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ADM - Archer Daniels Midland Co Announces Proposed Acquisition of Neovia - M&A Call

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OVERVIEW:

ADM announced that it has agreed to terms granting exclusivity in discussions to acquire 100% of Neovia for EUR1.535b. Co. also announced that it has signed an agreement to acquire 100% of Probiotics International Limited for GBP185m.



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CORPORATE PARTICIPANTS

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

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

Victoria de la Huerga *WILD Flavors, Inc. - SVP of Beverage and Strategy*

Vincent F. Macciocchi *WILD Flavors GmbH - Global President*

CONFERENCE CALL PARTICIPANTS

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

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

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

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

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

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

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

Tim Perz

PRESENTATION

Operator

Good morning and welcome to the Archer Daniels Midland Company Conference Call, ADM to acquire Neovia and Probiotics International Limited.

(Operator Instructions)

Joining us during the Q&A session will be Juan Luciana, Ray Young and Vince Macciocchi. As a reminder, this conference call is being recorded. I would now like to introduce your host for today's call, Victoria de la Huerga, Vice President, Investor Relations for Archer Daniels Midland Company. Ms. de la Huerga, you may begin.

Victoria de la Huerga - *WILD Flavors, Inc. - SVP of Beverage and Strategy*

Think you, Regina. Good morning, and thank you for joining the call. Starting tomorrow, a replay of today's call will be available at adm.com.

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

On today's call, our Chairman and Chief Executive Officer, Juan Luciano will discuss our strategy and how our acquisitions today align with it.

Then Vince Macciocchi, President of our Nutrition business unit will take you through the details of both agreements.



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Then Ray Young, our Chief Financial Officer will detail the financials of each deal.

And after that, we'll take your questions.

Please turn to Slide 3. I'll now turn the call over to Juan.

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

Thank you, Victoria. Welcome, everyone. We are very excited to discuss 2 important additions today. First, ADM has agreed to terms granting exclusivity in discussions to purchase Neovia, a global provider of value-added animal nutrition solutions.

Second, as we announced on Friday, we have reached an agreement to purchase U.K.-based Probiotics International Limited, known more widely by its umbrella brand, Protexin.

We'll talk about each of these deals in detail on today's call. But first, I wanted to spend just a minute to put them in the context of our overall strategy to create shareholder value.

Over the last several quarters, we've talked about how we have taken specific actions to grow our earnings power, focusing on strengthening of our business, even when global market conditions were weaker in 2016 and '17, which put us in the right position to capitalize on improving markets and deliver strong results in 2018 and beyond.

Those actions have all been within the framework of the strategy we first presented to you in 2014.

Today, we're continuing to optimize our core. We strengthened our based businesses with a clear focus on continuous improvement, cost savings and margin improvement. We are seeing the benefits of these actions, and they are one of the reasons we continue to be confident about delivering significantly improved results this year.

I spoke in detail last quarter about our focus on our second pillar, enhancing readiness. Readiness is not about incremental improvements. It's about fundamentally changing the way we do business, using technology, data and updated processes so that we're growing our earnings power as a result of the way we operate every single day.

Readiness is how we have taken our businesses to a whole new level of efficiency, speed and agility as we build the best organic growth machine.

Our third pillar is strategic expansion. Earlier this morning, we announced the formal launch of 2 new joint ventures. In Egypt, we have launched SoyVen, our 50-50 oil and meal joint venture with Cargill. This is a strong opportunity for us to expand into a new market with growing demand.

And we launched AKP, a 50-50 partnership with Aston Foods to provide starches and sweeteners to food and beverage customers in Russia, another important expansion into a new geography.

And of course, today, we're discussing 2 additions to our integrated nutrition businesses, Neovia and Protexin.

Slide 4, please. As you know, we're focusing our growth efforts on 5 key platforms that have potential to drive growth and returns. They are: Taste, Human Nutrition, Animal Nutrition, Health & Wellness, including bioactives and Carbohydrates. These 5 focus areas represent the logical next steps in our portfolio transformation. They are strongly aligned with consumer preferences and growth trends and feed our competencies well. The 2 transactions we're discussing today fall squarely into these priorities. Neovia will be a platform for growth and innovation for our Animal Nutrition business, and Protexin will fill out the commercial side of our bioactives' value chain in Health & Wellness.

More broadly, both of these additions show how we're building an important growth machine, our integrated Human and Animal Nutrition business units.

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Please turn to Slide 5. For the last 4 years, we have been significantly expanding our Human Nutrition, Animal Nutrition and Health & Wellness capabilities. Each of these business areas grew from places of existing ADM expertise. Our unparalleled portfolio of plant-based proteins, fibers, emulsifiers and texturizers were developed from our corn, oilseeds and wheat processing businesses and products and pointed the way toward the last 4 years of targeted expansion down the value chain into higher margin, differentiated products for Human and Animal Nutrition.

