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PRESENTATION

Operator

Good morning, and welcome to the Archer Daniels Midland Company Fourth 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, Investor Relations for Archer Daniels Midland Company. Mr. de la Huerga, you may begin.

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

Thank you, Jack. Good morning, and welcome to ADM's fourth quarter earnings webcast. Starting tomorrow, a replay of today's webcast will be available at adm.com.

For those following 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 reports on file with the SEC concerning assumptions and factors that could cause actual results to differ materially from those in this presentation, and you should carefully review the assumptions and factors in our SEC reports. To the extent permitted under applicable law, ADM assumes no obligation to update any forward-looking statements as a result of new information or future events.

On today's webcast, our Chairman and Chief Executive Officer, Juan Luciano, will provide an overview of the quarter and the year. Our Chief Financial Officer, Ray Young, will review financial highlights and corporate results as well as the drivers of our performance. 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. Last week, we were in France welcoming our Neovia colleagues to ADM as we closed on that truly transformational acquisition for our Animal Nutrition business. This morning, we're speaking to you from our WILD Flavors facility in Heidelberg, Germany. It's a state-of-the-art complex, and we're excited to talk to our colleagues here about the great work they are doing to serve customers and grow our flavors and system business.

This morning, we reported fourth quarter adjusted earnings per share of $0.88, up from $0.82 in the prior year quarter. Our adjusted segment operating profit was $860 million. The team did an excellent job to deliver stronger year-over-year profits in a volatile global environment in the quarter and completed an extremely impressive 2018 overall for ADM. Throughout the year, we focused on executing our strategy and pulling the levers under our control. The result was a year in which we delivered: full year adjusted segment operating profit of $3.4 billion, 26% higher than 2017; adjusted EPS, 44% higher year-over-year; strong operating cash flows, up more than 40%;

and 4-quarter trailing ROIC of 8.3%, 200 basis points above our annual WACC. Given those extremely strong results, earlier this morning, we announced a quarterly dividend increase of $0.015 per share or 4.5%. Our Q1 dividend is our 349th consecutive quarterly payment and an uninterrupted record of 87 years.

2018 was a year in which regardless of market conditions, we continued to execute, improve and grow, resulting in a range of impressive accomplishments. In our optimize pillar, we divested our Bolivian Oilseeds business, took important steps to optimize our U.S. Origination footprint and engineered significant turnarounds in our Global Trade and South American Origination businesses. In our drive pillar, for the year, we delivered cost savings of more than $300 million on a run rate basis, far outpacing our target of $200 million. In our growth pillar, we opened, expanded and enhanced multiple facilities around the globe, including 5 new and renovated ingredient manufacturing facilities and 3 labs and customer innovation centers. We announced Grainbridge, an important joint venture with Cargill in the digital innovation space. We launched the SoyVen Crush joint venture in Egypt and expanded into the Russian starches and sweeteners market with our Aston joint venture. We grew our Brazilian Oilseeds, Crush and value-added footprint with the Algar acquisition, and we expanded our Taste and Wellness portfolios with the acquisitions of Rodelle and Protexin. We're also now adding citrus flavor capabilities via our acquisition of Florida Chemical Company. And of course, we just closed on our Neovia acquisition, creating a true global leader in value-added products and solutions for both production and companion animals.

We also continued to improve on our safety record in 2018. This was our 18th consecutive year of reducing recordable injuries, and December, overall, was our safest month ever for our employees, though some incidents at the turn of the year reinforced the importance of continued relentless focus on safety. We made important progress in our sustainability goals, beating our own deadlines to meet our 15% by '20 objectives for energy, greenhouse gases, water and waste reduction. And we continued to lead the industry on the important issue of diversity and inclusion. Together We Grow, the consortium ADM began in 2016 to focus on educating, recruiting and retaining a more diverse workforce in the agricultural sector, was recently recognized with the 2018 Innovations in Diversity Award by Profiles in Diversity Journal. And just last week, we announced our membership in Paradigm for Parity, a global coalition of business leaders dedicated to addressing the gender gap in corporate leadership. All of these accomplishments have been supported by our accelerating Readiness efforts.

Please turn to Slide 4. One of my goals as CEO of ADM is not just to deliver good results quarter after quarter, but to enact lasting change that will allow ADM to continue improving year after year. That's what our company-wide Readiness efforts offers, a reinvention of our business from the bottom up that provides a structure for ongoing, continuous improvement and gives us the tools to deliver a consistently excellent customer experience at the lowest cost. Tools like data and analytics, which under our One ADM program, we're collecting, centralizing and utilizing as a strategic asset that will help us improve our decision-making. We're also conducting systematic reviews and improvements of processes around the company with an eye to simplification and standardizations that will make us more efficient and more nimble and reduce wastes and defects. Underlying and driving Readiness and critical to its long-term success is fundamental behavioral and cultural change and more effective on productive employees, which are supporting through our ADM ability to execute training or A2E. We are all in on Readiness, and our efforts are accelerating.

