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ADM - Q1 2018 Archer Daniels Midland Co Earnings Call

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PRESENTATION

Operator

Good morning, and welcome to the Archer Daniels Midland Company First Quarter 2018 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, Lindsay. 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 the 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 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 first quarter adjusted earnings per share of $0.68. Our adjusted segment operating profit was $717 million. The team executed exceptionally well in the first quarter. And we harvested the benefits of the strategic actions we took over the last few years, delivering strong results.

As you'll remember, last month, we realigned our business units to further accelerate our growth efforts, and each of those business teams performed well this quarter. In Origination, the Global Trade business delivered their fourth consecutive profitable quarter and their best first quarter in 4 years. Our Oilseeds team made the right investments and put the right pieces in place so they could run at record volumes and capture the benefits from margin opportunities. In both of those businesses, certain mark-to-market timing effects, which should reverse in the coming quarters, masks the underlying strengths of the team's performances during the quarter. In Carbohydrate Solutions, our strategic expansions and investments are continuing to deliver results. And our Nutrition business had another quarter of top line growth, including double-digit year-over-year growth from Animal Nutrition.

Looking forward, we are focusing our growth efforts on 5 key platforms: Animal Nutrition, bioactives, carbohydrates, human nutrition and taste as well as geographic regions that are seeing increasing consumer demand. And through readiness, we continue to reduce costs. We're enhancing our agility, streamlining and standardizing our processes and implementing innovative technologies for our businesses and our customers. When taken together, the continued execution of our strategic plan combined with our first quarter results, improving market conditions and the benefits of U.S. tax reform lead us to be even more confident about 2018. Later on this call, I'll discuss further the outlook for our business.

Now I'll turn the call over to Ray.

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

Okay, thanks, Juan.

Slide 4 provides some financial highlights for the quarter.

Adjusted EPS for the quarter were $0.68, up from the $0.60 in the prior year quarter. Excluding specified items, adjusted segment operating profit was $717 million, up $39 million from the year-ago quarter.

We had some unique factors impacting both our reported and adjusted results for the quarter. We recorded a positive net operational impact related to the retroactive application of the 2017 biodiesel tax credit, which was worth about $120 million. We also had significant negative mark-to-market timing effects related to hedges for future cash contracts in Origination and Oilseeds, which were worth about $150 million in aggregate, so these 2 impacts more or less offset each other in the quarter, particularly on an after-tax basis. I will be further elaborating on these impacts later.

The effective tax rate for the first quarter was approximately 15%; and was favorably impacted by U.S. tax reform, the 2017 biodiesel tax credit, geographic mix and several favorable discrete tax items including a $14 million adjustment to the transition tax recorded in the fourth quarter. If the biodiesel tax credit and the favorable adjustment to the transition tax were excluded, the effective tax rate would be about 19%. After considering our first quarter results, we expect our 2018 calendar year effective tax rate to be between 16% and 18%. Looking ahead, as an ongoing run rate after 2018, we'll expect the effective tax rate to be between 17% and 20%. This is below the 20% to 23% guidance we provided to you at the end of the fourth quarter, as we have further refined our estimates taking to consideration better forecasts of the new provisions in the tax code.

Our trailing 4-quarter average adjusted ROIC of 6.4% is 15 basis points above our 2018 annual WACC of 6.25%, thus again generating positive EVA. On Chart 19 in the appendix, you can see the reconciliation of our reported quarterly earnings of $0.70 per share to the adjusted earnings of $0.68 per share. For the quarter, we had $0.01 per share credit related to LIFO, a $0.02 per share charge related to impairments and restructurings and a $0.03 per share benefit related to the favorable adjustment to the transition tax booked in the fourth quarter which I referred to earlier.

Slide 5 provides an operating profit summary and the components of our Corporate line.

In the Other segment, we had unfavorable results compared to the prior year due to lower underwriting results at our captive insurance operations and customer loss provisions at our futures commission merchant business. We expect a onetime variance of approximately $20 million will impact our 2018 calendar year results by a similar magnitude.

In the Corporate lines, net interest expense for the quarter was up slightly due to funding higher working capital levels. Looking ahead, we're projecting net interest expense for 2018 to be slightly higher by about $10 million than the $310 million we recorded in 2017, with expectations of higher inventory ownership positions. Unallocated corporate costs of $146 million were up about $20 million versus the prior year due to a corporate initiative that will have an offsetting benefit in tax expense. For the rest of 2018, we're expecting unallocated corporate costs in the range of $140 million per quarter, in line with the guidance that we provided to you for the 2018 calendar year, with the company accelerating its investments in R&D, innovation and business transformation.

Turning to our cash flow statement for the quarter on Slide 6.

We generated $553 million from operations before working capital changes, slightly higher than the prior year. We made investments in inventory, as favorable carries in the market and the willingness of growers to sell their crops presented opportunities for us to take on a greater ownership position. In addition, typically from a seasonal perspective, the first quarter sees a net outflow of cash due to the cycle of accounts payable to U.S. farmers, which is further impacted by U.S. tax reform.

Total capital spending was $196 million, in line with our expectation for the year. We returned approximately $190 million of capital to shareholders through dividends. Therefore, we had a balanced approach towards capital -- CapEx spending and return of capital to shareholders during the quarter. Our average share count for the quarter was 565 million diluted shares outstanding.

