rob Moskow with Credit Suisse.

Robert Bain Moskow - *Credit Suisse AG, Research Division - Research Analyst*

I guess I feel like I have to ask this question. Your corporate expense line is now more than double where it was 5 years ago. And I don't think anyone would pay it much attention if it were accompanied with stronger earnings power and a stronger outlook for earnings power going forward based on the environment of the industry and based on the investments you're making and the returns. But today, you're lowering your ROI -- you're essentially lowering your ROIC numbers, which is going to cause several people to have to lower kind of their long-term outlooks. I know you're saying that yours is the same. But can maybe you just give us a sense of, to what extent has the doubling up of the headquarters in Chicago and Decatur affected that? To what extent has rising executive compensation affected that and then maybe the more meaningful positive ROI investments in IT and capabilities that will improve the business?

Ray G. Young - *Archer-Daniels-Midland Company - CFO and EVP*

Yes. A significant part of the increase in terms of unallocated corporate on the management line is related to our investments in IT, the business transformation and R&D and innovation. We've indicated that these are -- we view those as related to investments, although, again, from a GAAP perspective, we classify that as expense. But it's a fairly significant investment. I mean, as you can appreciate, one of our priorities is to improve our business processes. And so we launched this program a couple of years ago. And frankly, the run rate of spending as we head into 2017 is actually a fairly significant run rate right now in terms of investments. And so I think, Rob, this is actually a very, very important part in terms of our commitment, our investments in terms of making this company better, particularly in the area of processes. The area of innovation, frankly, for a company our size, we were underspending in terms of R&D and innovation. And I think what we're doing right now is actually devoting more of our spending in that area. The WILD Flavors acquisition was actually very, very important because from that acquisition, we actually acquired a lot of innovation centers around the world. And that type of expense actually goes into this line called unallocated corporate as well. When you actually take a look at what I call core central staff costs -- and when I say core, I mean, this is excluding IT, excluding business transformation, excluding R&D. Our core essential staff costs actually are still running at what we call the 2012 levels. I mean, if you recall, back in 2012, we went through a restructuring of our central staff. And so we've actually set our budgets and our cost plans based upon ensuring that our -- what I call core central staff do not exceed the 2012 levels. And so I think it's important to kind of understand that in what I call like true corporate central staff costs, like the functions themselves, like accounting and HR, et cetera, et cetera, we've actually kept the lid on all those costs, whereas we have actually spent more money in terms of what I call investments, particularly in business transformation, R&D and innovation. That's where we've seen the increase. And we think that this is important for this company to make these types of investments at this point in time in order to allow us to be a better company in the future.

Robert Bain Moskow - *Credit Suisse AG, Research Division - Research Analyst*

And the $50 million in run rate cost savings that you highlight, is that net of this incremental spending in any way? Or is it just kind of a separate metric?

Ray G. Young - *Archer-Daniels-Midland Company - CFO and EVP*

That's separate. I mean, that's really related to our operational excellence initiatives there.

Operator

There are no further questions at this time. Mr. Luciano, I will turn the call back over to you.

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

Thank you. Thank you, Scott. 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 further questions. And have a good day, and thanks for your time and interest in ADM.

Operator

This concludes today's conference call. You may now disconnect.