Last year, our team identified thousands of initiatives to standardize, centralize and digitize how we do business. By the end of the year, we had analyzed those initiatives and prioritized about 525 that, as we said last quarter, will allow us to generate more than $1 billion of run rate benefits by the end of 2020. Today, we're proud to report that as of the end of 2018, we've already completed 120 of those initiatives, which, together, have generated $300 million in new run rate benefits. We're also continuing to roll out our A2E training, which will help guide fundamental change in how we do our work every day. Approximately 2,000 team members have already completed today in-person training sessions. By the end of 2019, we expect every ADM colleagues to have taken the comprehensive A2E course. I'll be talking -- I will talking more later in the call about the importance of Readiness to our value creation strategy.

But now, I would like to turn the call over to Ray.

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

Thanks, Juan. Slide 5 provides some financial highlights for the quarter. As Juan mentioned, adjusted EPS for the quarter's $0.88, up from the $0.82 in the prior year quarter. Excluding specified items, adjusted segment operating profit was $860 million, up $67 million or 8% from the year-ago quarter. Our trailing 4-quarter average adjusted ROIC closed the year at 8.3%, 200 basis points above our 2018 annual WACC, a significant improvement from the year-ago period and generating positive EVA of more than $550 million.

The effective tax rate for the full year 2018 was approximately 12% and includes large, favorable effects of U.S. tax reform and the 2017 biodiesel tax credit recorded in the first quarter, along with certain discrete tax items, netting to a favorable $74 million. The effective tax rate for the fourth quarter of 2018 was a positive 2%, which includes a favorable true-up of the transition tax. The effective tax rate for the fourth quarter of 2017 reflects a large credit due to the initial implementation of U.S. tax reform. Looking ahead, we're expecting a full year 2019 effective tax rate to be in a range of 17% to 20%.

On Chart 18 in the appendix, you can see the reconciliation of a reported quarterly earnings of $0.55 per share to the adjusted earnings of $0.88 per share. The adjustments include a significant noncash pension settlement charge related to the transfer of pension liabilities that we discussed in the third quarter earnings call.

Slide 6 provides an operating profit summary and the components of our corporate line. Other business results were a negative $14 million but improved versus the prior year period, which was impacted by significant unfavorable captive insurance underwriting performance. Current quarter losses were driven by intercompany insurance settlement relating to sorghum shipments in early 2018 as well as some other underwriting losses and true-ups. ADM investors service results were up year-over-year. For 2019, assuming no significant underwriting losses, we're expecting other business results to deliver approximately $120 million for the calendar year with results a bit stronger in the back half.

In the corporate lines, net interest expense for the quarter increased due to higher short-term interest rates and new long-term debt issuances ahead of the Neovia closing. Unallocated corporate costs of $173 million were up versus the prior year due to performance-related compensation accruals and higher project spending on information technology and growth-related projects. Looking ahead to 2019, we're projecting some higher corporate costs as we continue to focus on and fund important projects. These projects represent investments in our future that will create shareholder value for years to come.

Therefore, we're projecting net interest expense of about $100 million per quarter, higher than 2018, attributable to the higher interest rate environment and the incremental debt issued. We're expecting unallocated corporate costs in 2019 of about $170 million to $175 million per quarter, an increase over our average quarterly rate in 2018, but similar to the fourth quarter run rate, due to continued strategic investments in IT, business transformation, R&D and centralization of more activities from the business segments.

Turning to our cash flow statement on Slide 7. We generate $2.7 billion from operations before working capital changes for the year, an increase of almost $0.8 billion. Total capital spending for the year was $842 million, down 20% from 2017 and in line with our target for the year. Spending on acquisitions amounted to $464 million, which includes 3 bolt-on additions. For 2019, we're projecting capital spending in the range of $900 million to $1 billion, slightly below our forecasted depreciation and amortization rate with the expected increase coming from incremental spending to support our business transformation projects.

In 2018, we also returned $835 million of capital to shareholders through dividends and a small amount of share repurchase. Therefore, we continued our balanced approach to capital spending, acquisitions and return of capital to shareholders. At the end of the year, we had 566 million shares outstanding on a fully diluted basis.

Slide 8 shows the highlights of our balance sheet as of December 31 for 2018 and 2017. Our balance sheet remains solid and positions us very well for 2019. Our operating working capital of $7.5 billion was up slightly versus the year-ago period. Total debt was about $8.4 billion, resulting in a net debt balance of $6.4 billion. We finished the quarter with a net debt to total capital ratio of about 25%, down slightly from the year-ago quarter. Our shareholders' equity of $19 billion was up from $18.3 billion last year, primarily due to currency translation and net earnings in excess of dividends and share repurchases. We had $8.9 billion in available global credit capacity at the end of the year. If you add the available cash, we had access to $10.9 billion of short-term liquidity. Our higher liquidity position at the end of 2018 also reflects prefunding to support the Neovia closing in 2019.

Next, I'll discuss our business segment performances for the quarter. Please turn to Slide 9. In the fourth quarter, we earned $860 million of adjusted operating profit, excluding specified items, up 8% from the $793 million in last year's fourth quarter. For the full year, our adjusted segment operating profit of $3.4 billion is 26% higher than 2017 with Origination, Oilseeds, Nutrition and Other all showing year-over-year growth in segment operating profit.