Slide 7 shows the highlights of our balance sheet as of March 31 for 2018 and 2017. Our balance sheet remains solid. Our operating working capital of $9.2 billion was up $1.8 billion versus the year-ago period primarily due to higher inventory ownership positions. We also had certain higher receivables, which will unwind over the next quarter. Total debt was about $9 billion, resulting in a net debt balance -- debt-less cash of $8.2 billion. We finished the quarter with a net debt-to-total capital ratio of about 30%, up from the year-end 2017 level of 27% due to higher working capital and the normal seasonality of working capital in the first quarter.

Our shareholders' equity of $18.7 billion was up from the $17.1 billion last year primarily due to changes in the currency translation count as the U.S. dollar weakened. We had $5.1 billion in available global credit capacity end of March. If you add the available cash, we have access to almost $6 billion of short-term liquidity.

Next I'll discuss our business performance for the quarter. Please turn to Slide 8.

In the first quarter, we earned $717 million of operating profit excluding specified items, up from the $678 million in last year's first quarter. Our results included negative mark-to-market timing effects, which were largely offset by income from the 2017 biodiesel tax credit. Most of these timing effects are expected to reverse in the coming quarters.

Now I'll review the performance of each segment, starting on Slide 9.

Origination results were in line with the prior year. Merchandising and Handling was up significantly year-over-year. The Global Trade team continued their turnaround, delivering their fourth profitable quarter in a row and their best first quarter in 4 years. Substantially higher margins and increased volumes, including from our investments in destination marketing, contributed to their performance. North American Grain was down compared to the first quarter of 2017. A lack of U.S. export competitiveness at the beginning of the quarter led to volumes and margins that were lower than the prior year. In addition, increasing forward export margins and barge freight rates in the first quarter resulted in an approximately $40 million of negative mark-to-market impacts on existing contracts. Those impacts are expected to reverse in the future quarters as contracts are executed. Strong basis and execution gains in wheat partially offset those effects. Transportation was down, as high river levels limited operations, resulting in increased costs and lower volumes for our ARTCO.

Please turn to Slide 10. Oilseeds was up over the first quarter of 2017, as the operating environment continued to improve. Global market dynamics continue to push soybean crush margins higher, and the business set record soy crush volumes. Improving crush margins resulted in negative timing effects of more than $100 million, in fact more like $110 million on forward hedges, which led to Crushing and Origination results that were lower than the year-ago period. The vast majority of those impacts are expected to reverse over the course of 2018. South America saw strong Origination volumes and improving margins as farmer selling accelerated. Softseeds were down on lower margin and some negative timing impacts. Refining, Packaging, Biodiesel and Other results were substantially higher on the retroactive passage of the 2017 biodiesel tax credit, which accounted for approximately $120 million; and increased volumes in North and South America. Europe was pressured by imports of Argentine biodiesel. Asia was lower on Wilmar results, as Wilmar recognized deferred tax benefits to their earnings in the year-ago quarter.

On the Crushing and Origination side, our Oilseeds group managed the business extremely well through a complex quarter. Our investments in enhancements, in costs, flexibility and productivity at some of our facilities contribute to our ability to crush at a record level and capitalize on the strong market environment. In RPBO, it's important to remember that we made a choice in how we manage risks in 2017 related to the biodiesel tax credit in 2017, and that execution has now paid off.

Slide 11, please. Carbohydrate Solutions results were in line with the year-ago quarter, as we saw continued strength in Starches and Sweeteners offset by a weak ethanol industry margin environment. Starches and Sweeteners was up over the prior year. The North American business delivered another strong quarter, with joint ventures ALMEX and Red Star contributing positively to results. Chamtor increasingly contributed in Europe, while sales in Asia were slightly lower. Wheat Milling was up, benefiting from strong margins. Bioproducts results were down versus the year-ago quarter due to pressured industry ethanol margins and lower volumes in industrial and beverage alcohol.

On Slide 12. Nutrition was up versus the prior year-ago period. WFSI results were in line with the first quarter of 2017. In WILD Flavors, a good sales mix with a higher share of flavors, colors and systems supported solid margins, another quarter of double-digit profit increases versus the prior year period. Specialty Ingredients results were lower on inventory adjustments and an unplanned production outage. Sales volumes were up for Specialty Ingredients for the quarter, as both Campo Grande special proteins team and the Tianjin Fibersol team drive towards full utilization. Animal Nutrition results were up significantly over the first quarter of 2017 with strong trade sales and a good sales mix. The team's strong inventory position helped us capitalize on higher sales prices. On the specialty animal feed side, improvements in the lysine business continued to contribute to results.

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. Before we talk about our strategic accomplishments in the first quarter, I would like to take a moment to explain a little bit about some of our recent changes and focus.

First, we announced in the first quarter a realignment of our business segments to reflect the company's new operating structure and our continuing evolution. Given our strategies and priorities, our realigned business units will allow for better synergies and utilization of resources and better reflect how we are running now our businesses. For example, moving Wheat Milling into our new Carbohydrate Solutions business means our 2 starch processing operations now can work more closely together to develop and sell products. And it offered cost and efficiency synergies as well, but the Corn business' impressive operational excellence expertise can benefit our milling operations. Moving Animal Nutrition into the Nutrition business unit means that our pet treat team, which grew significantly with last year's addition of Crosswind Industries, will have the opportunity to work more closely with our flavor and color experts at WILD to create products for this fast-growing market. Bioactives and Nutrition will also benefit from being in the same business, and the continued move toward personalized nutrition is closely related to increasing health consciousness among food and beverage consumers.