In each of the 3 nutrition areas, we have followed a strategic framework of investment: targeting key platforms upon which we build growth along with bolt-on acquisitions and organic growth projects.

In Human Nutrition, we started with the acquisition in 2014 of WILD Flavors and the ability to create natural flavor systems for food and beverages. We followed with acquisitions like Eatem Foods and Harvest Innovations and organic growth project, such as Campo Grande Specialty Proteins and our Tianjin Fibersol facility.

In Animal Nutrition, we have been building new plants in China and the U.S., and we acquired pet treat manufacturer Crosswind Industries. And now, of course, we're adding a platform for global growth and innovation in Neovia.

In Health & Wellness, which includes botanical extracts, specialty nutritional oils and our bioactives business, we acquired world-class probiotics R&D with Biopolis.

We then expanded our capabilities further through collaborations with Mayo Clinic and Vland Biotech and opened our new enzyme lab in California.

And now we are adding new capabilities, including an important commercial distribution channel with Protexin.

Earlier this year, we brought Human Nutrition, Animal Nutrition and Health & Wellness together under a single nutrition umbrella. Trends in Human Nutrition, such as clean label, natural ingredients and innovative solutions are being echoed in Animal Nutrition. And the same consumer preference for healthy food and drink is leading to demand for proactive nutritional solutions, bioactives and eventually the promise of personalized nutrition.

With our new integrated nutrition business, we are better able to benefit from those common trends using technologies and capabilities that expand our Nutrition platform to build an industry-leading integrated human and animal nutrition solutions provider. And Neovia and Protexin will be important steps in meeting those goals.

Slide 6, please. Let's start with Neovia. Neovia is a France-based provider of value-added animal nutrition products with sales of EUR 1.7 billion in 2017.

Neovia will be ADM's largest acquisition since we acquired WILD in 2014 and a transformative next step for our Animal Nutrition business. The addition will create one of the world's leading animal nutrition providers, with estimated 2018 combined revenue of \$3.5 billion. It would move us further down the value chain, adding substantial capabilities in the high-growth value-added additives, premixes, pet care and agriculture businesses. These transactions meet our strategic goal of geographic expansion, offer significant synergy opportunities, achieves our return objectives and provides a strong platform for future growth. All told, this will represent a major milestone in the execution of our strategic plan, the growth of our integrated nutrition business and the transformation of our portfolio.

Protexin represents an important expansion of our Health & Wellness platform. Biopolis brought us world-class bioactives R&D. Now Protexin's strong commercial presence will fill out the other end of the value chain: providing a channel to market that, when combined with Biopolis, will create a fully integrated probiotics and nutraceuticals business.

Now I'll turn the call over to Vince to discuss each acquisition in more detail.



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Vincent F. Macciocchi - *WILD Flavors GmbH - Global President*

Thank you, Juan. Please turn to Slide 7. Neovia is a leading international player in animal nutrition, headquartered in Saint Nolf, Brittany, France with about 8,200 employees. This footprint and capabilities include 72 production facilities and a presence in 25 countries, 11 R&D centers, 140 dedicated scientists and more than 40 partnerships with universities in 17 countries.

When we entered into this process, we saw a business with leading positions, a strong brand portfolio and a strategic focus on expansion in attractive and high-growth value-added segments.

As we carried out our due diligence, our positive impressions were confirmed. What we saw was a great company with the tremendous leadership team, deep global experience, a strong reputation in the marketplace, impressive innovation and R&D capabilities, and a global footprint that perfectly complements and expands our own.

Slide 8 illustrates what ADM and Neovia would look like together: a global leader in animal nutrition with a strong platform for continued growth.

When you look at the global picture for animal nutrition, you see the same trends that you see for human nutrition: growing demand, and evolving customer needs. Global animal nutrition sales totaled more than \$700 billion, with about 2.5% compound annual growth rates.

Much like human nutrition, animal nutrition customers are becoming increasingly health conscious and are looking for organic ingredients, antibiotic-free and non-GMO products and solutions tailored for their specific needs. Together, ADM and Neovia would be perfectly positioned to meet those needs for customers around the globe. Combined, the 2 companies would offer a differentiated portfolio of attractive and high-growth potential product lines crossing a broad range of species, including commercial stock, including poultry, swine, cattle and equine; pets, including dogs, cats and other companion animals; and aquaculture, including fish and shrimp. The 2 companies are highly complementary. Adding Neovia would add both geographic and product diversity to our Animal Nutrition business.

Neovia has a strong footprint in Western Europe, Latin America and Southeast Asia, while ADM's Animal Nutrition business is strongest in the U.S. and has a growing presence in China.

Neovia also has impressive capabilities in important value-added segments like pet care and aquaculture. And it offers a strong platform for growth, whether through future bolt-on acquisitions, the addition of solutions that can be applied to our entire integrated nutrition platform or through the innovation opportunities offered by substantial R&D resources.