Now I'll review the performance of each segments as well as some thoughts on the first quarter of 2019. Starting on Slide 10. In the fourth quarter, our Origination team performed well, considering the extreme small volume of U.S. exports, soybean exports, to China. Results were down versus the fourth quarter of 2017, mainly due to changes in nonrecurring items.

Merchandising and Handling results were lower than the prior year period, which included several significant insurance settlements in other income. North American results benefited from weak basis gains due to strong carries as well as solid execution that drove improvements in export margins in comparable year-over-year volumes. The team did an excellent job offsetting significantly reduced exports to China by driving North American exports of corn and soybean exports to markets outside of China. Global Trade benefit from good execution origination and continued growth of the destination marketing business as well as intercompany insurance settlement, offset by timing losses in ocean freight hedges, which are expected to reverse. Transportation results benefit from improved freight rates, offset by increased operating costs.

For the full year, Origination adjusted operating profit of $546 million was 35% higher than 2017. The team not only did a great job in 2018 of moving swiftly to manage changing trade flows, allowing us to minimize disruptions and capitalize on new opportunities, but they also continue to grow our value-added services, including destination marketing, which exceeded $20 million metric tons, doubling the 2014 volumes a year earlier than our goal.

Looking ahead into the first quarter of Origination, we expect positive carries in the North American Grain business and improved year-over-year results for ARTCO, partially offset by normalized margins in Global Trade. Overall, we expect first quarter 2019 Origination results to be significantly higher than the first quarter of 2018.

Now to Slide 11. Oilseeds results were outstanding as the team delivered adjusted operating profits that were more than double the prior year period. Crushing and Origination results were up significantly year-over-year. Crush volumes for the quarter were among the highest ever as the business continue to leverage its global asset footprint to capitalize on solid demand for soybean meal and strong Crush margins. South American Origination results were solid as the team did a great job managing a more conservative risk position on soybeans in a very volatile market. Refining, Packaging, Biodiesel and Other was up on strong biodiesel volumes and margins as well as higher year-over-year results from food oils, partially offset by challenging market conditions in nut processing. Asia was higher on a strong Wilmar results.

For the full year, Oilseeds operating profit was up almost 80% over 2017. The team demonstrated their capabilities by managing risk in a volatile market and by utilizing our global asset base, flex capacity and incremental expansions to set a record for Crush volumes. Simultaneous, they continued innovating to expand the value-added business, such as finding new solutions and product streams for customers.

Looking ahead to the first quarter of 2019, we expect results to be lower than the very strong first quarter of 2018. Excluding the impacts of the biodiesel tax credit in the first quarter of 2018, first quarter 2019 results would be significantly higher year-over-year. Crushing and Origination should see continuing strong volumes and contributions from our investments in Algar, SoyVen and North American plant expansions. We expect margins to be in line with the first quarter of 2018 when timing impacts from that quarter are taken into account. We expect good performance from RPBO, though year-over-year results will be lower due to first quarter 2018 benefit of the retroactive biodiesel tax credit.

Slide 12, please. Carbohydrate Solutions results were lower than the year-ago period despite solid overall fundamentals in the Starches and Sweetener businesses. In Starches and Sweeteners, North American volumes remained solid with comparable volumes year-over-year. Overall results were driven by lower margins and sales in the EMEA region; higher cost in North American liquid sweeteners, in part due to lower production rates at the Decatur complex and lower co-product income. Bioproducts results were lower than the fourth quarter of 2017 when trading results were very strong. Ethanol margins and volumes were down in a continued weak industry pricing and margin environment, caused by continued high industry run rates and inventories.

Despite full year results for Carbohydrate Solutions being down versus 2017, the team did a great job managing through difficult conditions. The business delivered higher year-over-year volumes in the Sweeteners, showed the value of innovation and superb customer service by working with customers to form like new solution for Sweetener needs and moved quickly to increase Starch production to capitalize on margins and a growing demand environment.

With the completion of the contracting season, we can look ahead to a first quarter of 2019 in which the fundamentals for North American Starches and Sweeteners remain solid. Overall results for Carbohydrate Solutions will be somewhat lower versus the first quarter of 2018, driven by continued pressure on European sweetener and North American ethanol industry margins and lower production rates at the Decatur complex.

On Slide 13, fourth quarter Nutrition profits were down overall versus the prior year period with strong performances in WILD and Health & Wellness, more than offset by weaker performance in the Animal Nutrition business, which was impacted by the production issues that compressed margins in amino acids. WFSI sales were up 14% versus the prior year quarter on a constant currency basis with the organic sales growth up an impressive 8%. Looking at revenue growth, WILD continue to deliver customer wins, and the recent Rodelle acquisition began contributing. Health & Wellness benefit from the Protexin addition, and Specialty Ingredients saw 9% year-over-year sales growth, driven by proteins and lecithin.

