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PRESENTATION

Operator

Good morning, and welcome to the Archer Daniels Midland Company Second 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, Victoria de la Huerga, Vice President of Investor Relations for Archer Daniels Midland Company. Ms. de la Huerga, you may begin.

Victoria de la Huerga *- ADM - VP Investor Relations*

Thank you, Jack. Good morning, and welcome to ADM's Second 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 risk and uncertainty. ADM has provided additional information in its reports on file with the SEC concerning assumptions and factors that could cause actual results to differ materially from those in this presentation, and you should carefully review the assumptions and factors in our SEC report.

To the extent permitted under applicable law, ADM assumes no obligation to update any forward-looking statement 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 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, Victoria. Good morning, everyone. Thank you all for joining us today. This morning, we reported second quarter adjusted earnings per share of $1.02, up 79% from the year-ago period. Our adjusted segment operating profit was $924 million, up 40% from the second quarter of 2017. And we generated positive EVA with a return on invested capital well above our WACC.

Our team performed exceptionally well, meeting our customers needs and showing the strength of an increasingly efficient, balanced and global portfolio. We continue to accelerate the execution of our strategic plan: Optimizing our core, driving efficiencies and expanding strategically, and delivered the series of important accomplishments in the quarter and first half of the year.

In the first 6 months of 2018, among the businesses we've targeted for improvements, profitability has gone up $150 million, representing about half of our operating profit improvement over the first half of 2017, with Global Trade, lysine and South American Origination all contributing to our improved profitability. And we now have completely, the divestiture, of our Bolivian Oilseeds business.

Over the first 6 months of the year, our operational excellence initiatives have delivered cost savings of more than $150 million on a run rate basis and are on pace to exceed our 2018 target of $200 million.

We also continue to execute on the 5 key growth platforms that can help us grow earnings and returns: Animal Nutrition, Health & Wellness, carbohydrates, Human Nutrition and Taste.

In Animal Nutrition, we announced the proposed acquisition of Neovia last month, which, when completed, will give us a leading global Animal Nutrition business and a strong platform for future growth. We also opened 2 new state-of-the-art Animal Nutrition facilities in the U.S. in the quarter.

In Health & Wellness, we are adding a strong customer channel to our existing R&D capabilities with the announced addition of leading probiotics company, Protexin.

In Taste, we announced the acquisition of Rodelle, adding a sustainable supply of vanilla products to our industry-leading portfolio of natural flavor solutions. We also continued to expand our geographic reach in markets that are seeing increasing consumer demand, launching our Starches and Sweeteners joint venture with Aston Foods in Russia and our Oilseeds joint venture with Cargil in Egypt.

Another key to our future success will be advancing our readiness efforts, which we spoke about last quarter. Prior to readiness, we largely focused improvement efforts within individual business within units and functions to make sure they set the competitive standard in their fields. But there are more opportunities to make ourselves even better by looking across the entire company. That's what readiness is about, driving standardization and the sharing and leveraging of best practices across ADM to build the very best company.

Readiness will help the company in 2 fundamental ways. First, it will boost our ongoing operational excellence and efficiency efforts. And second, it will leverage resources to focus on growth. We are moving very quickly on these efforts. We have completed our assessment phase and we're now into implementation. More and more colleagues around the globe are engaging in the effort. Our teams are already identifying individual initiative that will help drive improvement. And we have created the governance structure to ensure that the changes we make lead to sustainable, lasting impacts.

We're excited about readiness, and we see great potential to drive future earnings power and build a great and enduring company. Later on this call, I will discuss the outlook for our business, but now, I'll turn the call over to Ray.

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

Yes. Thanks, Juan. Slide 4 provides some financial highlights for the quarter. Adjusted EPS for the quarter was $1.02, up significantly from the $0.57 in the prior year quarter. Excluding specified items, adjusted segment operating profit was $924 million, up $266 million from the year-ago quarter.

The effective tax rate for the second quarter was approximately 13%, down from approximately 28% in the prior year due mainly to U.S. tax reform, which reduced the federal income tax rate from 35% to 21%, the 2017 biodiesel tax credit recorded in the first quarter that impacts our overall calendar year rate and certain favorable second quarter discrete tax items. We expect our effective tax rate for 2018 to be between 16% and 18%. Looking beyond 2018, we would expect an ongoing effective tax rate to be between 17% and 20%.

Our trailing 4-quarter average adjusted ROIC of 7.3% is more than 100 basis points above our 2018 annual WACC of 6.25%, thus, generating positive EVA of approximately $275 million.

On Chart 16 in the appendix, you can see the reconciliation of our reported quarterly earnings of $1 per share to adjusted earnings of $1.02 per share. For this quarter, we had $0.02 per share credit related LIFO, a $0.03 per share charge related to impairments and restructurings and $0.01 per share charge related to discrete tax items.

Slide 5 provides an operating profit summary in the components of our corporate lines. In the other segment, results increased on stronger ADM investor services earnings due to higher short-term interest rates. In the corporate lines, net interest expense for the quarter was down largely due to a lower tax-related interest expense and interest income related to a tax credit. Unallocated corporate cost of $180 million were up versus the prior year due to higher accruals for performance-related compensation in light of a more favorable financial outlook for the calendar year.

