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ADM - Q4 2017 Archer Daniels Midland Co Earnings Call

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OVERVIEW:

Co. reported 4Q17 reported EPS of $1.39 and adjusted EPS of $0.82.

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PRESENTATION

Operator

Good morning, and welcome to the Archer Daniels Midland Company Fourth 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, Jack.

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 this 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 as well as the drivers of our performance in the quarter. Then, Juan will provide an update of our 2017 calendar year results, the progress of our strategy 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 & President*

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

This morning, we reported fourth quarter adjusted earnings per share of $0.82. Our adjusted segment operating profit was $793 million.

First, I want to report that in the fourth quarter of 2017, we delivered the best quarterly employee safety record in our company's history. And in 2017, we had 3 separate months in which we achieved employee safety records. These are not minor or ancillary achievements. We, of course, value safety for its own sake, and we see that going hand in hand with overall performance.

We ended 2017 with a solid fourth quarter. We pulled the levers that were under our control, including cost and capital initiatives and interventions, throughout the year, to help us deliver value for shareholders.

For 2017 as a whole, we delivered double-digit adjusted earnings growth, improved returns on invested capital and generated positive EVA. And given our solid cash flows, earlier this morning, we announced a dividend increase of $0.015 or 4.7%.

Looking forward, we continue to focus on our own actions to be the drivers of our success. Our increasing international presence and expanding capabilities in areas such as destination marketing, food and beverage innovations and health and wellness all help to position ADM for continued growth and value creation as we implement our strategy.

All of these factors lead us to be optimistic about 2018. When I look at ADM today, I see a company that is poised to capitalize on macro trends, harvest our recent investments and reap even more benefits from our actions. Later on this call, I'll discuss further the outlook for our businesses.

Now I'll turn the call over to Ray.

Ray Guy Young - *Archer-Daniels-Midland Company - Executive VP & CFO*

Thanks, Juan, and good morning, everyone.

Slide 4 provides some financial highlights for the quarter. Adjusted EPS for the quarter was $0.82, up from the $0.75 in the prior year quarter. Excluding specified items, adjusted segment operating profit was $793 million, down $34 million from the year ago quarter.

Excluding the effects of U.S. tax reform, the effective tax rate was 24% for the quarter and year, below our forecasted annual tax rate of approximately 28% due to stable discrete tax items.

The effective tax rate for the fourth quarter was a positive 46% and includes a net estimate benefit from U.S. tax reform of $379 million. This benefit is comprised of a $528 million benefit from re-rating of deferred tax assets and liabilities to 21% and a $369 million repatriation tax, partially offset by $220 million benefit from releasing previously recorded deferred tax liabilities.

Looking forward into 2018, we expect the effective tax rate for ADM before discrete tax items to be in the range of 20% to 23%, down from the 28% to 30% level that we had previously communicated to you as our historical effective tax rates range.

Our trailing 4-quarter adjusted ROIC of 6.4% is 40 basis points above our 2017 annual WACC of 6.0%, thus generating positive EVA of almost $100 million on a 4-quarter trailing average basis.

On Chart 18 in the appendix, you can see the reconciliation of our reported quarterly earnings of $1.39 per share to the adjusted earnings of $0.82 per share. For this quarter, we had an $0.08 per-share charge related to asset impairments restructuring activities and settlements and a net positive benefit of $0.65 per share related to U.S. tax reform.

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

In the corporate lines, net interest expense for the quarter was relatively flat at $78 million. Looking ahead, we're projecting net interest expense for calendar year 2018 to be relatively similar to the $310 million we recorded in 2017.

Unallocated corporate cost of $94 million were down versus the prior year, largely due to lower spending for special projects, reduced employee costs and the lack of an expense in the year ago quarter related to an investment in the corporate initiative.

For 2018, we're expecting unallocated corporate costs in the range of the $140 million per quarter guidance that we provided to you for 2017 calendar year, with the company reinvesting in R&D, innovation and readiness and business transformation activities that we deferred from 2017.

Minority interest and other charges increased by $50 million, primarily due to the lack of a $38 million benefit in the year ago quarter from an OPEB curtailment gain related to changes to benefit plans.

Turning to the cash flow statement on Slide 6.

We generated $1.9 billion from operations before working capital changes, just down slightly versus the prior year. We had favorable changes in working capital of about $300 million compared to a large use of working capital last year. So our operating cash flows, including working capital, were much higher than the prior year period.

Total capital spending was approximately $1 billion, in line with our recently updated expectation for the year. Looking ahead, we're planning for a reduction in capital spending in 2018 to approximately $800 million as we expect to start harvesting the benefits of our recent investments. We invested in various acquisitions amounting to $187 million. We returned approximately $1.5 billion of capital to shareholders throughout the year through dividends and share repurchases. We spent approximately $750 million to repurchase shares, less than the beginning of the year guidance as our leverage and credit metrics approached our desired ranges.

For 2018, we do expect to repurchase shares at least at the level to offset dilution from benefit plans and potentially more, subject to the strength of our operating cash flows and other uses of cash. All this will be in the context of our capital allocation framework.

Our average share count for the quarter was 565 million diluted shares outstanding, down approximately 16 million shares from the beginning of this year.

Slide 7 shows the highlights of our balance sheet as of December 31, 2017 and '16.