For the full year 2018, Nutrition operating profit was up 9% versus 2017 with WFSI operating profit up more than 14%. In addition to its strategic additions, the business continue to expand its portfolio, announcing further advancement in food service concepts as well as individual innovative products, such as Versity yeast protein for companion animals and Onavita algal DHA powder, a new Omega-3 product solution. We expect stronger profits for Nutrition in the first quarter of 2019 versus the first quarter of 2018, driven by sales and margin growth, operational improvements and contributions from Protexin and Rodelle and, of course, our just-closed Neovia addition.

In summary, for the first quarter of 2019, for all of our business units combined, we expect overall segment operating profit to be significantly higher year-over-year, if you exclude the $120 million of benefits from the retroactive biodiesel tax credit recognized in the first quarter of 2018.

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 14. So we have closed on an excellent 2018 for ADM. Now we're already well into 2019, and we'll remain focused on pulling the levers under our control to deliver another great year.

We start with improving performance in certain businesses. Our team performed extremely well in 2018, but there were some select businesses that did not deliver against our expectations, which means there are more opportunities to improve our overall results. We have already taken aggressive actions to help those businesses around -- turn those businesses around. For example, in the midst of industry overcapacity and compressed margins, we've announced a rationalization of our peanut and tree nut origination and processing footprint. We also made some organizational changes in that business to ensure it is structured properly to succeed among new market realities. Across the company, we've identified other businesses that we believe can do better. We have established specific year-over-year improvement targets for each of them. We'll rigorously monitor their performance throughout the year and take further actions, if necessary, to ensure that they meet our high expectations. We're anticipating $150 million to $200 million in benefits in 2019 from our efforts to improve performance.

The second area that will help deliver strong profits and returns in 2019 is Readiness. 2018 was the year in which we launched Readiness and embedded the change within the whole organization. 2019 is when Readiness accelerates as we take our current bank of 525 prioritized initiatives and deliver projects and cultural change that, taken together, will permanently change how we run our business, creating a lasting structure under which we will be more efficient and more effective. Readiness will improve performance by: helping us isolate problems and implement effective solutions; help to sustain our high-performing businesses and ensure we avoid pitfalls; empower us to make more effective decisions, thanks to better and more timely data and analytics; allow us to anticipate and service customer needs more quickly and more effectively; and support growth efforts by improving the processes we use to identify and evaluate opportunities and enhancing the efficiency of our integration efforts. As we mentioned earlier, we have already delivered $300 million in run rate benefits from Readiness at the end of 2018. By the end of '19, we expect Readiness to contribute $200 million to $250 million to our bottom line.

Growth efforts are our third focus area for 2019, specifically, ensuring that the growth investments we have made in recent years fully deliver on their profit and returns potential. Since 2014, we have dramatically expanded our portfolio and our geographic reach with both organic growth projects and M&A activity. Taken together, we made more than $7 billion in growth investments over the last 5 years, including key investment like WILD for Taste, Biopolis for Health & Wellness, Neovia for Animal Nutrition, Algar in South America and Chamtor in Western Europe as well as other bolt-on additions and organic investments. Now with an unparalleled portfolio of products and ingredient solutions in key growth markets around the world, 2019 is the year we focus on harvesting increasing returns from those investments, which we believe will deliver about $150 million in 2019.

Our path to success continues to be pulling the right levers and controlling what we can control, improving business performance, Readiness and growth. And by focusing on these 3 drivers and executing well, we are well positioned to deliver continued profit and cash flow growth in 2019 and beyond.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question comes from the line of Eric Larson with Buckingham Research.

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

A couple -- Juan, just a little follow-up, just on your last comment on harvesting growth investments. Obviously, you've got Neovia that you just closed on a few days ago, et cetera. Can you give us a little bit more thoughts on Neovia? Will this be contributing immediately to earnings? Or is this -- will it be accretive, let's say, in your 2 -- how should we be thinking about the recent acquisition here?

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

Yes. So we're very excited about this. I think as I said before, Neovia established us as a overnight leader in the Animal Nutrition business as we combine both our businesses. The way to think about it in terms of the quantification of the impact, Eric, is if you think about my announced $150 million coming from growth initiatives, about 50% of those $150 million, about $75 million, belong to Nutrition. So they're going to be accrued to Nutrition. And in Nutrition, Neovia will be the largest of the acquisition that are coming to compose those $75 million. So with that, you can get a feeling for how much will Neovia contribute, and we'll start in 2019.

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

Okay. Okay, good. And then obviously, you had an amazing year in Oilseeds, and obviously, you've got more difficult comps going forward. But I think you also were able to build a pretty strong book, I think in -- believe in the first half of this year, based upon some Crush margins that we saw throughout the second half of last year. Can you give us a better flavor for how you think the Oilseed division should look for the full year?