Slide 9 details our expected synergies. We estimate EUR 50 million of run rate synergies by the fourth full year of ownership. On the revenue side, we expect innovation and R&D synergies with our other nutrition businesses. The opportunity to combine existing and new products and expertise to create both human and animal systems and solutions and cross-selling and expansion opportunities across products and geographies. All to all, we expect approximately 15% of our synergies to come from revenue. In terms of cost synergies, we are looking at the streamlining of direct and indirect purchasing and other expenses via integration into ADM's global operations. Optimization of the combined business' global footprint, implementation of ADM operational excellence standards and the leveraging of ADM's global scale, logistics infrastructure and processing footprint. We expect about 85% of our estimated synergies to come from the cost side. The cost to achieve expected synergies will be reflected in our operating and capital expenditures.

Long term, we expect to see ongoing benefits as our greatly enhanced Animal Nutrition business contributes to and benefits from its integration with our broader nutrition business.

Slide 10, please, and the second deal we are discussing today, Protexin. Based in Somerset, U.K., Protexin is the leading provider of probiotic supplements for human wellness as well as a variety of animal markets, including aquaculture, equine, livestock and companion animals. With sales into more than 60 countries, Protexin's offerings include the popular Biopolis brand of probiotic supplements along with contract-manufactured products. This acquisition represents an important step in our ongoing expansion into bioactives and novel ingredients.

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After the acquisition of Biopolis, we are continuing to accelerate our work in microbiome-based solutions for human and animal applications. We have a strong base, and we are building on it through our internal expertise in the field of enzymes, food ingredients, prebiotics and probiotics, our broadening the network of collaborations with academic centers of excellence, the acquisition of targeted assets and a development of diagnostic and monitoring tools to sustain a customized personalization of nutritional solutions.

Protexin is a key component to our expansion plans, offering an extensive sales and marketing network to partner with our existing R&D expertise and capabilities. By bringing these 2 sides of the value chain together, we are creating a world-class, fully integrated probiotics and nutraceuticals business.

Now I'd like to turn the call over to Ray, who will go through the financial aspects of each transaction.

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

Thanks, Vince. Please turn to Slide #11. We've agreed to terms granting exclusivity in discussions to acquire 100% of Neovia for EUR 1.535 billion, including assumption of approximately EUR 200 million of net debt. The transaction value reflects a 14.1x multiple of our estimated fiscal year 2018 EBITDA of Neovia. We would expect to realize run rate EBITDA synergies of EUR 50 million by the fourth full year following the close of the transaction.

When adjusted for expected synergies, the transaction's EBITDA multiple is about 9.7x.

We would expect the transacting to be GAAP EPS accretive in the first full year after close with a ROIC above ADM's long-term cost of capital by the end of year 3. This will be a cash transaction. There'll be no impact on our dividend policy, but we expect this deal to impact our perspective on capital spending in 2018.

This transaction is subject to customary employee consultations in France as well as regulatory approvals. Pending those actions, we would expect to close in the fourth quarter.

On slide 12, you see some details on our Protexin transaction. We have signed an agreement to acquire 100% of Probiotics International Limited for a GBP 185 million. The transaction value reflects a multiple of 16.2x the estimated fiscal year 2018 EBITDA and a 10.6x when adjusted for expected run rate synergies. We expect the transaction to be GAAP EPS accretive in the first full year after close with ROIC above ADM's long-term cost of capital by the end of year 3. We are targeting closing this deal in the third quarter, pending regulatory approvals. Now I'd like to turn the call back to Juan.

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

Thank you, Ray. Slide 13, please. We're excited about these additions and how they align with and will contribute to our strategy for value creation. We're expanding our geographic reach. We're moving further down the value chain. We're investing in 2 of our key growth areas. And we're building a world-class nutrition business that is increasingly contributing to our earnings.

As you'll see on the chart, if we look back to 2014, the year we bought WILD, our Nutrition business, as currently configured, will have contributed about \$250 million in adjusted operating profit. With the additions and investments we have made since then, including the ones we're announcing today, our 2017 adjusted operating profit on a pro forma basis would be well over \$400 million, and the percentage contribution of our Nutrition business profits would more than double from 7% to 15%.

Back when we bought WILD and embarked on this journey, we told you it was an exciting time to be at ADM, and with addition like this, it is -- it still is. It's a time of change and of growth. From readiness to the acquisitions we are announcing today, we are continuing to drive returns and EVA growth, create shareholder value and build a great and enduring company.

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



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QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question will come from the line of Adam Samuelson with Goldman Sachs.

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

I guess, a little bit -- first, I was hoping for a little bit more color just on the growth this business has generated over time. And then on the margin structure, the transaction multiple implies about a 6.5% EBITDA margin. I'm guessing that's because it's a feed premix and so there's just a lot of cost plus on the purchase feed in that. But help me just think about the margin structure and how that -- gross margins, R&D, percentage of sales. And how should we think about that in the context of just being a targeted as a more value-added business?