Our balance sheet remained strong. Our operating working capital of $7.4 billion is basically in line with the year ago period. Total debt was about $7.5 billion, resulting in a net debt balance -- that is, debt less cash -- of $6.7 billion. We finished the year with a net debt-to-total capital ratio of about 27%, a comfortable, solid ratio for an investment-grade company in this industry.

Our shareholders' equity of $18.3 billion was up from the $17.2 billion level last year, primarily due to changes in the currency translation count as non-U.S. currencies strengthened against the U.S. dollar.

We had $5.5 billion in available global credit capacity at the end of December. If you add the available cash, we have access to $6.3 billion of short-term liquidity.

Next, I'll discuss our business performance for the quarter on Slide 8.

In the fourth quarter, we earned $793 million of operating profit, excluding specified items, down from the $827 million in last year's fourth quarter. For 2017 calendar year, despite some difficult operating conditions, our calendar year adjusted segment operating profit of $2.7 billion was slightly higher than 2016.

Now I'll review the performance of each of the segments.

Starting on Slide 9, Ag Services results were up over the prior year period. Merchandising and Handling was up year-over-year. Our Global Trade team executed well, delivering positive results for the third consecutive quarter, and we are continuing to see good contributions from our investments in destination marketing, including in Egypt and Israel, where we have expanded our capabilities in recent years. Merchandising and Handling results were also positively impacted by insurance claim settlements with our captive insurance operations and other income in the quarter. In North America, we continued to see a lack of competitiveness for U.S. grain exports, which negatively impacted both volumes and margins.

Transportation results decreased from their prior year period due to lower barge loadings and freight values. Icy conditions towards the end of the quarter also impacted river traffic.

Milling and Other earnings were down year-over-year due to lower volumes and margins.

Now turning to Slide 10.

Corn Processing had a solid quarter with higher results over the prior year period. Sweeteners and Starches delivered another strong performance in the quarter with good sales growth and solid margins, particularly in our North American liquid sweeteners business. Our European operations, which we expanded significantly in recent years, including with the recent acquisitions of Chamtor, continued to deliver good results. Bioproducts results were down compared to the prior year period. Ethanol industry margins were lower as production pushed stocks higher. However, the team's strong risk management execution offset a significant portion of these negative impacts.

Animal Nutrition was significantly higher than the year ago quarter as ongoing efforts to improve our cost positions in the specialty feeds ingredients business continued to bear fruit.

Turning to Slide 11.

Oilseeds Processing results were down compared to the fourth quarter of last year. Crushing and Origination was down versus the fourth quarter of 2016. Crush volumes were strong, although margins were [mixed] (corrected by company after the call) globally. Throughout the quarter, we continued to see the indicators of improving global demand for soybean mill as the effects of alternate proteins diminish and livestock numbers continue to increase. Therefore, we saw margins trend up late in the fourth quarter. Weakness in South American Origination margins and volumes negatively impacted results.

Refining, Packaging, Biodiesel and Other results were lower versus the fourth quarter of 2016 due primarily to the lack of the biodiesel tax credit in this year's results. Refined and packaged oils delivered a solid quarter, benefiting from improved volumes in all regions and a solid margin environment. Asia was up slightly over the prior year period on Wilmar results.

Now on to Slide 12.

The WFSI team turned a solid quarter with results up over the year-ago period. WILD Flavors delivered double-digit operating growth, driven by sales increases across all regions as well as some margin improvements. Specialty Ingredients results were up versus a difficult year-ago period. The business continues to see the benefits after significant self-help actions throughout the last year, including improved inventory management and innovation, finding new uses for products. We saw margin improvement in several businesses in the quarter, particularly natural health and nutrition, and the benefits from improved cost positioning in proteins.

Now I'd like to turn the call back over to Juan. Juan?

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

Thank you, Ray.

Please turn to Slide 13. I'd like to take a moment to reflect a little bit about 2017 as a whole, how we advanced our strategy, how we took important measures to improve execution and control costs and capital, and how all of our actions helped contribute to our results for the year.

We finished 2017 with adjusted EPS 12.5% higher than 2016, with higher adjusted operating profits for the full year than 2016, with solid operating cash flows and with returns on our invested capital well above WACC, resulting in positive EVA and shareholder value creation.

All told, our team achieved almost $400 million of monetizations in 2017, grew sales in targeted areas by more than $500 million, generated $285 million of run rate cost savings and returned $1.5 billion of capital to shareholders.

As I mentioned earlier, we had our best quarterly employee safety record ever. In addition, December was the safest month we've ever recorded, and 2 other months in 2017 ranked among our very safest. And we did this all while still remaining true to the value creation strategy we set out in 2014 by enhancing our core, advancing readiness and growing strategically, particularly in the parts of our value chain that are closer to the end customer.

I'm proud of our team for continuing to focus on our strategy even while managing the day-to-day execution that is so critical for our success. We've been consistent in running our business today and positioning our business for tomorrow and beyond.

For example, in our first strategic pillar, enhancing the core, each business contributed, making sure they were investing time and money as efficiently and effectively as possible to deliver value day in and day out. Ag Services divested our Crop Risk Services business and took aggressive actions to strengthen execution in our Global Trade operations. Our corn team has delivered important yield and productivity improvements in lysine, resulting in a turnaround of that business.