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

Yes, sure. Listen, I think as you said it before, probably the Crush environment in 2019 will not be as spectacular as maybe 2018. But we still believe, given global demand, the strength that we have around 3% outside China, that this business will still maintain Crush margins well above the average that we have seen over the last 5 years. On top of that, I think you need to consider about all the incremental contributions that our business will get from the Brazilian acquisition, Algar, the SoyVen joint venture in Egypt and some of the expansions that we have done to our own capacity and improvements in that capacity. On top of that, I would say you will have to add the turnaround we're planning to see in the peanut and tree nuts business in 2019. That was a little bit of an unexpected headwind in 2018. We're not planning to have the same in 2019. So overall, I would say, probably a little bit softer than 2018, but still a very solid performance by the Oilseeds in 2019.

Operator

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

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

Juan, just on the corporate expense. I mean, it's getting pretty sizable compared to the overall profitability of the business. And I'm just wondering, did the centralization of it versus of allocation to the segments, I mean, what are sort of the pros and cons to doing that? Maybe I'm a little bit more focused on the cons of maybe centralizing it and not allocating it by segment doesn't sort of -- could potentially send wrong signals in terms of capital allocation investments in those businesses. So how are you thinking about it?

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

Yes. I think -- Vincent, it's Ray here. I think one of the important initiatives on Readiness is this aspect of getting towards common global processes and standardizing our activity. So over the course of 2018, we did centralize more of the purchasing activities, the procurement activities, right? So we took some of the activities out of the businesses and centralized it. Same thing for marketing activities. And so therefore, it's actually important, as part of the whole Readiness initiative, to actually get these groups together in order to kind of drive the standardization and the common processes. So therefore, the -- a part of the increase year-over-year is due to this type of centralization. The other part of the increased corporate cost is what we talked about is our investments in R&D, investments in information technology, the business transformation. Even though they're spending, we do view these things like investments, right, in terms of better the company for the future. And so it's really those are the 2 main drivers in terms of year-over-year costs. When we actually look at our core central staff cost, they've actually gone down year-over-year, right? So I mean, normally, when you people think about costs, you think about core costs, and those costs are actually being driven down. So I think that we're trying to drive down that costs, take some of the savings. There's some shifts in terms of some costs moving towards corporate as we centralize activities, and we're investing more, frankly, in terms of the innovation, R&D and business transformation.

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

Okay. And just a follow-up. In the quarter, on Oilseeds, were there any mark-to-market reversals?

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

The net impact on mark-to-markets in Oilseeds for the quarter was not material. So therefore -- normally, we will call out if it was something above $50 million. The fact we're not calling out anything indicates that it was not a material impact for the quarter.

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

But it could have been $49 million.

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

It wasn't material, not that.

Operator

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

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

So I wanted to go back to some of the pieces on 2019 that you laid out, make sure that I'm thinking about this properly. So I believe you called out $150 million tailwind from some of the growth investments in M&A that you've done. You talked about carving $150 million to $200 million from some of the operational challenges at Decatur and the nut processing that you experienced in 2018. There's about an $80 million or so headwind on interest expense, if I was doing that right, $20 million, $40 million headwind on corporate. The biodiesel tax credit, if it doesn't come back, that's $120 million headwind year-on-year. And the tax rate is up a little bit. And so after that, which the net still modestly positive at the net income line, the question is kind of how much do you net realize on the cost savings relative to kind of broader cyclical dynamics in Oilseed, Crush, ethanol and Origination. Is that the right framework?

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

Yes, I think that's the right algorithm. So what we we're thinking is you have the margins, the ups and downs of every year, and then we have the things that we can control. And we laid them out, and I think you repeated them very well. It's improved performance, which is $150 million to $200 million. It's the Readiness activity, which is $200 million to $250 million. We have rolled into Readiness all our previous operation and excellence activities. So we're not going to have that bucket anymore is -- part of this Readiness. And then we're going to have the $150 million from all the accretion of growth investment that we have recently done. So you take that minus the headwinds that you described, plus or minus your view of the market conditions in 2019, and that's what we consider. Still, that despite maybe some modest reduction in Crush margins versus the previous year, we expect that we're well positioned to grow profits in 2019.

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

Yes. And Adam, don't forget the Other segment. This year was burdened by a lot of underwriting losses. We're assuming 2019 to be more of a normal year. So I gave guidance of $120 million in Other versus this calendar year was more like a $58 million number. So don't forget that delta as you kind of build up the model as well.

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

Okay, that's helpful. And then so just maybe going into some of the underlying kind of businesses' cyclical dynamics a little bit. On the Crush margin side, I mean, still strong. I was just trying to make sure, I mean, where we were in 2Q and 3Q with board crush that was $1.50 plus relative to board crush that's been hovering around the $0.90 cents a dollar since November. I'm just trying to -- is it just Europe is better, soft seed, Brazil? Just help me think about the different geographies and how that plays into what you see on the board crush, which suggests a big headwind in the middle of the year.