Turning to our cash flow statement on Slide 6. We generated $1.1 billion from operations before working capital changes in the first 6 months of the year, slightly higher than the prior year. As we mentioned last quarter, 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 earlier in the year.

Total capital spending in the first 6 months was $379 million, in line with our expectation for the year. We returned approximately $379 million of capital to shareholders through dividends. Therefore, we again had a balanced approach towards capital spending, return of capital to shareholders.

Slide 7 shows the highlights of our balance sheet as of June 30, 2018, and 2017. Our balance sheet remains solid. Our operating working capital of $7.7 billion was up approximately $700 million versus the year-ago period, with about 1/2 related to prepayments to South American farmers for spot grain purchases stemming from the recent Brazilian trucker strike, which delayed our ability to take fiscal delivery immediately.

Total debt was about $7.6 billion, resulted in a net debt balance of $6.8 billion. We finished the quarter with a net debt-to-total capital ratio of about 27%, in line with the year-ago quarter. Our shareholders' equity of $18.7 billion was up from the $17.4 billion last year, primarily due to net earnings in excess of dividends and share repurchases. We had $6.1 billion in available global credit capacity at the end of June. If you add the available cash, we had access to $7 billion of short-term liquidity.

Next, I will discuss our business segment performance for the quarter on Slide 8. In the second quarter, we earned $924 million of operating profit, excluding specified items, up from the $658 million in last year's second quarter. Looking at the first half of the year, adjusted operating profit was $1.6 billion, up 23% from the prior year.

Now I'll review the performance of each segment. On Slide 9, Origination results were up significantly over the second quarter of 2017. Merchandise and handling was up substantially year-over-year.

The short crops in South America, as well as increased purchases from that region by China in anticipation of tariffs, offered motivation for other buyers to come to the U.S. The result was significantly higher volumes and margins for corn, wheat and soybean exports. The team also managed risk extremely well, resulting in solid basis gains during the quarter. And the business benefited from the reversals of some timing effects from the prior quarter, which was accelerated compared to our assessment at the time of our first quarter earnings call.

Global Trade continued its progress as its execution and diversified earnings base favorably contributed results. The team executed particularly well during the China sorghum situation, making swift and smart decisions to mitigate some of the negative impacts, which as a result, turned out to be a bit smaller than we expected on our last call.

Ocean freight was up for the quarter, and destination marketing volumes continue to grow. Volumes should be more than 19 million metric tons this year, nearly double the 10 million metric tons in 2014. Transportation was significantly higher, driven by increased volumes as U.S. waterways returned to more normal conditions. Transportation also benefited from ARTCO's growing business in backhaul freight and Stevedoring, the latter, which has become a significant contributor to ARTCO's overall business. In fact, our Stevedoring trucking and warehousing businesses all turned in record profits for a second quarter.

I'd like to grow -- note the growth in destination marketing and Stevedoring, particularly. These are examples of the great job the Origination team is doing to invest in changes that are structural in nature and help to diversify and provide more stable earnings for the Origination business.

Now to Slide #10. Oilseeds results were also significantly higher versus the second quarter of 2017. The Crushing and Origination business did a great job delivering on continued strong global demand for soybean meal. Around the globe, the team ran our assets hard, setting a second quarter record in crush volumes amid a very favorable soy crush margin environment.

In South America, high Brazilian Origination volumes and improved margins, largely driven by a more aggressive farmer selling and robust demand from China, contributed to strong results. And the team managed it well through the Brazilian trucker strike, limiting its impact on results. The expected reversal of timing impacts from the first quarter and new negative timing effects at the end of the second quarter resulted in a net positive.

Execution was also strong in RPBO, which was higher year-over-year as our value-added businesses continued their growth grow. We saw solid margins in strong volumes in our refined and specialty oils businesses, with North American refined oils delivering a great performance on higher volumes. Those results were partially offset by weaker earnings in Golden Peanut and Tree Nuts.

Asia was lower on Wilmar results.

On Slide 11, Carbohydrate Solutions results were down modestly versus the second quarter of 2017. There's another important execution story to tell here. In the second quarter, we identified some important upgrades we needed to make at our Decatur corn complex to ensure it continues to set to competitive standard for wet mills. We had some downtime which has resulted in higher manufacturing costs, which will again in the second half of this year as we advance this work. Our teams have managed exceptionally well around the impacts of those upgrades. In fact, outside of Decatur, manufacturing cost improvements in Carbohydrate Solutions business had been coming in ahead of our projections, helping to partially offset the cost of the downtime.

Starches and Sweeteners was down versus the prior year period. Fundamentally, the underlying Starches and Sweeteners business is solid. North American liquid sweeteners were in line with the year-ago period with volumes comparable to last year. Absent the downtime, our North American Starches and Sweeteners results would have been up versus the prior year. Globally, starch volumes and dry sweetener margins were strong in the quarter, leading to good performance.

The end of the EU sugar regime and the delay in the implementation of the lifting of the quotas in Turkey negatively impacted results in European liquid sweeteners, partially offset by contributions from our Chamtor acquisition.

Flour milling was impacted by some negative timing effects that will reverse in the coming quarters and lower volumes in our Caribbean operations. Bioproducts results were down primarily on lower ethanol production volumes and higher cost due to the already mentioned plant downtime. Execution margins for ethanol were lower versus the prior year.