Therefore, the time was right to make the changes in the first quarter, and our first quarter reporting reflects that realignment. To assist you with comparisons, we have included a recasting of last year's quarterly segment operating profit under the new segmentation in the appendix.

Looking forward, we are going to continue to drive growth by focusing our efforts on 5 key platforms that we believe can lead to stronger earnings and returns. They are Animal Nutrition, bioactives, carbohydrates, human nutrition and taste. While ADM will always play a critical role in feeding a protein-hungry world, whose population will surpass 9.5 billion by the middle of this century, our mission has also evolved to include providing better nutrition for consumers worldwide, which has a positive impact on people's quality of life. Our focus on the 5 key platforms will help us fulfill that mission.

And finally, all of our efforts will be informed and improved by readiness, which will drive efficiencies and improve the customer experience in our existing businesses through a combination of lean manufacturing, process standardization and digital design; and will also support execution of our growth strategies in our key growth platforms. I will further elaborate on readiness on the next slide.

Slide 14, please, and a review of some of our accomplishments in the first quarter.

In our first strategic pillar, we are seeing the results of the actions we have taken to enhance the core. Last quarter, we talked about fixing leakages, specific limited areas where our execution wasn't as strong as it should have been. We saw significant improvements throughout 2017, and in the first quarter of 2018, we have had a great start in terms of the team's performance. For example, our Global Trade team delivered a very strong turnaround in first quarter results and continued its run of strong quarters. Our Oilseeds business delivered important cost savings and margin recovery in South America. And our yield and productivity self-help has led to a turnaround of our lysine business. We're also enhancing our core in Origination with our continued expansion of destination marketing. Actually, earlier this month, we signed a deal with Peel Ports Group to utilize its Glasgow port facilities, allowing us to expand our destination marketing capabilities in Northern England and Scotland.

Our second pillar, enhancing readiness, is an area of intense focus. Readiness is an evolution of our ongoing work to leverage technology to improve and standardize processes, reduce costs, drive growth, enhance the customer experience and build our competitive advantage, all while preserving the positive aspects of our culture. Today, we'll require more speed and agility than ever. That's why we have decided to expand our readiness efforts to include performance excellence spanning our entire business model. We will be integrating, prioritizing and resourcing key existing projects under one umbrella while significantly broadening and accelerating the entire effort not just on costs but also on revenues.

As the signs of the importance of these expanded efforts, we have asked Joe Taets, one of our most senior and respected executives, to lead the new readiness efforts going forward. Joe will be focused on helping the organization drive additional efficiencies more quickly and on improving the customer experience.

Our 1ADM business transformation remains a key part of readiness. During the first quarter, we expanded 1ADM to our ocean freight and European corporate finance operations. And the readiness will be further expanding 1ADM to cover the entire enterprise. During the first quarter, we have generated operational cost savings of $70 million on a run rate basis and are on pace to exceed our 2018 target of $200 million.

In our third pillar, strategic growth, we are supporting our new growth platforms with the opening of our new enzyme lab, which will expand our ability to develop and commercialize a wide range of enzymes and in particular will advance our animal health enzyme partnership with Vland Biotech. We're also continuing our geographic growth with the formation of a joint venture with Cargill that will further produce and supply soybean meal and oil for customers in the fast-growing Egyptian market, as well as an expansion into the Russian starches and sweeteners market via a joint venture with Aston Foods.

These highlight several of the actions we took in the quarter. We'll continue to update you on our progress regularly.

If you could please turn to Slide 15 for a look forward. In Origination, for the second quarter, we are expecting a small portion of the timing impacts that negatively affected Q1 results to reverse. High river conditions have continued to impact our cooperations. ADM is one of the largest exporters of U.S. sorghum to China, and we do expect a negative impact of about $30 million in the second quarter related to the Chinese deposits being imposed on that trade. Other than the negative impacts and the sorghum issue, we expect Origination's second quarter performance to be more or less in line with the year-ago period. Looking further forward, we expect Origination to have significantly improved results in the second half of the year as U.S. export dynamics improve due to the reduced Argentina soy and corn crops and Brazil corn crop and as negative timing impacts for the first quarter continue to reverse. For the calendar year, we expect solid fundamental improvements in Origination results compared to 2017.

Oilseeds will continue to capitalize on improving market conditions in the second quarter and will additionally benefit from the reversal of some significant timing effects from the first quarter. We expect Oilseeds to deliver significantly improved results in Q2 versus the prior year quarter. For the calendar year, with improved soybean crush volumes and margins, a better Origination margin environment in Brazil and the expected launch of our Egypt joint venture and completion of our Bolivia divestiture, we expect Oilseeds to substantially improve results over 2017 even absent the Q1 income derived from the retroactive 2017 biodiesel tax credit.