Oilseeds announced the sale of our Bolivian oilseeds operations and worked hard to diversify our oil streams into a wider variety of products to help capture steady margins. WFSI continued to deliver sales synergies throughout 2017 with a pipeline of more than 2,000 individual projects.

And our second pillar, enhancing readiness, is one that is a little bit more behind-the-scenes but is critical to our success. We had some important readiness accomplishments in 2017. We have rolled out our 1ADM business transformation project across several of our business and regions as we continued to standardize our business processes around the globe. We are pleased with the results we're seeing with 1ADM and looking forward to contribute continuing rollouts throughout 2018.

Our operational excellence efforts have yielded important improvements as we leveraged technology and best practices to reduce energy intensity, improve yields and streamline processes. Each business contributed to the impressive run rate cost savings we delivered in 2017.

Our corn team is advancing their performance excellence initiative, a rigorous program that is empowering, engaging and enabling frontline colleagues to help improve and standardize processes across the business. Two plants have completed the first year of this program, and we plan to launch it in several other locations this year.

In our third pillar, strategic growth, we have continued to invest to grow our capabilities further down the value chain. Our Ag Services business continued to enhance its ability to offer end-to-end solutions for customers with investments in destination marketing, particularly our new ADM-Israel joint venture. For the year, the team delivered 20% growth in destination marketing volumes.

The corn team continued to expand its global Sweeteners and Starches footprint with the acquisition of Chamtor in France and enhancements at our former Eaststarch facilities in Turkey and Bulgaria. We're also continuing to build our Animal Nutrition capabilities, including new feed premix facilities in China, and we entered the pet treats business with the acquisition of Crosswind Industries.

WFSI opened innovation centers in China, Australia and, just a couple of weeks ago, Singapore. These state-of-the-art research and development facilities allow ADM scientists to work hand-in-hand with food and beverage customers to meet all of their needs for taste, nutrition, function and texture.

We acquired Biopolis and entered into a research agreement with Mayo Clinic, both of which expanded our capabilities in the important and growing area of personalized nutrition, probiotics and prebiotics that may improve digestive health. And we are expanding our bioactives capabilities in the animal health and nutrition markets as well by entering into a joint development agreement with Vland Biotech in China to develop and commercialize enzymes for animal feed. In the coming months, we will be opening up a new research lab in California to support that work.

Our team has delivered substantial achievements in advancing our strategy while balancing the pace of investment with our disciplined approach to returns and delivering recurring value for shareholders.

We are very focused on returns and cash flows. We generated almost $2 billion of operating cash flows in a period when margin conditions in many of our businesses were at the lower end of their historic ranges. That is why we are confident about increasing our quarterly dividend by almost 5%.

We are proud to have increased dividends for more than 25 consecutive years and issued more than 86 years of uninterrupted dividends. By executing our strategy and being disciplined about our capital allocation framework, we are delivering value today even while we're building for a bigger, even better tomorrow.

Before we take your questions, I would like to offer our outlook for 2018.

We're looking to take the momentum that we have generated throughout the actions we implemented in 2017 and continue strong in 2018. Between our strategy, our execution in all 3 of our pillars and the benefits of tax reform, we are looking forward to a good year as our strategy continues to unfold throughout the next several quarters. Let me talk for a moment about the first quarter.

In Ag Services, we're planning for continued opportunities in Global Trade and destination marketing. The South American crop will be moving into global markets, which will impact the competitiveness of U.S. agricultural exports. We expect Ag Services Q1 performance to be largely in line with the prior year period.

In corn, margins in the Sweeteners and Starches business as well as in ethanol will experience normal seasonal patterns during the quarter. Animal Nutrition should see stronger results, thanks to revenue growth and improved cost positions.

Altogether, we think we're likely to see a first quarter for corn that is in line with the prior year quarter.

In Oilseeds, we're optimistic about the recent movements in crush as the margin outlook is positive due to increase in demand and improved trade flows. We are planning for continued strong results from our RPBO businesses, although the status of the U.S. biodiesel blenders' credit creates uncertainty in biodiesel margins. We expect Q1 in Oilseeds to be lower than the first quarter of last year.

In WFSI, we are planning for Q1 results similar to the strong first quarter of 2017 as Campo Grande ramps up and we continue to see solid sales and earnings growth from WILD.

Looking to the full year, although we continue to see certain green shoots, we are planning conservatively. Hence, we continue to focus on the levers we can control. We have a good base from this quarter and this year on which to build, and we are looking for a year of solid earnings and EPS growth.

Here's how I think about growth from the perspective of 4 components.

First, as you might recall, we took actions earlier in 2017 to fix what we call leakages, things we did not do as well as we should. We're seeing the results of our initiatives to end those leakages, and this will benefit our earnings in 2018. There are probably about $100 million of leakages that impacted 2017 results that should be mitigated in 2018.

Second, we will continue to reduce costs. We'll see the results from the run rate cost savings we achieved last year and will take additional readiness actions. We have set a target for $200 million in new run rate savings by the end of 2018.

Third, we will benefit from our growth initiatives. We'll see the full year results of the investments we made in 2017. And all 4 businesses will continue to invest in new growth, both organically and through M&A, particularly on the right-hand side of the value chain.

And finally, we will see the benefits of lower tax expense from U.S. tax reform.

That is why I feel optimistic about 2018. We're going to continue to execute, and we're going to continue to grow earnings, improve returns and generate value for our shareholders.