On Slide 12, Nutrition delivered 7% revenue growth on a constant currency basis and more than 20% operating profit growth over the year-ago period. WFSI earnings were up substantially versus the second quarter of 2017, with all 3 businesses, Specialty Ingredients, WILD Flavors and Health & Wellness, delivering improved sales and results year-over-year.

Specialty Ingredients benefited from the improved volumes and margins in proteins, higher margins in emulsifiers and increased contributions from fibers. New customer business and an improved portfolio mix boosted sales and margins in WILD Flavors. And Health & Wellness group delivered good results, led by margin improvements in bioactives.

Animal Nutrition results were higher year-over-year, driven by stronger performances in lysine as well as in pet premix and treats.

These results demonstrate that our value proposition is resonating well with our customers as they address consumer needs. Now I'd like to turn the call back over to Juan.

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

Thank you, Ray. Please turn to Slide [9] (corrected by company after the call). Looking ahead for each of our businesses, in Origination, we expect higher results for the third quarter versus the same period in 2017 despite the faster reversal of the timing impacts.

For the year. The continued impact of the short crops in South America and growing contributions from some of our more value-added businesses, like destination marketing and Stevedoring, should continue to support strong performance. We expect Origination to have a very strong calendar year 2018, well above our expectations at the beginning of the year.

In Oilseeds, we expect third quarter results to be substantially higher than the third quarter of 2017 as the team continues to deliver strong crush volumes in a robust soybean crush margin environment. For the full year, we should continue to see the benefits of good execution amid underlying global demand growth and the strong soybean crush margins, along with continued higher volumes and steady results from RPBO. In summary, we expect our Oilseeds operations to deliver excellent results this year, significantly higher than our expectations for the beginning of the year.

In Carbohydrate Solutions, the team has done a good job managing through the upgrades in Decatur. Fundamentally, the North American Starches and Sweeteners business is solid. Although sugar prices remained depressed in some of our European markets, our new Russian joint venture will begin contributing to results. Ethanol industry inventories could build if China does not reenter the market, putting some risks on margins. For both of the third quarter and the calendar year due to weaker results from the ethanol business, we expect Carbohydrate Solutions to be lower than last year.

In Nutrition, we expect continued sales growth and favorable product mixes in WFSI to contribute to good results. We'll see the benefits of our Protexin and Rodelle acquisitions as we complete the transactions. We are excited about Neovia. We are moving forward on our integration planning. And while our fourth quarter timeline for closing means we don't expect Neovia to significantly contribute to results this year, we are looking forward to the significant opportunities it presents. So for both the third quarter and the full year, we continue to expect Nutrition revenue and results to be significantly higher than last year with a 20%-plus growth in OP for the full year.

So when you look at the totality of our actions and our results, our team is executing well. We continue to make our businesses stronger. We're excited about the promise of readiness as those efforts to accelerate. We're investing in our growth platforms, our risk management is strong and global demand remains robust.

Naturally, we're monitoring the U.S.-China trade situation closely and are prepared for various potential outcomes. We believe the situation is manageable in the near term, and we're confident of delivering solid execution and strong results.

Sitting where we are today, our outlook for profitability and returns for the 2018 calendar year is more favorable than it was when we spoke on our first quarter call, and I remain confident in our ability to continue to grow earnings and create shareholder value in 2019 and beyond.

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

QUESTIONS AND ANSWERS

Operator

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

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

I wanted just to ask, there's a couple of things in Oilseeds. First, the mark-to-market that you mentioned the, net effect, Ray, could you give us a little bit of detail there? And what I'm really trying to understand is how we're supposed to model this kind in the back half of the year. So I think there would have been a sizable mark-to-market -- negative mark-to-market on June 30, but I think as you mentioned in the script, you net it against the piece that reverses that was marked on the first quarter, and you got a net positive. But can you give us some guidance here on how to think about this in Q3, Q4?

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

Yes, sure thing, David. So we did indicate at the first quarter call, we had about $110 million of negative mark-to-market that would reverse and approximately half with the reverse in the second quarter and the other half would be in the back half of the year and a little bit in 2019. So what we did realize was the benefit of the reversal in the second quarter. We did have, as a result of the forward crush moving up at the end of the quarter, we did have some additional negative mark-to-market. So roughly about $40 million net because we had some higher negative mark-to-markets on soy, but we had some positive mark-to-markets on canola. So when you net it all together, it's roughly $4 million -- about $40 million there. So how you may want to think about that is, when you think about the amount that's still to be reversed from the first quarter and the additional $40 million, there's a little over $90 million to reverse over the rest of the year. And that's going to be primarily over third and fourth quarters, a little bit in early 2019 as well. So that's how you should be thinking about that, David.

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

And then staying on Oilseeds, industry margins, crush margins are great. And certainly, the profitability here in the quarter was very good. But it's still quite substantially away from previous records that we've seen in Oilseeds on a quarterly basis from prior years. With that kind of set up, can you guys give us your expectations of how sustainable the results that we're seeing in Oilseeds are at these types of levels on a go-forward basis? What visibility do you have?