We expect Carbohydrate Solutions to continue to be impacted by weak ethanol margins, leading to results in the second quarter that will be lower than the equivalent period last year. As the rest of the year unfolds, we're expecting Starches and Sweeteners to continue to see good demand in an environment of tight industry utilization. We should also see some additional contributions when our new Russian joint venture is launched. All told, we think Carbohydrate Solutions results for the full year will be roughly similar to 2017, but with -- a big variable will be how ethanol margins evolve throughout the rest of the year.

In Nutrition, we expect continuous sales growth to help deliver improved performance in the second quarter. From a seasonal perspective, the second quarter should be the strongest quarter of the year. For the full year, growing sales, continued strong performance from WILD, plus increasing contributions from both improvements in Animal Nutrition and new facilities, are expected to result in a solid 20%-plus growth in operating profit versus full year 2017.

Altogether, we are well positioned to capitalize on improving market conditions for the balance of 2018. We continue to closely monitor trade developments both in terms of NAFTA; as well as U.S., China developments that seem to evolve almost on a daily basis.

So overall we are pleased with where we are. We've built up our earnings power through the actions we have taken over the past few years, and we're seeing the results in our bottom line as headwinds turn to tailwinds. Looking forward, with our new business structure, a sharper focus on key growth areas, new accelerating readiness efforts and a lower effective tax rate, we are even more confident about delivering significantly improved results in 2018 and excited about our future in the years to come.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question comes from the line of Heather Jones with Vertical Group.

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

I had a quick clarification question. Did you say in Oilseeds that you expect Q2 to be substantially better than last year but only a portion of the Q1 mark to market to reverse?

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

That's correct. And well, actually, we actually expect roughly half of the mark to market to reverse in Q2 related to Oilseeds. In the case of ag -- Origination, that's probably more of a Q3 impact, but with respect to the timing of impacts of Oilseeds, roughly half will reverse in Q2.

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

And when I think about the year-on-year swing for Q1 in Oilseeds, the mark to market, so it's about $110 million this year, but wasn't it a help in Q1 of '17 so the year-on-year swing was even bigger than $110 million?

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

Yes, it was a favorable impact last year. We didn't outline it because it's less than normally a $50 million impact we would outline, but it was a small favorable impact last year.

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

Okay. I wanted to talk to you about the sustainability of the soy crush margin. There's some -- there seems to be some belief out there that this is just a function of Argentine weather and that next year we could see a return to more depressed environments like '17. I was wondering if you could speak to what you think the drivers are of this improved environment and your view of the staying power.

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

Yes, Heather, the drought in Argentina certainly contributed to the increasing soy crush margins, but we foresaw these crush margins expanding even before the extent of the Argentine drought was known. And it was then several factors. First of all, there has been not only a drought issue in Argentina but a little bit of a structural change with the monthly reduction in the soybean export tax that had effectively created a carry in the market. And that began in 2018. And also, the U.S. tariff that has been placed on Argentine biodiesel, effectively stopping the flow of Argentine biodiesel into the U.S., has changed a little bit the dynamics internally. So the Argentine crusher has become more disciplined; and I think we see less of meal being subsidized by biodiesel from Argentina, if you will. So that's one factor, the Argentine dynamic outside the drought. And that's a more permanent dynamic that will stay with us. I think also the Brazilian origination industry has become more rational following an exceptional challenge in 2017. I think we all learned about that year. And we all reduced our take-or-pay commitments, and we are not facing the same mismatch between farmer selling and customer buying that we faced. Demand continues to be strong around the world. We think in this year about 4% increase. And we don't see in the first quarter the same impact that we saw last year of having to absorb DDGs or the feed wheat that we have last year. So in that sense, the power of substitutes to hurt this year has been reduced and will be into the future. And we -- also, we have seen that, with all these changes, the global buyer has become less hand-to-mouth. Over the last few years, there have been a big destocking. And that situation forced us to be more on the spot, if you will, when we cannot buy a book. Now with the refill with more of the scarcity value returning to the market, the global buyer wants to lock in their costs, and that resulting in better operating environment for us because we can position better. We can work our optionality better. When you add all these plus everything that we have been doing in terms of cost control and swing capacity in our facilities, we feel very strongly about not only the sustainability of this margin but the sustainability and improvement of our performance in the years to come.

Operator

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

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

So maybe continuing on Oilseeds. And I don't want to just loose some of the confidence and some of the drivers there. And I think your exact phrasing was, "significantly ahead of 2017." And I guess I'm trying to frame it given board crush margins today and even forward crush margins today that sit near multiyear highs; and thinking about kind of banding kind of how much improvement you could actually realize in your base results, especially given some of the weakness in cash markets and the South American Origination that you experienced last year that seems to be reversing.

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

Yes. As I described before, I think we're not only going to see an improvement in Origination in South America. Part the market part is we have improved on our team but also in Oilseeds in -- and listen, we have confidence that we could see Oilseeds achieve about $1 billion or north of $1 billion of operating profit in 2018 even after excluding the credit of the retroactive application of the 2017 biodiesel tax credit. So that's a significant increase over the about $850 million of adjusted OP that we achieved last year. So we feel very good about it.

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

Okay. And just to be clear on that: I mean ADM crushes 30-or-so million tonnes a year of soybeans. $150 million increase in profit even exclusive of the tax, biodiesel tax credit. I mean the board crush margins have expanded significantly more than that, so I'm just trying to make sure I'm not thinking about that wrong or where the deltas are on the negative side that will be tempering some of that year-on-year improvement.