Vincent F. Macciocchi - *WILD Flavors GmbH - Global President*

Adam, this is Vince. And so thanks for the question. In terms of the margin structure, you're right, in terms of the existing portfolio lends itself to EBITDA margins that you suggested. What were -- we really see the opportunity is the combination and the integration of those product lines into our more nutrition overall solutions-based approach, system solutions, the opportunity to increase margins. As you saw in the information that we presented, there's the convergence of the animal and human and the opportunity to create systems and value add up of the entire segment. So that's an area we're extremely excited and optimistic about our ability to improve.

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

And then, the growth of the business has generated over the last couple of years. And do you know what -- can you disclose what R&D is for the business?

Vincent F. Macciocchi - *WILD Flavors GmbH - Global President*

So from an R&D basis, as we mentioned, they have over 140 scientists, 11 R&D and innovation centers, and the business has continued to grow organically and via acquisition.

Operator

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

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

So a quick question on Neovia. Can you give us a sense on a pro forma basis -- currently, on a pro forma basis, what portion of the business would be like livestock versus aquaculture versus companion animals?

Vincent F. Macciocchi - *WILD Flavors GmbH - Global President*

That's contained in our debt as you saw, and I can refer you to...



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

I saw it for...

Vincent F. Macciocchi - *WILD Flavors GmbH - Global President*

Slide 7.

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

Oh that's proforma. I thought that was just for Neovia.

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

That's for Neovia. You've --- still like when we're combined with ADM, Heather?

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

Yes. Yes, pro forma combined numbers.

Vincent F. Macciocchi - *WILD Flavors GmbH - Global President*

Yes, so on a combined basis, estimated revenue would be \$3.5 billion for the combined company, both ADM Animal and Neovia combined. And as we eluded to you in the opening, Neovia sales were EUR 1.7 billion in 2017.

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

Yes, I think I wasn't clear in how I asked. I was wondering could you give us a breakdown of that \$3.5 billion. What proportion of that would be livestock versus aquaculture versus companion? The combined \$3.5 billion. Do you have those figures?

Vincent F. Macciocchi - *WILD Flavors GmbH - Global President*

We have it for Neovia. We do not have it on a combined basis.

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

We'll follow-up with you afterwards on that.

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

Okay, perfect. And my second question is so you're now, on a pro forma basis, about 15% nutrition. If I remember correctly, I think, you all are targeting 25% plus. So I was wondering to get there. Do you think you can do that organically or through a series of bolt-ons? Or do you anticipate another relatively large-scale acquisition to get you there?



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

Yes, Heather. I try to describe in my initial remarks the way we think about building this platform, which is we continue to unveil 3 pieces of that, one is, every now and then, in one of these, we're going to need a platform like we did with WILD Flavors, now we do it with Neovia. We may do what we like we did with bioactives in -- with Biopolis. Then we do bolt-ons that are just a method of cover-specific gaps as a product of geography gaps. And fundamentally, we try to build our organic growth. So we use that blended approach to make sure that we keep our returns objectives and we develop our strategy. So I would say if you think about the large acquisition that we made in this space within 2014, so we keep a pace for these. We need to make sure that we see the EBITDA going into the bottom line before we jump into the next one. But then, we have gotten very good at doing these bolt-ons and tagging them quickly into our system. And we balance all that with the organic growth, which have provided very large potential earnings stream that will come either through Campo Grande or Tianjin. So I will say it's a mix of that. There's not a rush to get to any specific number or at any point in time. We're thinking about long-term value creation. And mostly, Heather, we're excited about the growth opportunity here. These are 3 segments where consumers are demanding changes. And that hits perfectly well into the sweet spot of ADM, bringing their technology and solutions to bear into that space.

So they are not only growing, but there is an opportunity for differentiation. So we're building our capabilities and -- as we go, and we feel comfortable that we will hit 25% of our profits over the cycle at the right time with the right metric.

Operator

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

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

Just out of curiosity. I'm looking at the breakdown of Neovia's business, and conspicuous by its absence, there is no U.S. exposure. And then you talk about ADM's core business being primarily U.S. and China. Is there any reason, are there any barriers to entry for these businesses that make them so regionally focused and not global in nature?

Vincent F. Macciocchi - WILD Flavors GmbH - Global President

Ann, this is Vince. No, I think it's really kind of how we built our business. When you look at the ADM business focused primarily on amino acids as well as some premix complete feed. And then, obviously, moving into the value-added pieces of pet and ultimately, aqua. So with our business primarily being U.S.-based and now we've expanded it into Asia, I think, it just lends itself to the complementary nature of the deal and the complementary nature of where Neovia is strong when you look into Western Europe and South and Central America and other parts of Asia. I think, the combined complementary pieces of the business will end themselves to give us a full global platform on a worldwide basis that's poised for growth.

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

But there are no FDA reasons or no proprietary reasons why Neovia has no U.S. exposure?

Vincent F. Macciocchi - WILD Flavors GmbH - Global President

No, absolutely not. It's a business that started in France and actually does 80% of its business outside of France and is truly on a global basis. And the future was planning further expansion into other regions, but it obviously fits very nicely with where we're already at.