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

Well, David, I think we are, as I said in my comments, very optimistic and very confident about the sustainability of the results and the strength of the business. Not only crush margins are very strong, but demand is very strong. We are seeing demand needing to be -- we're seeing that supply needed to be 10 million tonnes higher year-over-year just to cover demand. And we're seeing buyers coming back to the market and building a forward book, which is increasing our confidence that we can see -- we can have visibility in the forward book going forward. So resiliency in demand growth and buyers coming back to build a book gives us a lot of confidence moving forward.

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

And Ray, can you kind of chime in and talk to us about earnings power? So just kind of tie everything together with Juan's comments about visibility and sustainability and how it results, then, in earnings power for ADM. And that's it for me, guys.

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

I mean, David, as Juan indicated in his comments, we believe that the improvements that we're demonstrating in 2018 represent really a culmination of a lot of the efforts that we've been driving over the past couple of years. So the improvements that we're making across all of our businesses is going to continue to drive significant earnings in the future. You layer on top of that the fact that the environment that we're experiencing right now, with particularly short crops around the world, stock-to-use ratios going down and global demand for protein continues to be strong. It creates an environment whereby, effectively, the margin environment in our businesses are returning back to a more normal level, which is important as we think about future earnings. And then lastly, you add on top of that the investments that we've made, both on an organic basis, whether it be the Campo Grande, Tianjin or the pea protein plant what we're constructing right now, finishing off, and the investments and acquisitions that we've recently announced in the second quarter, that's also going to add towards earnings power of this company. So when you actually take a look at all 3 aspects of the significant work that we've done to improve the company, the work that the environment, the business environment, returning back to a more normal level, and then the investments of that we've made, we feel very confident that the earnings going forward over the medium term, are going to continue to grow. And more importantly, they're going driving returns.

Operator

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

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

So I just have one question related to the Brazilian freight issue, but it has 3 parts. Just wonder if you could give us a sense of how this is currently impacting your entire business there. If you have any sense of when this is going to be resolved. And how you're positioning ADM to minimize any potential impact, or actually maybe, benefit from that disruption.

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

Yes, I think a couple of comments. We indicated that the impact to date has been minimal. In fact, the way you may want to think about, it's like a single-digit negative impact. So in the whole scheme of our Oilseeds operations, it was not material. And that's the reason why we're not calling it out. Currently, how we're managing it is because of the uncertainty on the tariffs, we're actually negotiating in the short term. It really is we're negotiating freight rates with the truckers based upon our current needs. And that's how we're operating right now. Now when this is going to get resolved? As you probably appreciate, I mean, there's going to be a judge who's going to be looking at the potential rulings in terms of what the tariffs are, expectation is some time in August. I think leading up to that, I think everyone in the industry is going to remain fairly negotiating freight rates in the short term. I don't think anyones going to go long term in terms of the freight rates just due to the exposures. But we're actually pretty confident that the final resolution would be something that will result in effectively a tariff structure very similar to like what the market was before. And so at this point in time, we're monitoring. We're managing situation carefully. And again, up to now, we've been managing this situation quite well.

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

And I think, Heather, if I may add, that the beginning, when this hit us, certainly, freights in -- freight to Barcarena were higher than the table, so we continued to do business there. And of course, Barcarena, being our newest port, takes a lot of our volume. And also Paranagua as well, the freights in the South were also higher than the table. So we managed to do those. But it's true that in the rest of -- for the rest of the operations, it put some caution in the activities, of course, because you can only go with third parties that you've been working for many, many years, and we negotiate these one-on-one deals.

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

Okay. My follow-up is on China-U.S. And I appreciate y'all's comments that you provided. Just to date, based upon our incomings, the conventional wisdom seem that this is negative for U.S. elevations. But to your point about tightening balance sheets around the world for wheat and corn, et cetera, is there any way that, that conventional wisdom could be incorrect, and global flows shift and move to the U.S. and margins actually come in stronger because of the dislocations against the backdrop of tighter stock?

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

Yes. Of course, we're looking at that. Weather around the world has turned dryer and production at the moment is being adjusted down. So that would bring demand for corn and wheat certainly into the U.S. And all the way to July, we have still seen good soybean demand coming to the U.S., given the prices we have. So you could construct the scenario in which maybe there is the overlap of wheat, corn and maybe some soybean and tightening up elevation margins in the U.S. Yes.

Operator

You next question comes from the line of Robert Moskow with Credit Suisse.

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

I guess this is kind of a follow-up to Heather's question. When you look at the disruption that this tariff environment has caused, I think just net-net, it's a surprise to see U.S. exports so strong in a quarter like this. And I know it's also related to drought in Argentina. Is there any way to kind of separate these 2 factors out and give us a little more help on the benefits that you received just from the drought in South America? But also there must have been some benefits from satisfying China's demand that might have, I guess, spilled over into other countries. Were you satisfying the demand from other countries that were then satisfying China? And is that the nature of some of these dislocations?

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

Yes, Rob. Of course, we reported higher volumes in Origination in this quarter. And listen, I think it's difficult to chop all those results into pieces, to be honest. I think it's a combination of higher volumes, lower costs. The business has been driving efficiencies for the last few years. A more efficient Global Trade operations with trading activities that leverage the supply chain. And something that has been very important when we look at these discontinuities has been boots on the ground, the ability that we have to read markets and adjust quickly now with our destination marketing efforts, with more people around the world with better coordination, that has all resulted into this. Ray, in his remarks, also mentioned about the impact that destination marketing, Stevedoring and other new business in Origination have had on our results. This has moved this result from about representing 5% of our profits a full -- a few years ago to now representing about 30% of our profits. So I would say it's a combination of taking advantage of good cyclical conditions, but also structural improvements that we have made in the business that make us confident about calling 2018 a very strong year compared to '17 for Origination business.