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

Yes. Don't forget the South America and Brazilian Origination is a significant turnaround versus last year. So you -- when you look at the Oilseeds segment, you're not looking solely at the crush margin. You also need to look at the South America and particularly the Brazil Origination. And in the first quarter, I mean, it is a significant turnaround. And we expect that to continue over the rest of the year as well.

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

Okay. And then just a quick question on ethanol. And I think, Juan, you had some pretty tempered comments on the second quarter and maybe for the balance of the year. I mean the margin environment has -- I mean it's not great, but it seems like it's actually modestly better than it was 1 year ago. The inventory picture and production numbers have been reasonably constructive for the industry in the last few weeks. Can you talk about how you think about ethanol over the balance of the year and some of the puts and takes against that outlook?

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

Sure, yes. Of course, on the positive side, Adam, we see favorable blending economics both domestically and globally. And that will lead to a strong exports. At the beginning of the year, we were probably thinking about 1.8 billion gallons of exports. Now with China we're probably thinking more in the range of 1.6 billion gallons. So you are right. We are entering the driving season with inventories that are lower than last year, so that is on the positive, but we will see. We will have to see the strength of domestic gasoline consumption in this driving season given prices. Prices are kind of creeping up for gasoline, so we'll see how that impact demand. And we continue to see exports going to Brazil. And as I said, with the exception of China, we export -- I think the industry export like about 100 million gallons in the first quarter to China, but we're probably estimating 200 million less for the rest of the year. So a lot of volatility. And I will say there has been some increase in margins over the recent weeks and -- but everything will be determined on how do we go through the driving season and the rest of the year. And as I said, there is some optimism in the fact that we're entering the season with a little bit lower inventories than last year.

Operator

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

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

I -- you certainly talked about some of the structural improvements going on in Argentina to make the crushing market more favorable going forward, and also the reduced take-or-pay kind of activity. Can you speak also about farmer selling in Latin America or in Brazil in particular? And is there something structurally improving there as well? It would seem to me that they would -- the farmers there would continue to have pretty good negotiating power. And perhaps the Argentinian farmers would as well and regardless of what's going on with the weather in Argentina. Are these things related to the crushing discipline, or is it something separate?

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

I will say in Argentina farmer selling remained historically slow. And I think, at this point in time, it will continue to do so. We see the farmer has sold -- I mean has priced about 20% of the crop, which is about 8 million tonnes. Obviously it's a smaller crop, and prices have come up because the crusher needs to entice the farmer to sell in Argentina at this point in time. But I will say in Argentina it's going to be a little bit about interest rates, inflation, the valuation of the peso; and the farmer will be playing with that. So we expect that this carry that to a certain degree the government has put into the market will continue to make the Argentine seller a slow seller. In Brazil we have seen farmer selling. At this point in time, they price probably about 56% to 60% of the crop versus about 44% a year ago. So we've seen good farmer selling actually in Q1 and during the first weeks of Q2. Rallies in the market and obviously the valuation of the real have brought the farmer to market, so we will have to evaluate how it goes, but so far, the start of the year have played that way.

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

But do you see any structural changes in the Brazilian farmer's ability to delay selling, or it -- or not?

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

Not any significant change versus last year, no, I will say, no.

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

Okay. Can I ask a last question? Do you have a rough estimate for what Animal Nutrition's profits are on an annual basis?

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

Yes. I think that, when you look at the pro forma, we kind of showed you kind of what last year's number was, which I think was about -- roughly about $20 million. I think you should expect that's going to improve because of the improvements that have been made in the -- particularly in the lysine business as we kind of continue to grow that particular business.

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

Okay, because you have $23 million in first quarter alone, so...

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

Yes, so that's one thing. I mean we should actually expect a pretty strong growth in the Animal Nutrition business on a calendar year basis compared to 2017.

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

So the improvement that we've been talking on lysine all this -- for the last year has been significant, have been significant. And you will see a big acceleration in Animal Nutrition results over time.

Operator

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

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

I wanted to follow up on the oilseed crush questions. And just maybe because we've had such a substantial spike in margins, can you guys just talk a little bit about the hedging philosophy on how this works? Like we're already here into the second quarter. What kind of business is done at these really terrific spot margins versus maybe the team hedged it many months ago for the second quarter at lower margins. I think we're all maybe very interested in that particular point because I think it starts to give us information as to how we think about the profit potential of these businesses as time progresses. I'd also be curious about how you think about hedging Q3 and Q4. Can you even do it? Is there enough liquidity in the market to hedge at this time?

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

Yes, David. Normally in our Oilseeds crush operation we do run hedges. We do actually kind of lock in margins in the future. The degree that we lock in is a function of our outlook, our perceptions in terms of supply, demand; and how margins move. I mentioned to you that a lot of the timing effects will reverse in the second quarter so that actually gives you an indication that we -- back in the fourth quarter, we did lock into quite a bit of margins related to the second quarter. And that will unwind. The rest of the 25 -- the other 50% that will unwind, that will unwind over the course of third quarter and fourth quarter and a little bit in 2019. So it gives you a sense that we're always going to be hedging more the nearby and then less on the further out. But as we pointed out, I mean, in doing the mark to market, this is actually very good news. I mean it tells you that the forward margins look very, very healthy. So the fact that we have a lot of that unhedged, we will be able to benefit from that type of margin in the future when we actually execute. And actually with the higher margins we are continuing to hedge, so we are putting on more hedges as we kind of go through every quarter.