And I also feel good about our future beyond 2018. Whether we think about feeding a growing population or the clean labels and natural solutions that are in high demand today or consumers looking for proactive approaches to health and nutrition, we are very well positioned to deliver and create value.

So before we open up the call for questions about our results, I want to make one final comment.

Obviously, we are well aware of the recent stories in the press about ADM and Bunge. As we move to Q&A, I'm sure you understand that we're not going to comment on these sort of matters, but we do look forward to taking your questions about our earnings and forward outlook. So Jack, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Ken Zaslow with Bank of Montreal.

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

A couple of questions. One is, when you talk about the outlook of your businesses, you -- the first quarter seems to be a little bit lighter than last year, but yet you're talking about growth. Where do you see -- which divisions do you expect to see the greatest degree of growth from to be able to offset some of the weakness in the first quarter? And how is that going to develop through the year? And then I have a follow-up.

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

Yes. Yes, thank you, Ken. I think the -- I think we see -- WFSI should have a very good year. At the last earnings call, if you recall, we talked a little bit about $30 million of P&L impact in the 2017 results due to some of the investments and start-ups that we were making during both '16 and '17. We should not that have in 2018, and we're going to start seeing the benefits of those operations coming -- of those plants coming into operations. So we feel very strongly about WFSI will have a much better year than 2017. We see corn continues to grow, Sweeteners and Starches, the business, internationally. And the North American business should be able to maintain the margins that we achieved in 2017. We see, of course, some uncertainty for the calendar year with overall industry ethanol margins, but we are particularly encouraged about the demand side of ethanol, especially from exports and where we think that they're going to grow into China and Brazil this year, having -- being major contributors. For Oilseeds, we are very encouraged how the supply-demand appears to be getting tighter for meal and oil, and we're -- we've seen that a little bit through this quarter and we're seeing that in Q1. So our plans are running hard, and we see a lot of the headwinds that we had last year subsiding this year, whether it was the competing alternative proteins or a lot of crush from Argentina or some issues in terms of avian flu and all that, that have subsided for the most part. For Ag Services, I think you saw a little bit of this quarter. I think there was a very effective management of the business in 2017. We reduced and we optimized some of the operations in Global Trade and we expanded destination marketing, and we're going to see better results from that, mostly self-help improvements as the year go by. So we still very strongly, as I said, about 2018 in the different businesses. When you put on top of that our cost improvements that we continue to execute on and the benefit of a lower tax rate, we see a very, very strong '18 and another year of growth earnings for us.

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

And my -- and just second question is, when I think about your strategic initiatives over the long term, has anything changed in terms of how you look at where you will need to be in a couple years? It seems like over the last couple years, you really did focus on value-added products and kind of minimizing or trying to reduce the expansion into Oilseeds. Has that changed? Will that change? What do you think about that going forward for the next 2 to 3 years?

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

Yes, Ken, we have a growth strategy, and our growth strategy, our growth part of it, has 3 pillars fundamentally that were being implemented, and I think we've been consistent over the few years. One was the geographic expansion. We continue to make ADM more -- better balanced geographically. And we've done a good job of completing the value chain in Europe. If you think about 6, 7 years ago, Europe was mostly Oilseed business. Now we have our Ag Services as we bought Toepfer. Now we have also milling in the U.K. We also bought Eaststarch and we expanded corn also with Chamtor. And now we have WFSI. So Europe has been built to the extent that the U.S. is built. And now it's a matter of driving returns. We've done the same in South America, but we -- South America is trailing Europe in that regard, and the same has happened with Southeast Asia. So that will continue, but it's very selectively. And we said strategically invest because we don't want to just invest to be big, we just want to invest to plug holes in our value chain. So that's one aspect. The second aspect was getting to the 25% of Wilmar that we have gotten, and we implemented that last year. And the third aspect of growth was to continue to drive the market-facing units, the growth in it, whether it's food and beverages, whether it's personalized nutrition, whether it's Animal Nutrition, and we'll continue to do so. So those are the 3 allocations of capital, if you will, and the 3 strategic thrusts from a growth perspective. And we haven't deviated from that. We opportunistically do one or the other depending -- to achieving the best returns. But strategically, that continues to be the focus.

Operator

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

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

Ray, could you just go back over the tax reform benefits? I think you gave a range of 20% to 23% and the 2017 tax rate was 24%. So it sounds like at the top end, it's only a 100 basis point benefit, but just give us some understanding as to how big a benefit the tax reform was. And then I'm sure the range has something to do with the geographic mix, but I'd just like to hear your thoughts on tax.

Ray Guy Young - *Archer-Daniels-Midland Company - Executive VP & CFO*

Yes, for 2017, David, the rate was 24%, but it was 28% if you exclude some of the discrete items. So we did have some favorable tax items in 2018. Normally, these discrete items can be plus or minus. Last year, 2016, it was a minus. This year is a plus. How I would like to think about it is like 28% is kind of our like normalized rate. So therefore, with U.S. tax reform, we'll go from a 28% upper rate to a 21% to 23% rate. That's how I kind of think about it, David. So in the context -- I mean, just to give you context, so for 2017, if you take the midpoint of the range, say, 20% to 23% versus 21.5%, relative to 28% on our $1.6 billion of pretax profit, it's about $100 million of benefit if you were to apply that into our 2017 results.