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

Okay. Can you give us a little more help on the back half for the Origination division? I mean, you've had years where, I guess, the back half could be $400 million in profit. It could be even more. Is this setting up to be an outstanding back half for Origination, like, over $400 million? Is there any way to contextualize that?

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

Yes, it's a little bit a continuation of what I explained to Heather. So as I said in my remarks, we expect Q3 to be much higher than last year Q3. Regarding Q4, we will have to see how basically soybean demand comes into the U.S. We know the U.S. will be competitive in wheat and corn, given the short crop in the rest of the world. The issue will be how much of the soybean volume continues to come into the U.S. As I'd said to what we have today, July was still strong in demand. We'll have to see for the rest of the year. But that will -- basically, that will depend on the soybean demand into the U.S., will demand how much elevation margins pop in Q4. So we could have either a good Q4 or spectacular Q4, depending on that happening. Too early to call, to be honest, Rob, at this point.

Operator

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

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

Could we talk about 2019 a bit? Juan, you sounded very confident about your ability to grow earnings in 2019. Could you highlight kind of key businesses that you expect to deliver growth into next year?

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

Yes, thank you, Farha. I think about our strategy and how we've been continuing to continue to deliver on that. And we think about optimizing the core. And despite the progress we have made in what we call the improvement businesses, we still have opportunities there as there are some businesses that are still not realizing that potential. So we still see improvements in our businesses and our ability to execute. We are very happy the way the business execute, but there's always more that we can do. So we feel good about that. The efficiencies, when we think about the program we have put overall these years to improve the cost of the company, now we are evolving into readiness. And we feel very, very good. We are in the first stages of readiness. We are 10 weeks into -- or 10 days into Phase 2, if you will. But everything will look and makes us even more comfortable that there are more savings that we have said before. And then we have all the expansions that we have done, Farha. If you think about we are building -- or we have built 5 plants between what we have in China, pea proteins, specialty proteins in South America, color in Berlin. So we have 5 plants that have built, and we have profit nothing so far. That will all hit the P&L in 2019. And then we have all these acquisitions that we have made, all the way from Biopolis and Crosswind and Neovia and Protexin and Rodelle, that they will all be accretive, part of them in 2018, but fully in 2019. So when I -- when we see the business is having a solid prospect, all of them, into 2019, plus the readiness effort, plus our improvement effort, plus these 5 new plants, plus 5 acquisitions coming to the P&L, I cannot feel anything but optimistic about 2019, to be honest.

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

That's very helpful. And any kind of additional color you can give us on the readiness program? I don't think we've had really a good understanding of the earnings that, that readiness can deliver for ADM, near term and long term.

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

Yes. I would say we haven't told you yet about the details of readiness and mostly because we've been in the assessment phase, if you will, of it. So we estimated, I said it in the previous quarter, it could be in the $1 billion range over a number of years. We will come with more precision in the next earnings call because we are, as I said in the 10 days into the second phase, which is more the quantification of all these. So we have put -- fundamentally, if you think about what it is, it's -- I always focus the business on to setting the competitive standard by business. So looking at each business individually, vertically and making them the best they can be. Now we're taking this more horizontal look at the company, if you will. And we're looking at what are those activities that are best-in-class in ADM that we can leverage across? If we can share that knowledge and share that and leverage that best-in-ADM performance across the company. So we have more than 500 people engaged in this and being trained. Those people are starting to generate initiatives. We have more than 1,000 initiatives identified and now we're putting numbers to those initiatives. So we will be able to have, for you in the next earnings call, a description of what we expect from a cash impact on cost, from a cash impact also on revenue and even on CapEx efficiencies as we move forward. So we should be able to share with you in the next quarter all that. And as I said, all that is being prepared as we speak in the company.

Operator

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

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

Ann, can you hear us?

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

(technical difficulty) fundamentals in the Oilseeds industry. If we look at fall in hog prices in the last couple of weeks, it suggests that there may be trouble brewing ahead domestically. And then if you could address the crush margins in China currently and the impact that, that might have on your own business in Wilmar.

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

Yes, Ann, the first part, we didn't hear you. You were talking about China specifically in the first part in the hog industry...

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

No -- and hog prices in the U.S. have collapsed in the last couple of weeks. So just wondering, is that industry -- if meal demand isn't peaking in the U.S.

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

Sure. Yes, so let me start with the China thing and then we'll go back to the U.S. So we've seen recently demand for -- in the hog industry -- or profitability in the hog industry recovered a little bit in China. There's still below cost but better than before, mostly due to the lack of imports. So that's helping a little bit. In terms of crush margins in China, of course, they've been subdued, although they remain healthy, but in the range of $10 to $15 per tonne, something like that. So meal base is still in recovery in China, and demand, as such, is a little bit sluggish at this point in time. In terms of Wilmar, being a board member, I shouldn't predict anything about their results, of course. But let me remind you that Wilmar is a very diversified company, into not only palm oil and sugar, but also in consumer products. So not only they are very astute of how to play the China crushing margins in terms of risk management, but also a very diversified company. So that probably to the extent that I should speak about that Wilmar margins. And in terms of protein in the U.S....