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

Do you have good visibility into the back half of the year then because of the margins -- sorry, because of the hedging program? Is that fair to say? I mean, would it be north of 50% of the volumes? Is there any kind of ballpark around it? And I understand it's proprietary, but we're all struggling here with how we think about the model in Q3, Q4. And a lot of these are related to just your strategies on the hedge.

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

Yes. I mean we're not necessarily going to go through the specifics in terms of how much we're going to hedge, but we do -- I mean just the fact that I pointed out that we do have some mark-to-market timing effects in Q3, Q4 indicates that we do have hedges out there.

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

Okay, I'll leave it there on the oilseed one. Just a follow-up on ethanol: We do calculate margins here that are actually reasonable. And just, Juan, can you explain again why -- I didn't understand why you're so, I don't want to say -- I don't know the right word. "Concerned" is. But the year-on-year negative comparison versus the year ago. And the environment here, it feels good. Did ADM -- again maybe it's a hedging question again. Did you guys lock in ethanol business some time ago before we saw the margin structure here lift up?

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

No, no, David. Maybe the commentary is relative to the other segments when we were talking about 2018 and how confident we feel about the results being much better than '17. We see very strong Origination comp versus the previous year, and we're going to go up in every segment in Origination year-over-year. We see the strengths on Oilseeds and not only crushing but also Origination in South America versus the previous year. We see we're going to -- double-digit growth in Nutrition. And we continue to see very strong Sweeteners and Starches business, so my point is the only question mark, if you will, in the environment is the ethanol and especially given that the duties that China put will reduce the volume on that. So coming into the year, we thought very strong exports will keep off, you will, and make the margins expand into ethanol. Now we're going to have to deal with 200 million gallon less of that. And that's why I've been a little bit more cautious, but probably it's relative to how optimistic we are for the rest of our business, if you will.

Operator

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

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

Back to Oilseeds. Are you running at capacity? Or do you have room to increase volumes going forward?

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

We were running at capacity, I will say, March -- all the way to March. And then April, we started a little bit with the maintenance, with the seasonal maintenance in this time of the year. So that's the dynamic, but before that, we were probably running north of 95%.

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

Okay, and that's still global, or U.S.?

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

No, that was U.S.

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

U.S., okay. And then can you talk a little bit about Wilmar? Wilmar is one of the largest crushers in China, and it imports most of its beans. I presume that that's through your joint venture. Can you talk about the dynamics of how that relationship might change should the Chinese put a tariff on imported soybeans?

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

Yes. So first of all, Wilmar is a very diversified company. It is -- certainly has a big palm oil and tropical operations and has developed over the last few years a big consumer products business in China, so it is less exposed of -- to soybean crushing than maybe people give them credit for. I will say, if all these U.S.-China trade dispute end up not being resolved and in June we see a 25% duties on beans, I think you will see probably an impact on the volumes of Wilmar crushing because basically China will be buying more expensive beans and soybean meal will become a little bit more expensive. And they will be some impact on demand, so I expect capacity utilization to be reduced a little bit. I don't know to what extent. Of course, we know that Brazil exports about, give or take, 70 million tonnes of beans. And China imports about 100 million, so there is a gap there and -- but at the end of the day, that's the impact we're seeing, that potentially we will have reduced capacity utilization a little bit in Wilmar.

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

But it's also important to note that Wilmar is probably one of the most efficient crushers in China. And so whenever there is going to be more import price pressure, they will on a relative basis do better just due to the fact that they have a very, very efficient cost structure.

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

Okay, appreciate the color. And if I could just may ask one quick follow-up philosophical one: You know that one -- that part of ADM's vision is to provide better nutrition for consumers. Where does Sweeteners and Starches fit into that vision or that mission?

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

Yes, we have a business that has some components of healthy nutrition, and we have some parts that are more related to indulgence and fun. So there are some products that -- like high-fructose corn syrup that goes into products that -- like carbonated soft drinks, that they have a place in nutrition. And with moderation, they can be consumed as part of our diet. The business, as you've heard us saying for many, many years, has been working on what we call the fight for the grind, which has continued to bring other things to do in -- to be produced out of corn. And that's why the starches piece of the business continued to grow. So it's part of our portfolio. It may not grow as fast as other parts of the portfolio, but it's part of our portfolio and is a healthy part of it.

Operator

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

Michael Leith Piken - *Cleveland Research Company - Equity Analyst*

I just wanted to circle back to your operational synergies target. And you guys said you might be able to do in excess of $200 million. Could you provide a breakdown a little bit by segment and how much you might be able to exceed that number?

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

Michael, listen, I don't have the breakdown of the whole synergies per the 4 segment, but in general they are very much allocated, if you will, or they can, from the size of the assets. So normally in every year, Corn tends to take about half of everything we save because they have the biggest facilities. I think Oilseeds has done very well this year, and you're going to see maybe 25% from Oilseeds. And then if you will, the rest of the 25% is split between Nutrition and ag services, give or take.