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

And then because of these tax benefits, was there any change to kind of your investment strategy? Did you reinvest some of this money that you otherwise wouldn't have?

Ray Guy Young - *Archer-Daniels-Midland Company - Executive VP & CFO*

The way to think about it, David, is the additional cash flows -- and in my example, the $100 million benefit in 2017 if we had tax reform -- I would view it in the context of our capital allocation framework. So therefore, our operating cash flows will actually go up by $100 million. And then we will actually invest that cash in the context of our allocation framework, which is, as you know, the 3 pillars, meaning there's capital investments, there's return of capital to shareholders and there's M&A. So that's how I would be thinking about it. There's nothing specifically targeted towards the $100 million, but it goes into the context of our allocation framework in terms of how we're going to maximize shareholder value.

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

Juan, just one question for you and I'll pass it along here. But on Ag Services, this business has been kind of all over the map in terms of quarterly profitability. This quarter looks like a nice quarter. Can you talk about the investment strategy in Agricultural Services? Can you distinguish between CapEx versus acquisitions within the segment? And then just how high on the priority list is any kind of investments or building up scale within Ag Services? How high on the priority list is this versus all your other priorities?

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

Yes, David. So Ag Services is a very important part of our business. The reason why we said before that we were going -- and I think we said it in the last quarter earnings, that we were going to deemphasize maybe the capital into that area is because as we look at the world going forward, the increase in production will come mostly from yield. So from more intensity, more precision agriculture but about the same area. So we didn't feel that -- from an Ag Services perspective to keep our share of Origination. We needed actually to grow geographically to add to our footprint. So we continued to add to make more efficient that chain, to make that seamless integration between the grain business and the processing businesses. And in places where we feel underrepresented, we need some assets. We've been putting the assets. So the investments in El Tránsito in Argentina we made last year see in the port; the investment in the Port of Santos, the investment in the port of the northern part of Brazil. So I think we've been doing that. We continue to improve our barge line in the Danube River. So I think it's just a matter of where do we see the need. And at this point in time, we felt the need to build capabilities was higher in the right side of the value chain versus in the left side given what we see going forward.

Operator

Your next question comes from the line of Robert Moskow with Crédit Suisse.

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

Juan, I wanted to focus specifically on your comments 3 months ago about pulling back on capital spending in Oilseeds. Can you just remind us what that was in reaction to? Was it in reaction to your view of global supply and demand balance being out of balance? And what is your view now? Is it as -- has -- do you think it's a more attractive balance today than it was 3 months ago? And then secondly, how much leverage would you be willing to take on to do the right type of acquisition? You've obviously become more M&A focused. Most of us thought that single A rating was kind of sacrosanct at ADM, and I want to know your thoughts on that.

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

Yes. So let's take the question in 2 parts. So the first one is what the -- it's a little bit of continuation of the question from David in terms of our allocation of capital in -- through the value chain. What we felt as we look at our business is, as I was saying before, that the left side, if you will, have been more developed over time in ADM. That's why we went geographically everywhere with Ag Services and Oilseeds. Actually, it was Oilseeds first and then we back-integrated into grain. So naturally, Ag Services and Oilseeds have been earlier into Europe, earlier into South America and, with Wilmar, earlier into Asia. So what we were planning to do with the value chain is actually beef up the right side of, if you will, corn and WFSI just because of our lack of volume or our lack of critical mass in different geographies. We are not in corn in South America. We were not in corn in Europe. And then we needed to build the value chain to make ingredients with our company footprint. So that was a little bit the discussion about we didn't need that much on the left side versus the right side. In terms of our expectation for Oilseeds is we are running today basically as hard as we can, and we are maximizing every shift that we can to soy in our footprint as long as it makes sense. So we are very bullish about that market particularly. The issue is the business has many opportunities to apply operational excellence and continue to extract more from those plants. And before building new investments, we'd rather debottleneck and make -- and continue to build those plants into very integrated facilities. Our facilities are very well integrated with refineries with switch capacity. And I think the end game here is, can you grow having your assets more efficient more than just having diverse assets, isolated assets out there? So we will continue to build that footprint, but that footprint, as you build in existing footprint, makes capital investments more efficient, if you will, than in other places where we need to build a new capacity. So in terms of the availability of capital, it's naturally shifted to the right not because of any lack of demand on the left side, it's more like what we're trying to build and the footprints we started from. So strategically, not much have changed in that sense. Maybe on the other one, I mean, I'll let Ray -- it was about -- I think it's...

Ray Guy Young - *Archer-Daniels-Midland Company - Executive VP & CFO*

Yes. And so, Rob, on the question now, we view our balance sheet at ADM as being a competitive strength. And that's the reason why we have maintained a very strong balance sheet. Over time, you've seen us increase our leverage. And as I indicated in the call, we're around a 27% net debt-to-total capital ratio in terms of our leverage position, which I view it as actually a very comfortable position for our company, where we are right now. It is important to maintain a strong balance sheet in order to weather volatility in the markets. We saw what happened to the equity markets yesterday. I mean, these things can happen in the ag commodity markets as well. We've seen in the past whereby commodity price spikes could cost $4 billion to $5 billion increases in working capital. So therefore, it is important for us to maintain a solid balance sheet with a solid investment-grade credit rating. You asked the question, will we ever divert from our single A rating? Well, from my perspective, you never can say never. But from my perspective, we've got so many avenues in order to help raise capital for our company, whether it be through some of the monetizations that we've done. We've done partnerships with people. We've got equity. So therefore, from my perspective, maintaining a solid investment-grade credit rating, a solid balance sheet is paramount for us to allow for flexibility in terms of handling working capital spikes as well as maintaining flexibility in terms of managing our portfolio.