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

Yes, I think, Ann, a couple of observations. I mean, demand for protein in the United States remained strong, and actually globally, remained strong for animal protein. And so we're seeing solid growth in '18. Part of it is actually due to prices. In fact, that prices have come down to actually stimulate demand. We're seeing, like, in 2019, our forecast for animal protein is going to go up roughly 2% for poultry, pork and beef. From ADM's perspective, this is good since demand for feed is going to continue to be strong. And in our estimate for global soybean meal growth right now in 2019 ex

China is about 4% to 5% growth. So -- and that's solid growth. We recognize that in the United States, that there is some adjustments in terms of some prices. I mean, we've also read about maybe some increases in terms of frozen meat stocks. But when we actually look at the numbers, the increases are not that dramatic relative to what we've seen in history, especially when you look at it as a percentage of consumption or a percentage of export. So from our perspective, given strong global economies, strong demand, we're seeing that our outlook in the medium term for soybean meal demand remains very solid, especially given the fact that it is one of the most competitive rations for feed because of its protein content there.

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

Okay. And are you seeing any changes, or hearing any changes from farmers and farmers' willingness to sell right now or going into fall when they harvest, given all of the uncertainty around China trade tariffs and NAFTA, et cetera? Is there any change to the way that farmers are behaving yet? Or is it too early to tell?

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

Not at this point, Ann. And probably, they are looking at Labor Day to try to get more clarity about the support program that the ag secretary has established. So I think that, that will probably define a little bit their part in going forward.

Operator

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

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

Maybe, granting we haven't covered, in Carbohydrate Solutions, a little bit of color around some of the moving pieces in the quarter and then the outlook. First, probably a little comment on the upgrades you're making at Decatur, both for as it relates to Sweeteners and Starch products as well as on the ethanol side. Kind of how big the impact was in the quarter and what that looks like for the balance of the year. And then I have a follow-up on the sweetener outlook.

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

Yes, Adam, I think for the quarter, the approximate impact on our results was about $15 million, of which, about 2/3 of the impact was on Bioproducts and the 1/3 of the impact on the Starches and Sweeteners side. As we indicated, these are upgrades to both electrical and mechanical infrastructures in the complex. It's going to require us probably through the second half of this year to complete it. Our estimation in terms of potential impact on the second half could be in the neighborhood of about $20 million to $25 million in terms of the impact relative to last year. And again, similarly, about 2/3 of it will be impacting the Bioproducts segment and about 1/3 will be the Starches and Sweeteners segment. So that's our best guess at this point in time. Naturally, as we kind of go through the upgrades, if we discover something else, then we'll have it to address it at that point in time.

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

Okay. Just on the sweeteners outlook, broadly. I mean, are you seeing -- have you seen any change in trend on the volume side from any of your major customers? I know you commented that the U.S. business was still on track. Is there any concern rising about 2019 at this point? Or do you think that some of the capacity rationalization that has been announced in the industry could stave of any pricing or margin pressure there?

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

No, we're not seeing any change. In fact, what's interesting is when we actually look at the total demand for nonsucrose sweeteners. So we're looking at dextrose, fructose and glucose. When you look at the trend lines here in United States since 2010, it's actually stabilized at about 25 billion pounds of consumption. And we've actually seen growth in the glucose syrups in both beverage applications and nonfood applications. And that's kind of offset some of the decline in some of the other areas. So what's really encouraging is that the demand profile in the U.S. industry for our nonsucrose sweeteners is actually very stable. And with the -- with supply/demand balances remaining tight, we remain pretty optimistic over the medium term for this business here.

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

Okay. And then just issue that you highlighted in Europe. I mean, is that something that you see pressure continuing into the balance of the year? Or is it really contained in the quarter?

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

I think we may still see some pressure as we kind of move through the year. And we'll just have to work with the associations and the government in order to kind of get the quotas lifted.

Operator

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

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

Ray, I just -- os just a follow-up on sort of the conversation on '19. You obviously sound very confident, and a lot of it is attributed to a number of items, 5 or 6 different items that are within your control, the acquisitions and the costs work you're doing. But I just want to make sure I understand. You're talking about full year 19, in your segments, you expect to have growth in all segments? And I guess, is I sort of have been doing the math on what sounds like you're saying the back half of the year is going to look like, are we talking about a 2019, from an EPS perspective, that's going to be north of $3.50 and potential approaching $4? And I know you don't want to give guidance, but can you just kind of talk us out of some things, if possible?

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

I mean, you're right. I'm not going to give any guidance here in terms of 2019. What we're saying is that when we look at the overall drivers of our business in terms of things that we can control, the actions that we're taking, the general business environment that we're seeing across many of our industries, both Origination side, the crush side, the nutrition side and then the investments that we put in, we feel good about 2019 because all -- when you think about the algorithm for earnings growth in 2019, it will include improvements and actions that we've taken. It will include the fact that the general business environment remains solid. And it will include the accretion in earnings related to investments. And then you layer on top of that, which Juan has indicated, the readiness initiatives which we'll quantify as we get towards the earnings call. When you add it all together in terms of this algorithm, it points towards solid earnings growth in the future.