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

Okay. Then my follow-up would be around the balance sheet post close. What -- how should we model leverage ratio, et cetera, et cetera? Any significant changes?

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

Well, our leverage will go up temporarily, Ann. As you know, we're generating strong cash flows, especially in the context of the current environment of ADM. We're going to have a very strong 2018. We will be generating a lot of cash. I mean, given where commodity prices have fallen off, our working capital, it actually coming down actually as well. So -- and you should probably expect as we'll probably raise some debt, take advantage of really the lower rates that we're starting to see. We haven't defined the plan. You can actually see -- Euro rates are actually remained very, very low. So we will probably raise some debt in order to finance the transaction, but overall, the balance sheet is going to remain strong. We will rapidly deleverage after the acquisition.

Operator

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

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

I was just looking at the pie of what your earnings stream will look like pro forma for '17 with 15% of it from nutrition. If you look at 2018, it's going to be a lower number, probably 13% just because the commodity parts of your business are going to be much stronger in '18. And I guess, I look at that as kind of a blessing but also a curse in a way because I feel like the market's not giving you a very high multiple for origination, carbohydrate solutions, oilseeds. And so this is definitely a step in the right direction to take you more into value added. But I guess, the 2 questions are, years ago, Juan, you put out, kind of, a \$4.50 earnings kind of long-term target that I think was kind of aspirational. So I'd like to know do these deals get you closer to that. And can you see yourself getting more up to that level? And then secondly, just this pie, could you foresee this being 30% kind of value added some day? Does that require a lot more M&A? I guess it does. What's your longer-term vision for how high value added could be?

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

Sure, so first of all, let's divide a couple of things. If you think about our base business, our base business had leadership positions in all their markets and they continue to be strong and strengthening. We went through this down part of the cycle in 2016 and '17, and we fared very well. And now we're enjoying some tailwinds. And you're going to see us getting back to delivering all that earnings power that we felt we had.

So what we're doing here is every business is going closer into the customers. We've done that in AG services with destination marketing. We've done that in oilseeds with edible oils and blends. We've done that in carbohydrate with specialty starches and specialty sweeteners.

So what we see in nutrition is the opportunity to take some of those customers and some of those products and actually profit from those competencies being applied to high-margin and high-growing businesses. That, maybe, we didn't have before in our base.

So what do we see that when we forward our projections, we see that could become 25% of our mix over the cycle, as you said, when there is the up cycle in the commodity part, those percentages might be different than we are in the down cycle. But we think that over time, since nothing stays the same, we will get to that level. So whether it's 25% or 30% directionally, it will be on how do we seize the opportunity to growth in those areas, and I explained to Heather, we're going to do it 3 ways: every now and then we're going to do platform acquisitions; we're going to do several bolt-ons as we need to fill gaps; and we're going to do organic growth.

Regarding your comments about \$4.50, what we did at that point in time is we tried to quantify the value of our strategy. And what we said at that point in time is since the base at that point was about \$3, we said, there were 4 pillars to get to that \$1 to \$1.50 of incremental value. Those 4 pillars,

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I can remind everybody, were, one was the WILD Flavors acquisition, it was about \$0.10 accretion per year over 3 years, and we achieve that. The second was about operational improvement. See it was about \$100 million per year. And we are running probably slightly north of that. So it's been very good. The third bucket of that was a group of organic growth and the small bolt-on acquisition, growth project, if you will. They were about 15 or 16, and they had a different point in their evolution of those. But when you have a portfolio of 15, 16, it's a relatively safe portfolio that will deliver over time. So some of them are organic growth and maybe more in the -- more back-end loaded, if you will, in those 3 years. But that's a very good. And the fourth one was buyback shares, and we achieved that.

So I will say, strategically, we have delivered in those 4 buckets, and now when you see the recovery of the base that -- so we feel still directionally correct into that. We're not going to call it on exact day that, that's going to happen. But that's the direction we're taking. And we feel good about how we have implemented.

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

So Juan, it sounds like all 4 of these things have been achieved and the environment is better, and you have some more accretive deals here. I mean, it sounds like you're there. So my...

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

It sounds like we just feel very good about the future, not only about '18 but also '19 and '20. That...

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

Okay. Was there anything missing from the \$4.50 -- of the 4 things you achieved, was there anything missing? Or has everything been achieved?

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

I think, of 4 things that we said to achieve, they were all achieved. As I said, I think some of the organic growth project take a little bit longer. Rob, if you think about Campo Grande. Campo Grande are basically 6 plants. It takes a full year because one plant's output is the input of the next one. So it takes a full year into getting them to work. So the plant is working now. We're going to be building up that plant. So has it contributed in the past? It has not. It will contribute into the future. So with those dynamics -- the issue with organic growth is more value creating in the long term sometimes but what happen is you have 18 months that you're building a plant, and then you have another 12 to 18 months until you make money with the plant. So it takes you about 2, 3 years before you do that. But everything is aligned in that regard. So we feel good about it.