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

So Ray, is that factored into your decision to stop the share repurchase at $750 million this year and not extend further because you thought that the balance sheet was where you want it to be?

Ray Guy Young - *Archer-Daniels-Midland Company - Executive VP & CFO*

As I kind of look at the metrics in terms of the debt-to-total capital as well as debt-to-EBITDA, we felt that those ratios were approaching levels whereby we felt comfortable. And frankly, I do feel comfortable where we are right now. Now going forward, as I indicated, in 2018, our plans for share repurchases is reduced more or less to offset dilution. But again, this is all in the context of like what kind of additional cash flows we can generate if we have additional monetizations that we were going to do that could open up some more flexibility to do additional share repurchases as well. So therefore, again, everything is in the context of our capital allocations framework that we had announced back in 2014.

Operator

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

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

Maybe this question is for Ray on the back of the lower tax rate. Can you talk about what that does to your weighted average cost of capital for 2018 or long term in your cost of debt? It's probably gone up. How should we think about that? And then given that you have a lower normalized tax rate going forward, should we anticipate that your hurdle rate for 200 basis points above the cost of capital is now obsolete and it should be 300 basis points or something different? Could you just talk about that?

Ray Guy Young - *Archer-Daniels-Midland Company - Executive VP & CFO*

Sure. In terms of our annual WACC for 2018, we did go through the analysis in terms of adjusting for tax rates, interest rates, risk premiums as well as the data. So we actually went to the full exercise in the month of January. And where we ended up after going through all those numbers is that we'll be increasing it in 2018 to 6.25% to factor in all those various components. With respect to our hurdle rates, as you know, we set our hurdle rates very, very high, well above cost of capital. And in addition, as you know, our long-term return objectives remain at 10%. So when we went through the analysis, even in our long-term WACC and factoring in all the updated analysis, our long-term WACC number, 7%, is still consistent with what it should be based upon the calculations. But we agreed that the short-term WACC or the annual WACC number, based on the revisions on the interest rates and tax rates, is going to move up to 6.25%.

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

Okay. And your target then for your own return for 2018 have gone up correspondingly? Is that the way we should think about it?

Ray Guy Young - *Archer-Daniels-Midland Company - Executive VP & CFO*

Yes, I mean, as you know, Ann, we always want to strive to get returns well above our annual WACC. So that will be our objective here.

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

Okay, I appreciate that color. And then more strategically, we've heard a lot about Section 199A in the law of unforeseen consequences as a result of the tax bill, and there is a lot of talk out there that it will get revised. How would it impact your business, both Ag Services and perhaps the ethanol business, if it does not get revised? And what are you guys hearing? What's happening around that?

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

Yes, thank you, Ann. So it is clear that it wasn't the intent of the revised 199A provision to make this change in the industry, if you will. And so our team has been engaging in Washington on that, and we have received assurances from senior members of both the Senate and the House that they recognize that Section 199A has significant unintended consequence and it will be fixed legislatively certainly in the near future. So I would say at this point in time, very minor impact we have felt commercially. And when you heard yesterday Chairman Brady making expressions about this will be technically revised, I think that have a calming effect on markets on whether it's coming now or coming in the next month, is coming in the near future. So as I said, we have received assurances of that, and we believe that will happen.

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

And if it drags on, Juan, is there a point in time -- as we go into spring or summer, is there point in time where you'll get -- where you'll be incrementally negatively impacted potentially?

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

If we didn't act, it will. But of course, the team has been looking at options, and we're working on -- in parallel on potential options to offset that. We don't want to go there. We think that technically will be revised, and that's our main thrust. But of course, we're not going to sit idle and see ourselves losing share, no.

Operator

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

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

I want to talk about Oilseeds. So you're bullish and talked about running your plants as hard as you can. The cash margins that we're looking at in U.S. are showing significant year-on-year -- very significant year-on-year improvement. But I was wondering, the weak protein content that we've -- that I'm reading about and beans and all, is that impacting your operating cost? Or do you think -- trying to figure out how to analyze those margins in light of the lower protein content.

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

Yes, no, at this point in time, we continue to see the improving margins. Actually, at this point, through all our operations, I would say whether it's Paraguay, when -- the lower crush in Argentina, whether it's European soy crush, Brazil, North America, so I think that in general, we have seen this wave of improvement. I think that part of the issue is we -- is the relationship with corn make them less competitive, if you will, to beating the Russians at this point in time. That has helped soybean meal. So I would say at this point in time, we continue to see opportunities. I'm very bullish about that business as it develops. We have noticed in some parts of the business a little bit of a lower protein, but we don't see a big impact at this point in time that may change our forecasts.

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

And so I'm curious as to why you all think Oilseeds will be down in Q1. I mean, there is a difficult comp in the Asia piece, Wilmar, but you definitely sound far more constructive than you did on the Q4 call last year and honestly more constructive than you had in a while. So do you just not expect enough improvement in those other businesses to offset that year-on-year comp for Wilmar?