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

So is that another way of saying, then, that as you look at your results and how the business has performed year-to-date and what you expect over the balance of the year, that what you're attributing to the disruption from the South American drought and whatever's happened from a tariff perspective, which -- and correct me if I'm wrong, but I sort of think this tariff is good for you. That those impacts are not really as large as maybe they appear? And so therefore, there isn't as much of a ship lapping issue next year as one might think?

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

I think the underlying business fundamentals and the actions that we're taking are actually pretty significant in terms of the contributions to our overall results here.

Operator

Your 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*

I just want to circle back on 2 issues. One is, can you discuss the pricing opportunities and market share gains that you might be able to generate from the plant closure in the high fructose corn syrup from a competitor?

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

Well, I guess, Ken, I mean, from our perspective, it's all about supply/demand balances. And so as I indicated, the general environment for demand for nonsucrose sweeteners is solid here in North America. And we've seen that over -- since 2010. And with the supply/demand balances remaining tight, I guess what we've indicated this year is we should be able to maintain the type of margins that we've had in the past.

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

So you would -- so to be fair, you would expect pricing to be higher next year and be able to maintain your margins on the corn side as well. Is that fair?

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

All I'm saying, Ken, just like we provided guidance for 2018, we're saying our -- we should be able to maintain our margins in this business.

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

Do you expect to see some market share gains?

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

Well, I mean, it's -- we'll have to determine how the buy gets spread out, right? And with the closure of one of the plants in our industry, we'll have to determine how that volume gets spread out.

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

And then my other question is, look, the -- everybody's talking about the tops of different markets here, but ethanol is just kind of at the bottom and kind of at that horrible level of profitability. Can you talk about how the industry kind of evolves over the next, call it, 12 to 24 months? What is the key factors that you see? And have we reached to the leveling off on the bottom? Is there potential for 2019 to actually show some reasonable return on capital?

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

What's interesting is on the demand side for domestic ethanol, we're going to have some marginal improvement just due to the fact that gasoline consumption will go up a little bit, U.S. economy is strong. So you're going to see some marginal growth in domestic demand. On the export side, we all know China stopped buying ethanol after the first quarter. Nevertheless, we think exports will still be around 1.6 billion to 1.7 billion gallons in 2018 calendar year. As we move forward, I mean, on the assumption that the U.S.-China trade situation will get resolved, and I think most of us believe at some juncture, that will get resolved, there is a strong probability that China will come in to buy U.S. ethanol as part their E10 mandate for -- or the E10 policy for 2020. So when you look over the medium term, we are constructive that incremental demand from China will tighten up supply/demand balances in the U.S. ethanol industry. And that should allow us to expand margins as an industry towards more normal levels.

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

So the crux of the outlook for ethanol, you think key on China, not on any other key components? And then I'll leave it there.

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

I mean, China is going to be an important factor in the overall evolution of the ethanol margins in the industry here.

Operator

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

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

Michael?

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

Hey, Michael?

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

Hi, can you hear me?

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

Yes, we can hear you now.

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

Okay, sorry. Just wanted to dive a little deeper into nutrition. I wanted to see, this year, I think you said that you're looking for about 20% operating income growth this year, and that's even before the impact of some of these recent acquisitions. As we look into '19, is that kind of a sustainable growth rate? or what are some of the factors we should be considering there?

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

Yes, thank you, Michael. The performance of the nutrition platform continues to be strong across all the businesses, to be honest. Flavors was very strong this quarter, and we continue to make inroads in that area. Specialty proteins is coming back, which it was a little bit down the last couple of years, and we're bringing Campo Grande, one of the largest plants in the world, into operations. Emulsifiers has been showing growth. Fibers have been showing growth as we all need to consume a little bit more of that. Health & Wellness has been growing spectacularly, although from a relatively small base right now. And Animal Nutrition has been showing also a lot of strength out of some strength in lysine, but also some new products into the portfolio. So when you add all these on a platform that is basically in this formation this point in time. When you add the power of Neovia bringing a global distribution channel to this; when you add to the power of Rodelle giving us back integration into vanilla and more access to growing our vanilla business; and when you look at Protexin giving us a commercial channel and an ability to produce more probiotics that are so much in demand, we feel very strong that this kind of rates will continue into the future. So I think we are just seeing the beginning of all this platform. And to be honest, Michael, I'm also excited about the future promise that advances in biology and genomics will bring to the nutrition and health industry. So Health & Wellness is still the smallest of our segments here in nutrition, but I think the promise of all the disruption technologies that we're seeing there bodes very well for this platform for the years to come. So -- and as I think, as Ray said in his remarks, we're seeing the power of our value proposition resonating in our customers. So we're seeing also in the EBITDA margin on sales that we have in these products, but also in the revenue growth in the products. So we feel very good about it.

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

Okay, terrific. And then if we could just turn back to Origination here. In terms of the destination marketing, I think you said you're on pace to potentially double your volumes up to 19 million metric tons. Can you give us some sort of long-term growth rate there in terms of what, either for 2019 or longer term, how big do you think that market could get from a volume perspective? And how do those margins compare to kind of your historical margins here in the U.S.?