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

Yes. We continue to see, Adam, a strong utilization in North America. We have a good book through Q1. We've seen gross margins $30 to $35 per ton in Q1. So utilization rates continue to be high. We continue to export meal and domestic offtake continues to be robust. Actually, our customers are reporting -- I mean, if you talk to the poultry customers, are reporting that they believe that poultry demand has not peaked. And they see through low pricing and some of the new retail options that they're being offered right now, that we're going to continue to grow per-capita consumption. So we're optimistic there. In canola in the U.S., margins are 25 to 45 maybe the dollars per ton for Q1, and we have profitable export oil flows there. So if you think about Europe, in Europe, markets are at the carry. So customers are a little bit more hand to mouth. So maybe we don't have in Europe the same book forward than we have in North America. But mid-proteins meals seems to be in good demand from Europe itself, but also some are replacement in China. So that's supporting grapeseed meal prices. So in general, margins are near $35 per ton in Europe. If we go to South America, there is a wide range in Brazil, where we have some $10 to $15 per ton Crush margins growth in export facilities and where we have maybe $25 to $30 per ton in gross margins in facilities that are geared toward domestic market. Maybe domestic market facilities has a little bit better ownership of beans. And we have domestic meal premiums, but also some opportunities to export meal while Argentina still got to their harvest. Paraguay, we're facing a little bit of smaller crop in Paraguay, maybe 10%, 12% lower because of the drought there. So we expect to run about in the high 80s in terms of utilization there. So maybe a little pressure there. My understanding is that Crush margins have improved recently in China for Q1. They are about something between $10 and $15 per ton. So that's kind of going around the world a little bit on the Crush side.

Operator

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

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

Maybe 2 questions, Juan. First, we've kind of missed the export opportunity now for the season for U.S. soybeans to China. So can you talk about what that damage has done, what it might do and what are the structural now that at least Argentina is back producing more than it did last year? And then secondly, we're just talking again about Argentina on the Crush side. What would you anticipate they'll do? Will they export more beans? Will China pull more beans from them? Or will they export more meal, which they generally do? I'm just curious what drives what is there.

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

Yes. So I would say regarding the U.S. exports, as I think Ray mentioned in his prepared remarks, we were able, thanks to our Global Trade group, but also our destination marketing group, to offset in last Q4 probably 70% of the volume that we were thinking China was going to take, part with the corn exports that grew significantly year-over-year and part by sending it to either our own Crush in Europe or other destinations, maybe Thailand and other places. So that, again, boots on the ground in destination marketing was very helpful to move those beans around. In our scenario planning, if you will, for 2019, we are expecting at least the trade dispute with China either resolved during the year in the trade aspects, whether we continue to discuss other issues with China later on. But we think that the trade will be part of the solution during 2019. So we're still counting with maybe smaller than other years, but still sizable exports from the U.S. in Q4 from soybeans. That is our predominant scenario at this point in time. The second part of your question, sorry, Ann?

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

Argentina.

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

Argentina and whether we're going to expert beans. So I think -- first of all, this is going to be the full season of Argentina operating without a DET. So it will be interesting to see how they behave, whether they are a little bit more disciplined seller out there. I think there's still Argentina's year to sell more meal. And so I would expect that Brazil or the U.S. will take the brunt of the export of soybeans and Argentina will export the meal.

Operator

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

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

I just had a follow-up question on the operational issues you guys had in '18, specifically on Decatur and lysine. So you all talked about those issues meaningfully impacting Q4. So one, wondering if that's been resolved. But the second part of that is the explosion you had earlier this calendar year, like -- so -- when should we start to see the giveback of Decatur normalizing?

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

Yes. So Heather, I think you need to think about the Decatur process as a revitalization process, if you will. Decatur is a plant that traditionally has been the low-cost operations for us. And so as such, we have put a lot into Decatur. It's a very integrated complex, but is also a very complex, complex, if you will. And so in 2017, we have outages related to electrical infrastructure. And in '18, we've reduced the unplanned outages because of that by 90%. So we made significant progress. Now we are -- continue to revitalize some of the equipment in the facility with planned outages this time to improve the reliability of the plant. This effort, of course, will yield long-term operational stability and -- especially at high utilization rates. That's what we try to do normally from this plant, very high. I think the issue on lysine is slightly different in which, lysine, we introduced a lot of new technologies in both fermentation and downstream processes, basically to improve the cost position. And we've seen already evidence of those improvements. The problem is we need a stable source of dextrose from the corn plant. So lysine is receiving a little bit of the shocks of the planned outages that we're having in Decatur as we try to fix Decatur. So I will say you're still going to see some of that in this quarter, and then they will start tapering off. And we should be completely out of all this by the second half of the year, and you will see the improvement. But the impact in 2018 was significant. It was probably in the tune of $30 million to $40 million in each of the businesses, in Carbohydrate Solutions and Nutrition, and we expect that number to be significantly reduced for 2019.

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

Okay, okay. And then going back to your comment about soybean meal demand. You mentioned that you're expected to be -- I thought you said up 3% for the year, and you mentioned China in that statement. Is that you all's estimate based upon where soybean meal is from a price positioning basis, but also taking into consideration the impact of ASF in China?