Michael Leith Piken - *Cleveland Research Company - Equity Analyst*

Okay, that's helpful. And how much in excess of $200 million do you think -- you said you guys are running ahead of $200 million. I mean, how much upside is there?

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

Probably maybe a 10%, 20% upside to that. The -- we were very pleased because, as you know, some of these projects are CapEx related. And we'll reduce the amount of CapEx for this year. So we were thinking maybe $200 million will become a difficult target without the ability to do CapEx, but kudos to our operation teams because they looked at the pipeline and they found $70 million of run rate with some capital restrictions. So we are very pleased about the start of the year, and that gives us hope and confidence that we will exceed the $200 million. We have developed. This has become part of the culture. We've been doing this for the last 5 years. And over the last 4 or 5 years, we have saved about $1 billion run rate in these operational excellence. And when we think about going forward, Michael, on readiness, in which we are not only looking at performance excellence for our plants but also for the whole company, we think that the readiness progress, and that's why we're putting so much emphasis on it, has probably another $1 billion of savings ahead of us and so over several years. But we see that, that $1 billion that we achieved over the last 4 years, we have another $1 billion ahead of us. And this start of the year with a $70 million run rate in the first quarter give us even more evidence that, that is highly achievable.

Michael Leith Piken - *Cleveland Research Company - Equity Analyst*

Okay, great, that was really helpful color. Just shifting gears, maybe you could talk a little bit in terms of WILD Flavors. And I know 2Q is seasonally the strongest period of the year, but as you sort of look out maybe even a little bit more longer term, I mean, what type of revenue and EBIT growth rate should we be thinking about over the next couple of years for WILD Flavors?

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

Yes. So one of our main tenants in WILD Flavors is that we are providing natural flavors; and second, that we are focusing on providing total ingredient solutions. So that value proposition has resonated very well with customers. And you see that WILD Flavors continued to grow earnings of double digitally. Actually, at the moment, I will say in places like Asia Pacific we are capacity limited. If not, we will be growing revenue faster. And we are expanding. We're doubling that facility as fast as we can. So I will say we have still untapped potential because we haven't even started playing the flavor in South America. We are at capacity in Asia Pacific. We are growing about 30% per year from a small base in Africa. So we think again that this transition from just individual flavors or individual products to more solutions is right in our alley and resonating with customers. And we see the potential of double-digit growth for several years ahead of us as we bring more capacity.

Michael Leith Piken - *Cleveland Research Company - Equity Analyst*

Great. Is that double-digit revenue growth, or double-digit percentage...

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

No. I will say double digits operating profit growth. Revenue growth should be something between 4% and 7% or 8%, depending on the area and depending on when do we bring the next capacity. As I said, right now we're a little bit constrained in capacity, so you see us shifting the mix to more profitable things. That's why you see OP growing faster than revenue, but as soon as we bring some extra capacity, you will see us growing more like in the 7% to 8% on revenue.

Operator

Our next 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*

So as you go through this better upswing in the commodity cycle and it's helping your Oilseeds and other parts of your businesses, can you talk about your efforts of how much your earnings power should be higher relative to where it would have been just in an upswing? Because I -- as a point of reference, again I think it was pointed out earlier, if you just take the crush margin and turn it by your capacity, they didn't seem to add much upside to your operational efficiencies and all the actions that you've taken. So we're just trying to figure out what the implications are on your earnings power with all the stuff that you've done; and if you could put in some sort of context, like given the higher commodity cycle.

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

Yes. I mean -- Ken, I mean, we've talked in the past about how we've been driving earnings improvements over the years. And we've been talking about how we've been, one, driving operational excellence. And so we've seen a lot of benefits from operational excellence. As you know, not all of it flows to the bottom line because we've actually reinvested some of these savings in different initiatives. And secondly, we have talked about growth initiatives, the accretion from recent investments. And we're getting all of that accretion now with these things starting up, like Campo Grande and Tianjin. Thirdly, the WILD Flavors was an important part of our accretion story. And you're starting to see the traction from WILD Flavors in terms of double-digit growth. And then lastly, we did do quite a few share buybacks over the past couple of years, and that's also contributed towards our earnings power. And so I think what -- we've indicated that, over the past couple of years, some of the headwinds have kind of masked these improvements. And one --we've been trying to figure out how much these headwinds cost us. I mean you could easily -- we've talked about the fact that these headwinds could be more than $0.50 a share, right, in terms of the impact on us. And so as these headwinds kind of subside and become tailwinds, more like tailwinds, you're going to see strong recoveries, particularly in Oilseeds segment. We're actually very optimistic about Oilseeds in terms of what it can deliver as protein demand continues to be strong, as our U.S. operations continue to drive efficiencies. And so we're probably the most optimistic in terms of recovery of the base in the Oilseeds business. In Origination you're seeing good recoveries right now. As I indicated, we're talking about fundamental improvements in terms of recovery of Origination, but I mean there has been some structural changes. We've talked about some of the structural changes that have impacted Origination. And so we're probably never going to get back to the historical ranges in Origination. And then in carbohydrates or the former Corn Processing segment we've talked about the fact that we're growing the geographic footprint of that. And so that's how we're going to be driving earnings power into carbohydrate segment as we continue to expand that footprint. And then under the new Nutrition segment, we're very optimistic about that one. We've talked about 20%-plus operating profit growth in 2018. This really is one of our key growth segments going forward.