Operator

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

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

My question is for Vince while we have the opportunity to have him on the call. Vince, the U.S. business is -- now they don't have a large U.S. business, and I believe you stated that you felt that about 15% of the synergies would be more revenue related. Is there products that you can bring in from France and elsewhere in the world into the U.S. that might be different than your amino base -- your amino acid-based-type products. It would seem that you potentially would have better revenue synergies, but I'm always very careful with revenue synergies. It's sometimes the figment of one's imagination. So I understand why you'd want to be conservative. But is there a real opportunity in the U.S. with their products?



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Vincent F. Macciocchi - *WILD Flavors GmbH - Global President*

Yes, Eric, there absolutely is. And you're right about revenue synergies. And I feel like we have good experience from our previous acquisitions and accomplishments in terms of revenue synergies, so we know what it takes to achieve those. But if you look at more broadly on a worldwide basis and some of the things they would bring in, not only from France, but on a worldwide basis, when you'd think about some things in the aqua area, in terms of fish and shrimp, you think about complete feed, you talk about the equine, you talk about a lot of areas where we're not currently playing. There's tremendous opportunity to bring those products and portfolios into the U.S. And then more importantly, where we always kind of stay grounded is in solution selling and selling systems broadly across the entire portfolio.

So yes, I think we're confident in the numbers that we've indicated from a revenue synergy perspective.

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

Okay. And then the second question, which is kind of related to that. When you look at the competitive set across all the countries that you're not going to be operating in, I would assume that some of your major competitors continue to be the Cargill, the typical players that we're talking about. So can you talk a little bit about what the competitive nature of these -- where you set? What your share positions look like? Where you feel your strongest markets are -- just broadly?

Vincent F. Macciocchi - *WILD Flavors GmbH - Global President*

Yes, so I think, Eric, it certainly puts us as one of the leaders in terms of the marketplace. And when you think of where everybody plays, again, for us, it's really about pet care, it's about aqua, it's about additives and ingredients and the premix business and really driving those increased margin businesses in a complementary way to what we're already doing.

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

Okay, that make sense. And then just a final question, I mean, this has been -- I think one of Juan's goals for some time is to reduce the volatility of earnings and he's been -- Juan's talked about that for a long time. So you -- we kind of -- came up earlier was sort of the EBITDA margin of let's say roughly 6.5% and maybe, you get a chance to improve that. Is that a pretty stable margin over time? Do you get pricing if you get some input cost inflation? Can you describe a little bit more -- is this more of a -- how much more of a consumer driven type business is this as opposed to, obviously, origination and oilseeds and stuff like that which are pretty like commodity? Can you give us an idea of how sticky those margins are?

Vincent F. Macciocchi - *WILD Flavors GmbH - Global President*

Eric, I would say they're extremely sticky. Certainly, to your point, we will have some volatility in input costs and things like that. But on a go-forward basis and where we plan to take the portfolio, we do really believe there's great margin stability and the opportunity to margin up these businesses as well. Again, where we're going to play as you get in the systems and the space, those things, obviously, carry higher margins than complete feed, for example. So as we begin to transform the portfolio of our overall Animal Nutrition business, we're going to see some margin opportunities.

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

Okay. Then just the final question. Is Neovia -- are they already pretty much a systems-driven business model and platform that you can learn from? Or can you bring some of that to them? I mean, how do you view Neovia from those types of capabilities?

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Vincent F. Macciocchi - *WILD Flavors GmbH - Global President*

Yes, it's actually both. And when we had the management presentation at their headquarters, I had some great interaction with their leadership team. And one of the things they were heavily focused on already within their own portfolio was creating systems and bringing total solutions to the various markets and various segments in animal nutrition. Obviously, we couple that with what we're doing. And think about, there's a great opportunity on flavors and colors and some of the specialty proteins in areas we have to combine with some of the products that are existing in both portfolio. So -- but they did have a very good value-add approach, great innovation capabilities and R&D capabilities. So we're excited about the opportunities.

Operator

Our next question will come 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*

Just a couple of questions. What did you say the actual accretion was for the Year 1?

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

It's going to be a positive on a GAAP basis. So it is a positive number. I guess my guidance to you guys, as you kind of think about this business, is as we indicated, we will be achieving our long-term WACC in year 3, which is 7%. So when you actually put it through your models and with the amount of invested capital we'll put in the business, which -- on a U.S. dollars basis about \$1.8 billion. If you run that number through -- we'll probably have some interest expense associated with the deal, you'll probably get yourself -- we'll probably get ourselves towards the midteens cents per share by the time you get to year 3, when actually put it through models there. So you can see, it's actually, from an accretion perspective, kind of roll this business. Starting in 2019, it'll be positive on a GAAP basis and grow ourselves towards the midteen cents per share, tap a number. And that would be consistent with achieving like a 7% ROIC by year 3.