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

Yes. No, my comment was 2.5% to 3% outside China, outside China. China, it's difficult to call at this point in time. I think that -- we hope that the ASF situation is getting a little bit better. We've seen the government lightening up a little bit in some of the bans in transportation of pig between the provinces. So hopefully, that's an indication that they see this as slightly getting better. But as you know, it takes an animal 18, 20 months to get to breeding stages. So the rebuilding of the herd is going to take a while. So we expect that to drive -- in the short term, to supply the demand of China, to drive imports of either pork or chicken. And we think that that's going also support the demand in the other place where we produce. So greeting the exact demand in China is going to be difficult, how do they come back from Chinese New Year, I mean, how much of a psychological impact all these ASF situation has had in the Chinese consumer, we will have to look at that.

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

So just to push back on that a little bit. What is driving your lower view on the 2 -- on the demand outside China? Because 2.5% to 3% is a pretty significant slowing. So what's driving that view?

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

We've been close to customers and all that, and so that's kind of where the team is assuming at this point in time the demand to be.

Operator

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

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

Wanted to ask a little bit more about Project Readiness. I believe, Juan, the goal is $1 billion in savings in 2 years, and I think you said on the call here that 2019 will deliver $200 million to $250 million of incremental savings for year 2019. Is that to then say that the subtraction then would be that all the balance of this shows up in 2020?

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

Yes. Just so -- and so for clarification, so the $1 billion run rate by the end of 2020 is a run rate, right? And as we've talked out, not necessarily everything on the run rate will flow through the bottom line because there's going to be some offsets in terms of either inflation or just reinvestment of some of the savings. What Juan indicated in terms of $200 million, $250 million savings in 2019 represents the year-over-year improvement from Readiness. So therefore, this would be additive towards the 2018 results, and that reflects the combination of the run rate savings that we're going to generate this year, but also some of the run rate savings that we generate at the end of 2018 flowing through and net of inflation here. So this is a net number that we're talking about in terms of improvements in '19 compared to '18 from Readiness, just for clarification.

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

What's the remaining net number then after you complete '19? So I'm getting lost here between this gross number of $1 billion and the net number that you're calling out to the bottom line. What's the residual that would be left over for 2020 and 2021?

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

It's probably in the range of $0.5 billion.

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

Okay. It's still very sizable, okay. Okay, that's very helpful.

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

And I think you have to say -- David, you have to see, we have a quick start in 2018 with the $300 million because there were a lot of ready-to-implement opportunities that actually require less capital or less changes in processes. So you can -- you do more of those at the beginning. Then 2019, we'll have more foundational things that are related to processes or technologies. And then you're going to see again an acceleration as all those projects are implemented into 2020. So I think that that's a little bit the cadence. We did the easy ones at the beginning. Now we're doing the more fundamental ones that take a little bit more work, and then you're going to get the benefit of all that infrastructure into 2020. That's why the $300 million. $200 million to $250 million and $500 million kind of cadence, if you will.

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

Very helpful. Last question for me is just a clarification on some of the answers you guys gave to a few other questions as it relates to China and the potential for a deal with the U.S. and China on trade. Is it -- all the numbers that you've given on the call is the base assumption that we get a trade deal with the Chinese by the end of February. Is that the base assumption when you laid out all these various numbers? And then can you give us some sensitivity of if we don't get a trade deal, what happens to your thoughts, Juan, on the outlook for the ADM business? How much volatility could we or should we expect if the outcome does not occur for the base assumption?

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

Yes, David. So our assumption is not that the trade deal is resolved now in the first quarter. We have it more like half of the year. So we're thinking if there are any benefits come, they will come in Origination in the last quarter of 2019. I will say whether -- the different scenarios, whether we have a resolution or not, it depends on what kind of end deal we -- the both -- or end state both governments end up into this. If these are portraited trade war or complete dispute, I think it's going to be bad for everybody. I think it's going to be bad for the global economy, and then it's difficult to forecast what's going to happen. I would say in a scenario in which we continue like this, which is a negotiation and with trade, especially in agricultural products, could be used as a token, if you will, or as a contribution to -- towards a bigger agreement, I think that we can handle the different scenarios. In a scenario in which we have no agreement, probably, beans in the U.S. are continue to be cheap. Crush margins will continue to be high, like maybe they were last year, and we will have lower exports of soybeans from North America. In a scenario in which we get an agreement and China try to buy more agricultural products from the United States, we'll probably have higher Origination -- elevation margins in Q4. We'll probably have a hopefully some ethanol flowing into China that could help ethanol margins, and we'll probably have a slowing down of crush in North America or at least a reduction in Crush margins versus 2018. So we are in the middle of kind of those scenarios, and we manage those scenarios. And I'm not saying they are neutral to us, but we can manage through both of them and see, still, us maintaining our forecast for '19.

Operator

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

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

This is more of a modeling question. But I think you guided net interest expense. Is it going to be up $200 million year-over-year? Is that correct?

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

I think we indicated that we're going to be $100 million per quarter, so $400 million for the calendar year. That's what we're seeing that it should be for 2019.

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

Okay. Am I adding the difference correctly though? I mean, you had only $200 million in 2018, because I think that's the math, isn't it? So it's $200 million incrementally year-over-year of interest expense, net?