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

So net-net, would you -- if you take all the investments that you've made in and then X out some of the structural, are you -- is it a net positive to your earnings power when we see the cycle completely turn? Or is it a net neutral? How do you think about that? I guess it's just philosophically and then I mean, if you put numbers to it, that would be all the better, but...

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

No. I mean it's -- philosophically, Ken, it's a net positive. There's no doubt about it. And I think that -- as we kind of go through this year, I think you're going to start seeing how this earnings power translates into stronger earnings for our company. And that's the reason why we're so confident about this particular year.

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

Ken, I think -- if you think about how we navigated the down cycle, I think we navigated the down cycle very well and mostly through good execution and great cost position. I do believe that we have the leading cost position in the industry, and we will continue to enhance that advantage. What you haven't seen much of it has been the rewards from -- or the results on all the growth investments just because in order to build a plant it takes you 18 to 24 months. And then it takes you another 12 to 18 months to start making money after you fill it up. So we have a lot of latent earnings power there coming onstream, and I think you're going to see that in '19 and '20. So -- and we don't stay still. Look at our operational excellence [now then] into readiness. And readiness is going to drive not only maybe an extra $1 billion of costs but also revenue growth. And we feel very good how we continue to get better at how do we execute our strategy. I think we'll learn it ourselves, and our team are getting better on that. And then I think it's paying off to -- sticking to the strategy because we're becoming better. And every one of these improvements or tweaks that you make, whether it's a small realignment or readiness, is just another page of the strategy that we are unveiling, but it's because we are getting more comfortable and we become better. And I think you're going to see that coming into the P&L now that maybe the down cycle subsided a little bit.

Operator

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

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

Question on ag services. You guys highlighted that you have a good export program out of the U.S. going into the second half. Some color on the elevation margins on that export program and kind of what degree you think we could see growth in that segment this year.

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

Yes. Elevation margins have moved up. I mean that's part of the reason why we took the negative timing effect related to Origination. Beginning of the year, we had about maybe $0.10 forward elevation margins. They've moved up to about $0.20 to $0.30 right now, so that's a positive. We are seeing demand out of United States. As we indicated, we had river condition issues at the beginning of the quarter, so it was tough to actually get products down to the gulf. And then secondly, with some challenges down in South America, we're seeing customers actually come to us right now in order to source their product. And so overall we expect the elevation margins to remain robust as we kind of move through the year.

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

So in terms of earnings for that segment versus last year or versus historical levels, I mean, the -- you earned $900 million in that segment in 2014. Is that a number that's just too big to repeat given the strong export program? Just kind of -- and last year, you earned a low of around $585 million. How should we think that -- kind of the earnings power of that segment is today?

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

Yes. I think probably if we maybe recast it into pro forma in terms of our new segment called Origination, right? Maybe that's a better way to think through it because that excludes milling. And I think how you want to be able to think about it is, last year, we finished up Origination roughly $400 million, but we also had some favorable benefits in the fourth quarter related to settlements. And so you take out some of the favorable settlement impacts. You're probably in the low 300s, like $320 million or so. That -- we don't expect we're going to have these favorable settlements this year. And so the way we kind of look at it is, for 2018 Origination, we're going to have strong improvements off that $320 million base. Now as Juan indicated, we will take about a $30 million provision in the second quarter related to sorghum, okay? And I kind of view that as a kind of one-off contained in the second quarter. Got to get that behind us. So after you take that in account, then we do expect that Origination will register strong profit improvements versus where we delivered last year.

Operator

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

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

I know we're running really late. I have just a couple really quick questions. This morning, the focus has really been on your forward book of business for 2018, but -- and there's questions about sustainability, but I've started to see some positive bookings. Your buyers seem to be willing to go out as far as second quarter next year. Is that what you're seeing as well in the market? It seems like we're starting to get even further up-building of a book of business.

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

Yes, Eric. Yes, you are right. And you heard me saying it before in my comments. We see that as a big difference versus last year and the previous year. Our prices were coming down. Everybody was destocking, and that was the -- an impact on demand that we couldn't see. And then it limits our ability and our optionality to position ourselves better. Now that the farmers -- the buyers, I'm sorry, are building the book, that allows us to excel into using all the ADM optionalities that we have based on our assets and where -- with different locations. So yes, we see that, and that's a big positive for us.

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

Yes, I certainly see that too. So then the final question is we've had a meaningful change in the grain markets. And I'm just going to use Corn as an example, where your forward curve on Corn is quite positive. You're at 4.16 on the harvest contract. Farmers, for the first time in quite some time, can sell forward '18 production above their costs of production. And I suspect that this is meaningfully changing how farmers will go to market, the speed of which they'll go to market. I would assume that this is going to encourage faster and more selling. What are you hearing from your farmer customers regarding kind of the new pricing environment for grain?

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

We haven't heard a significant change at this point in time. Hopefully, this is going to come back to more normal commercialization of the crops during the crop year, but at this point in time, we haven't seen a significant shift.

Operator

Thank you.

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

So yes, Lindsay.

So I just want to finish saying thank you for joining us today. Slide 16 notes some of the upcoming investor events where we will be participating. So as always, please feel free to follow up with Mark if you have any other 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.