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

Okay. But the first year sounds like it's modest, like it's on the -- where it's like \$0.01 to \$0.03 accretive. Now it's not...

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

It's probably on the higher end of your number there, Ken.

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

And then the second question is the 6% -- 6.5% EBITDA margin, I'm confused, why is that so low? And if it's a value-added business, why would you not aspire to make that closer to like a 10%, 12% EBITDA margin? What's the impediments to doing that? It just seems -- when I think of value-added business, I'm not sure if I think of it as 6.5%?

Vincent F. Macciocchi - *WILD Flavors GmbH - Global President*

Yes, Ken, this is Vince. The opportunity is to put it all together, and I think as we transform the business, when you really look at the current construct with a heavy reliance on complete feed and premix, we're going to shift that. As we focused into pet, we focused on aqua, we focused on more of the additives and ingredients that will be a natural occurrence to raise the margin. So it's really kind of the existing portfolio that's already in process of being shifted.



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

So in 5 years, what would you envision the -- and again, let's say, x the synergies, which again, is another question I'll have, but x the synergies, where will the margin structure of this underlying business be? Is it a 10%, 12%? Or -- and how long will it take to get there? And then the other question I have is why are the cost synergies so low?

Vincent F. Macciocchi - *WILD Flavors GmbH - Global President*

Yes. I think there's opportunity, obviously. If you -- obviously, we have to dig into the portfolio, but there's opportunity, certainly, by the end of the first year of fully operating the business to margin the business up anywhere between 8% and 10% margin range, which we have talked about. And on the cost side, we actually think the cost side, there is -- we detailed a significant amount in terms of when you really get into the ADM system from a procurement spend side of things, optimization of the global footprint, leveraging our operational excellence, capabilities, our logistics infrastructure and all those things, there will be, certainly, realizable cost synergies. And again, we took an approach to synergies where we are confident and comfortable based on our -- some of our prior experiences as well.

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

Okay. And then my last question is what is the underlying growth rate on the top line? Or volume line? What has it been? And where do you think it's going to be?

Vincent F. Macciocchi - *WILD Flavors GmbH - Global President*

Yes. So when you look at the market as a whole, the \$700 billion Animal Nutrition space growing at a growth rate of 2.5%, we obviously expect to exceed that and exceed the marketplace growth from that standpoint.

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

What was...

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

That's a perspective candidate. The 5-year historical CAGR on revenue has been about 8% per annum. That's look -- that's the lookback.

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

Right. And then would that be the rate that you'd expect, given all the revenue synergies, the growth, the mix, all of the stuff, is that the ongoing rate? Or is there a reason that, that should not be the case? And I'll leave it there.

Vincent F. Macciocchi - *WILD Flavors GmbH - Global President*

Yes. I think there is no reason why that wouldn't be the case. We would absolutely continue and hopefully, further grow. Again, we have to get inside. Once we expect the business to close and get inside and do a deeper dive, but we would certainly expect to close and increase that based upon our overall capabilities.



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Operator

Our next question will come from the line of Farha Aslam with Stephens Inc.

Tim Perz

This is Tim on for Farha. Can you just talk about what makes animal nutrition an attractive space in the long-term? And some of the key underlying demand drivers of the business? And how that fits into, I guess, the existing Animal Nutrition portfolio for ADM?

Vincent F. Macciocchi - WILD Flavors GmbH - Global President

Sure. Yes, we have -- we find animal nutrition very attractive. And I think it's some of the things we discussed earlier, but I think one key component is really when we talk about the convergence of humans and animals in evolving customer needs, when you talk about non-GMO, you talk about clean label, you talk about healthier solutions. That's what's really exciting. And what's more exciting than that even is the combination of our entire portfolio as if exist in Nutrition. Juan talked earlier about the 5 growth platforms for our company. They can all be incorporated into the animal nutrition space.

So great opportunity, and that's obviously why we're very excited. And I think, the other piece that's very exciting to us is that now we are complete provider on a worldwide basis in this segment.

Tim Perz

Great. And I just had one follow-up question. How are you thinking of the cadence of the synergies? So they would be split pretty evenly among the 4 years? They are more front half or back half loaded?

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

Yes, I think that like you said, by year 4, we'll be up to about EUR 50 million, as Vince indicated, roughly 85% cost, 15% revenue. How I'd be thinking about this thing is probably fairly, fairly even in terms of the step up every year. That's how we're thinking about at this point. And actually, we would like to probably bring up as fast as we can but at least, for now, in terms of how we're modeling, it's kind of a steady step up over the 4-year period.

Operator

Our last question will come from the line of David Driscoll with City.

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

So I just wanted to ask when we look at that slide that you have, the 3 pieces of the Nutrition businesses, Human Nutrition, Animal Nutrition, Health & Wellness. Can you break down the approximate revenues in each of these pieces? Because I feel like the human nutrition, WFSI, really big segment, you've got scale there. In Neovia, you've given us the numbers here today. That's a big piece. I'm just curious, Juan, about the Health & Wellness side. Just is it big enough to have the right scale that you'd need on a go-forward basis. But if you could just give us the percentages so that we're all tracking a little bit with how the composition of Nutrition is post the deals?