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

Yes. When we started with this, if you recall, we said that we were taking products to the final customers in about 15% of our portfolio when we started, like, in 2014. And we said that our goal was going to double that percentage, if you will. So the beginning efforts were basically buying companies like Medsoft or Industries Centers or building our own capabilities on the ground. We did that. And with that, the volume grew. Afterward, the volume grew to 10 million tons to, like, 19 million tons that we have right now. The margins have been growing. The margins has basically doubled to versus when we start it. So versus maybe $2 per ton, we might be in $5 or something in that range. We're still short of the $8 that we wanted because basically, in some of these places, we were buying share or we were building the positions. So I will say, you're probably going to see a slight maybe deceleration of the volume growth and more concentration in picking up the margins now, the margin part of that. So -- but profitability has improved significantly in that business and the contribution of that business, plus Stevedoring, plus fertilizer, plus other businesses to the overall Origination business, as I said before, has moved from about 5% of the total to 30% of the total, which make us feel very good about the prospects of the business.

Operator

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

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

Yes, so my first question comes on to this. Now that we've got some grain price volatility back in the market, Juan and Ray, we've kind of talked about trading profits being one of the things in Origination that is probably structurally going to be lower over time, given the fluidity of information that everybody has access to these days. Is that proving to be the case here? And then, will your destination margins be able to replace, maybe more than fully replace that sort of structural dislocation in trading profitability?

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

Yes, thank you for the question, Eric. We've been adjusting to these new realities, if you will, over the last 3 or 4 years. And it's been a job that started with Joe's administration. It has transpired now into Stefano's administration. The Global Trade Desk for example, the Global Trade operations has focused basically our activities now more on activity -- on trading activities that leverage the supply chain. Think about this, for example. In 2014 or '15, about 5% of the volume was ADM volume for the Global Trade. Today, that represents about 65%. So it took some restructuring, it took some changes of people, changes of facility, changes of incentives. But now we are much more integrated in moving and leveraging our ADM footprint. So I think that, that's why you've seen more consistency of results. That's why you're going to see better results from this business. I think about, again, we faced a quarter with the prospect of already $30 million losses in the sorghum side, which turned out to be a little bit lower because the team executed very well. But still, the business managed we relatively comparable to last year's, even despite taking that headwind. So it gives you an idea how well they performing. And it's not just on the positions they take, but it's also the rationalization of some of the asset they made, the increased efficiency. Think about they cut the SG&A by metric ton -- per metric ton by half basically since 2013. So I think the business have done a lot of improvements that make us more comfortable that not only we're going to be able to jump with the same agility we had before into this continuities, but also the results will be more robust, and hopefully, more consistent than we've been in the past. So we feel very good about that business.

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

Okay, good. And then my final question, a lot of my questions have been answered. Translating all of your comments here this morning, you've taken hundreds of millions of dollars of cost out of your business the last several years. And arguably, a bunch of that money never really showed up to the bottom line because the business was facing a lot of headwinds. We all know about those headwinds, which are reversing pretty nicely right now. So when I look at your return on invested capital, I think now you're rolling 12 is 7.3%. If you look at the current quarter, and maybe, Ray, you can help me with this number, I think you're well above that 200 basis point -- now this is just the current quarter, that 200 basis point spread that you want to achieve over WACC, which I believe is still 6%. And when I look at the structural changes in your company and look at your potential for return on invested capital, I can only think that there's upside to that. And is there a reason why we shouldn't be even more encouraged with well maybe 8% or greater ROIC in the next 1 to 2 to 3 years? How should we look at your returns?

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

Eric, we will continue to be focused on returns and we will continue to be driving. That's the sole focus of our strategy, is to grow returns to grow EVA. So as we beat targets, we will continue to drive forward.

Operator

Your final question comes from line of David Katter with Baird.

David Francis Katter - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

I'll keep it quick. Just on optimizing the core. I know you guys completed the Bolivian divestiture this quarter. How should we think about other areas where you might see divestitures or opportunity to rationalize your portfolio?

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

Yes, David, I think that we're getting to the end of the sizable pieces. There are always going to be optimization because we're always looking at an elevator here and other small plant there. But I would say from a divestiture perspective, we'll probably at the end of the big announcements, if you will.

David Francis Katter - *Robert W. Baird & Co. Incorporated, Research Division - Junior Analyst*

Understood. Maybe along the same lines. In the nutrition business, I know you guys have a lot of M&A to digest. How should we think about your capacity and/or willingness to make more bolt-ons moving forward? And what does the acquisition environment look like there?

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

Yes, I think we've been disciplined in the medium-size ones that we always take some time to digest. You remember, we made the WILD Flavors acquisition in October 2014, and we have Neovia now in mid-2018. So we give ourselves some time. In terms of bolt-ons, we have capacity to incorporate them. So in that sense, we will continue to be active. You heard us saying that we felt the environment was relatively expensive to some properties, and that's why we're been prudent and we've been relatively subdued in this space. To the extent that we find opportunities that strategically match what we need to do and the gaps of that we need to fill and they match our return criteria, we will continue to execute. And we feel good about our ability to plug them in into the business model.

So I think there are no more questions?

Operator

There are no further questions at this time. I would now like to turn the call back over to Juan Luciano for closing remarks.

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

Okay. Thank you, Jack. And thank you, everybody, for joining us today. So Slide 13 notes some of the upcoming investor events that we will be participating. So as always, feel -- please feel free to follow up with Victoria 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. We thank you for your participation. You may now disconnect.

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