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

A couple of things. As our margins expand, sometimes we take negative mark-to-markets, which will have to be reflected probably in Q1. And also, we still have the uncertainty of the biodiesel tax credit, which is difficult to know. Obviously, last year, we had it. So far this year, we don't have it. So as we think about that -- and you point the third factor, which is last year, Wilmar has an unusual tax impact that they normally won't get this year. So even if their results were good, it will still be trailing last year. So those are the reasons for my comment of being low versus -- or being under last year results.

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

Okay. You said the blenders' tax credit, you guys recognize the benefit from that in Q1 of '17 because I don't think it was -- I don't think it was going to [basically]...

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

No, there was none.

Ray Guy Young - *Archer-Daniels-Midland Company - Executive VP & CFO*

No, there was no benefit there. And all we're saying is that we're not counting...

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

We're not counting it.

Ray Guy Young - *Archer-Daniels-Midland Company - Executive VP & CFO*

We're not counting it in 2018 first quarter, although there are strong indications that, that may get approved some time in the first quarter. But we're not actually forecasting it in our plans right now.

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

Yes.

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*

So a lot of ground has been covered. I guess I wanted to think about the things that you can control in '18. Juan, I think you alluded to $100 million of maybe you call them leakages out from '17 results. Maybe a just a little bit of color on the areas. I'm guessing it's lysine, maybe WFSI or areas that were a bit more underperforming versus your traditional plans in '17, as well as -- and the cost savings, just the business where you actually expect to see those come through. And then I have a follow-up.

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

Yes. So some of the leakages -- and I may get the buckets right, so -- or -- 90% of the time, but I will say one important one is what we mentioned in Ag Services, the Global Trade operations. I think the team has done a tremendous job of closing offices that actually did not perform well historically, and we have some of that. We have restructured and combined offices in places where there was an opportunity. So there is a lot of costs that got taken out of there, and there are improved operations. We have shut down Bolivia and sold Bolivia. We have restructured Peoria in terms of taking 100 million gallons of fuel ethanol out of there. You pointed out that there were a couple of issues in some small acquisitions in WFSI. In the case of SCI, it's a very much on trend type of products that -- all the Asian grains and seeds. They have a very soft first half of last year from a demand perspective. And also, we have some operations problems. We'll restructure that. We split those operations, and they are very, very

-- much better managed these days. And we have seen demand of that coming back up in the second half, so we -- to the point that demand was flat year-over-year because second half was strong. So I would say if you take those combinations, there are -- there were leakages in every business, if you will. And we have a portfolio of products that we look at, and we assign an improvement forecast for the following year with actions on that. So it's a very disciplined approach. And this is one of our pillars of that improvement. That package of improvement year-over-year is about $100 million, and we feel comfortable that we have enough actions there to deliver on those.

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

Okay. And then the cost savings, kind of -- I think it was -- kind of where we should see those flow through the results and by business?

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

Yes, I think that the -- in the cost savings, we have this program. We've been running it for, I don't know, 5 years, 6 years, something like that. I think that cumulated savings have been above the $1 billion already. So this year, we look at that again. It's about $200 million run rate savings. I would say normally, corn leads this because they have the largest plants. But I would say last year was a strong contribution from also the other 3 businesses: Ag Services, Oilseeds and WFSI. I think you're going to see a continuation of corn and a pickup in Oilseeds in terms of contribution to that. So that will be the $200 million this year. Lysine, in all that, you mentioned it before and I would like to give kudos to the team. They made a significant improvement this year in terms of yields and that we are about halfway those improvements. So part of that will also come in 2018.

Ray Guy Young - *Archer-Daniels-Midland Company - Executive VP & CFO*

I will be thinking about this on a year-over-year basis. The $200 million that Juan talks about is the run rate savings at the end of the year related to our Readiness initiative. We also have some of the benefits from '17 that will flow into '18. And actually, some of these savings, we actually reinvest back into our business, as well as there's going to be offsetting inflation. So how I would be thinking about the cost savings, Adam, is year-over-year from '17 to '18, the net pickup in terms of cost savings will be about $100 million. That's how I will be thinking about it from a modeling perspective.

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

That's some helpful color. And then just a question on the sweeteners side. I think you had some constructive comments on the international component, the expansions that you've done in Europe and some of the acquisitions. I didn't hear a lot about the North America business. Maybe just any thoughts on how the liquid sweetener contracting for '18 has taken place and kind of the competitive changes in the market with the sugar agreement that's kind of rolling in through the balance of '18 between the U.S. and Mexico.

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

Yes. So Sweeteners and Starches continue to do well in North America. If we look at the combined demand -- if I look at the combined demand for wet milling products in North America, combined domestic and exports was up modestly in 2017 versus '16. So we still see our capacity being pressured there. Total demand actually for liquid sweeteners in North America was also up slightly year-over-year. Overall, I will say we're pleased with the mix of sweetener contracting in North America for '18, with pricing that will protect our overall North American margins in line with '17. So we continue to see positive developments there.

Operator

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

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

First, and maybe I missed this, this is probably a question for Ray, did you give us what your CapEx spend is supposed to be for -- or what you're targeting for CapEx spend 2018?

Ray Guy Young - *Archer-Daniels-Midland Company - Executive VP & CFO*

Yes. It's $800 million. We talked about that in the last quarter as well. And when we -- and as we finalize the plan, we believe the $800 million level would be the right level of CapEx for 2018.