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

Yes. Well, so you know WFSI is about \$2.5 billion. Animal Nutrition, with this acquisition, will be about \$3.5 billion. And Health & Wellness, I would say, at this point in time, is running between \$150 million and \$200 million revenue per year. We expect that to be in the range of about \$450 million to \$500 million by 2021, something in that range. And I would say, the issue, the big difference here is that the 2 segments are, although, we are breaking new ground and pushing into systems, they're already developed market. The area of health and wellness, especially, in the bioactives and with all the new knowledge that we're getting into the microbiome every day, there's an opportunity to create the market there. And so at this point in time, we don't feel that we are not in a scale when compared to the market, if you will. We're probably not in a scale, when compared to ADM as you compare with the other massive business that we run. So we will continue to build it. And it will be built, as I explained before, they build with the same combination of, if we find platforms that make sense, but we're not going after site. You saw Biopolis, for example, one of the greatest acquisition we will ever make, great technology there and relatively small, but the ability to take that technology and take it like to 8 different markets is spectacular. The issue now is as we have like 8 different markets that we can go into, create value into that, we may need different partners and different channels to create. So you can go all the way to testing people and making money by testing people or by selling kits or by selling nutraceuticals or by selling probiotics or by selling additive foods, there are many things that we can do. And we will be finding our way to create those different 8 businesses around that platform. So it will take time, and it will take patience, but we think it's very value creating and it's very high growth area. So I will say we are not seeking a specific area. That's a very focused group. They are value add, and we feel that we build the capabilities for that to become a platform that ADM will profit for many years to come. And as it happened with Animal Nutrition, all of a sudden, we're going to find the right piece that will create the science, if you will, that maybe it will start becoming more a needle mover for ADM. From a value perspective, we always have these incubators inside, if you will. Before 2014, we had a very vibrant specialty proteins business within oilseeds. And then when we acquired WILD Flavors, it became WFSI. To a certain degree, we have the same with some of the premix feed that we have in Animal Nutrition now with Neovia, then you become WFSI. So that's a little bit what's happening in health and wellness. There is a little bit of an incubation process. And it's a very thoughtful process on how to leverage that technology into many, many different markets that are growing very fast and that today don't have an undisputed leader. And we think we can create that.

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

Then just a follow-up here on the integration. When you guys did some of the bolt-ons and SCI particularly, comes to mind, there were some difficulties on that integration. Can you just make some comments about your confidence on integrating these businesses and the kind of the 1-year forward plans? I just remember that you had some difficulties on those things, and it turned out a bit different than what you had expected. But Neovia, it feels like it's going to be pretty nice standalone piece inside of nutrition, but I just don't know how much integration actually has to go on that piece of the acquisitions that are occurring today.

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

Yes, and David, let's put it in perspective because we've been very candid about our difficulties in SCI. But SCI was 1 out of like 8 to 10 acquisitions that we made over these years. And remember, we have the same concerns about how a "commodity" company like ADM will take on a specialty company like WILD Flavors. And if I remind you, WILD Flavors have been growing 20% per year since we've taken over there. So I think that all the other acquisitions, we've done a very good job of that. And when we look at their management team, the chemistry with our management team, their talent we are acquiring with the Neovia management team, we feel very good about how they are thinking about the business, the complementarily of not only geographically but our business model. Of course, before we make an -- a bid for any company or an attempt, we look at all those things and the probability of that being a big mix, a good mix for the future. And we feel extremely strongly about that. So I think we learned a lot and we have a very good track record of doing this thing. So we don't feel that, that scenario, we should worry too much about it. Of course, we're going to put a lot of effort into making sure that goes as expected.

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

Last question from me is just the growth rates again. I think you guys said that the trailing you look at Neovia was an 8% CAGR. And then I think, you were intimating that maybe something in that zip code is okay, given the growth that WILD Flavors and Neovia, that would put this entire



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segment at a high single-digit rate of top line growth and maybe operating profit's even stronger, given all the startup expenses that have been running through the organic growth projects. Ray, can you square me up if I'm off on any of piece of those statements?

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

No, I think, again, we're going to see good top line growth. I do believe, for example, this year, the leakages, as we've talked about last year, we'll actually -- we're managing those leakages, any other startup cost associated with Campo Grande and Tianjin Fibersol. We're managing those costs. And so from our perspective, we feel good about the growth prospects in the Nutrition business.

Operator

And we'll now turn the call back over to Juan Luciano for any closing remarks.

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

Thank you, Regina. So thank you for joining us today. As always, please feel free to follow up with Victoria if you have any other questions. And have a good day, and thanks for your interest in ADM.

Operator

Ladies and gentleman, this concludes today's call. Thank you all for joining, and you may now disconnect.

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