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

Okay. And then when you kind of look at -- we haven't had an ethanol question, but Juan did allude to the fact that they're encouraged there was a strong demand function. I think we ended the -- 2017 with about $1.3 billion of exports of -- what -- give us an idea of what you might think that number could be for 2018.

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

Yes, Eric, we estimate export last year probably ended a little bit higher maybe than $1.3 billion. Our team would probably put it at $1.4 billion. We saw a pickup in the -- late in the year into exports to China or Brazil, and we see that driving 2018 to probably a number between $1.6 billion, $1.7 billion; Brazil, China coming back to the -- to big exporters into a -- big importers from U.S. and continue with the -- some of the traditional destinations, Canada, India, Gulf states. So we see strong demand in Brazil, and we see China driving into their 10% and not having enough capacity to supply that. So we will have China and Brazil for the next 2 or 3 years being big importers from North America ethanol.

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

Okay. And then just kind of a final kind of 30,000-foot overall question with kind of the Ag Services division. Obviously, we still have a lot of global supply. Looks like we're still going to -- there's going to be -- one should be conservative when you look out for the next year as well on that. But it's also interesting that we're seeing some corn production coming out of the Ukraine. It looks like China is down a little bit. Looks like Brazil could -- it looks like we're not -- it's not real visible, but we might be on a road or a path of road to maybe getting some lower carryovers in the corn area. Is there any semblance that, that could be an improvement for your overall Ag Services for next year?

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

Yes, Eric, I think if we go around the world, and you mentioned some of them in your comments, we already know enough to -- probably to conclude that 2018 weather will be less favorable to crops than it has been -- than weather has been over the last 4 years. So whether it's Argentine dryness or whether it's the South Plains here or whether it's a little bit of Russia or Australia commentary or whether it's South Africa having a drought and impacting corn, we see things are tightening up a little bit at a time when demand continues to be very strong. So that could bode well for Ag Services business, yes.

Operator

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

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

Juan, you've talked about Harvest investments in your Chairman's perspective. Could you share with us what your key investments are and kind of what Harvest -- or benefits we expect in 2018 from those investments?

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

Yes. Well, there are many. I can go through the different businesses, but -- so we're going to have the full year of some of the acquisitions that we made, whether its Chamtor or Crosswinds in pet treats or Industries Centers in the destination marketing. We're going to have Campo Grande, the largest specialty protein complex that there is that we started in South America. Those are 6 plants into 1 complex, and that took us the last 18 months to bring into production and we're going to have a full year of that in 2018. We will have the benefit of Tianjin. We're going to have the Fibersol plant having a full year of operation. We have expanded our color plant in Berlin. We are expending some of our Eaststarch facilities in Eastern Europe. So there have been many, Farha, around our business, and that's why I always remark that I'm very proud how we manage cash flow and we manage earnings on these 2 years of soft commodity markets, if you will, while we were heavily investing. We thought that -- I explained to all of you before that some of the valuations in the market did not justify us to go into -- big hunting for M&A, and we decided to go organic growth. We took a hit in the P&L all over the last 2 years in that. And we believe that all that is coming on a stream. Of course, you don't make money day 1 the moment you turn up a plant, so our forecast will be more back-end loaded as these plants ramp up and they start to be completely sold out. But we believe that all that will contribute in 2018, and that's why our forecast, going back to the original question from Ken, is our forecast go from a relatively more flattish Q1 to a higher expectation for calendar year '18 as a whole versus 2017 is because of this ramp-up of some of these investments.

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

That's helpful. And just some more detail on ethanol. So you -- in the fourth quarter, we're short ethanol. And now kind of going forward, could you talk about some of your color on hedges and your outlook and kind of how that market will develop? And any color on how you think profitability for the year will flow for ethanol and what you think about the divestiture of those ethanol dry mills?

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

Okay, so let me see if I can recount all that. The team did very well in Q4 managing the end of the year. And as we look at what's happened now, so margins were not very good going into this quarter. And of course, as always happened during the -- during this time of the year, plants in the industry don't run that well in the winter. They run at lower capacity. And this shows that when the industry have some discipline, if you will, in productions, margins start to climb up, driven mostly by exports. Still, gasoline domestic demand is not something to write home about, but exports continue to be good. So in that sense, we expect a little bit of a better margins now. Then we're going to have the normal development every year, which is refineries and everybody goes into maintenance in preparation for the driving season. And hopefully, we're going to have a good driving season and we're going to see margins come up into the summer. Then we're going to produce too much in the summer like we do every year and maybe margins temper towards the end of the year. In terms of our progress into the ethanol dry mills, we made the restructuring into Peoria, and I would say we will continue to look at opportunities. We are engaged with people, but we're not going to make any decision that is bad for our shareholders. We don't have a rush to do anything here. We make cash flows. So strategically, we're not going to be the one building the next dry mill. And at the right time, at the right -- in the right conditions, we are planning to divest, to joint venture those dry mills. At this point in time, nothing to update you on.

Operator

This concludes the Q&A portion of our earnings call. I would now like to turn the call back over to Juan Luciano for closing comments.

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

Thank you, Jack, and thank you all for joining us today. Slide 15 notes some of the upcoming investor events where we'll 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

Today's conference call has been completed. Thank you for your participation. You may now disconnect.