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

We were higher in '18. We're actually -- I think we're higher than that. I think we're just -- we're going to be higher by, I think, it was about $40 million or something like that. But we can just follow up with you on a one-to-one afterwards.

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

Okay. Maybe I'm modeling this wrong. But what I'm really trying to get at is you have higher interest expense. Does the operating income from your acquisitions offset the higher interest expense? And really -- and what does that mean for dilution in 2019?

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

No, it does. It does. I mean -- and so it more than offsets in terms of the impact. So we can follow up one-on-one with you on the incremental year-over-year on a managerial basis.

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

Do you have an operating income number for how much the acquisition's at in 2019?

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

Well, I think Juan was talking about growth in general, right? it was going to contribute about $150 million. And while that...

Operator

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

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

I was wondering if you guys could provide us a little bit more of an update on how high fructose corn syrup contracting is going and your expectations for 2019.

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

Yes, sure, Michael. Listen, contracting is done. Of course, we started earlier, the process, last year, and I would say we finished with volumes and margins overall consistent with last year. So we've been able to hold margins and volumes in general. Of course, there were some pickup of both year-end losses there up and down. But in general, I would say consistent with 2018 for both margins and volume.

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

Okay, great. And then shifting over to Origination. Could you give us any idea in terms of how much more room there is for growth in terms of your destination marketing volumes and what the cadence might look like over the next couple of years there and which markets you're targeting?

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

Yes. I think the team continues to look for more opportunities. It's just all the numbers have grown dramatically, more than doubled over the past 5 years. I think the rate of increase that you're going to see going forward volume-wise is going to be probably lower in terms of the rate of increase because we've gotten to a lot of the markets that we are initially targeted. But clearly, there's still markets, for example, in Southeast Asia, in parts of Central America, parts of Middle East that we still view there's opportunities for further growing that business. So I would say there's still going to be growth, although not at the same rate that we've seen in the past few years.

Operator

You next question comes from the line of Ken Zaslow with Bank of Montréal.

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

Two questions. One is, Juan, opening comments, you said that you improved your Origination in the U.S. What did you do? And what was the process to which you did that?

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

Yes. We did several swaps and closure of elevators, just adjusting our footprint basically to where our production is and making sure that they are -- we have the right elevator tributaries to our export facilities or plants, so normal pruning and improvement of that. But we also grew our North American fertilizer distribution business, our stevedoring business, so many, many good things have been doing, the grain guys in the U.S., also more digital tools, better marketing, thanks to the -- even providing better marketing tools for the farmers. But I will say specifically to the footprint, I mean, we normally -- we have like, I mean, 200 buying stations. So normally, there is some churning, and I think the team was very aggressive in making sure that we shut down the ones that we needed to shut down and we move personnel to others that maybe had more volume opportunities.

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

My second question, it starts out as an observation, but it'll probably lead to a question. One is if you think about your competitors in both high fructose corn syrup and crushing, you made 2 interesting observations: one is your risk management in South America on Crushing saved you, and it was successful; and then the last question you answered -- asked and answered was the way that you think about your high fructose corn syrup margins is that the pricing was actually fairly successful and that you're able to continue to do that. That is both in contrast to your competitors. So the question that I'm asking is, is there a process that you undergo that's differentiated than your competitors? And would you actually benefit from a greater sizable asset in either parts of the world?

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

Hard to know how our process compares to our competitor. Of course, we -- I think one of the big advantages that I always pride ADM for having is, first of all, a great team, but also, I think the fact that we keep the company relatively tight. I mean, before the acquisition of Neovia, we were a steady 1,000 people, which we handle about $60-something billion of revenue, help us to -- not only the agility, but the sharing of information, I think. We have -- every Monday morning, we have a risk meeting, where like 20 or 30 people are in that call. And I think that these are people that work very well together. They know what they do very well. And in general, you know us, we try to hedge our margins maybe to do some basis trading. But fundamentally, we try to leverage our asset base. And because we believe the asset base of a company like ADM is irreplaceable, so we take advantage on that, and that's where we make the money. In terms of we would like to get bigger anywhere, I think that our objective is always trying to get better. And I think that as we get better, we could be bigger one day. But I think that the most important thing, through Readiness and everything we do, is that we are very honest. And despite we have a very good 2018, we're still not satisfied. We probably left a couple of $100 million on the table on things that we should have done better, and Readiness is tackling that, is how do we continue to get better before we get any bigger. So even from a capital allocation perspective, you heard us doing Neovia and we did Florida Chemicals and we may conclude that maybe another small deal that we could be negotiating here or there, but in general, 2018 was a year of pausing in terms of our M&A and actually consolidate all these, get our returns from all these and, again, continue to think about getting better versus getting bigger. I think when we get better, eventually, we will get bigger because we will be the best operators of assets out there.

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

Well, you're starting to differentiate yourself. Well, well done.

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

Thank you.

Operator

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

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

It's Victoria. Thank you for joining us today.

Slide 15 notes some of the upcoming investor events where we'll be participating, and as always, please feel free to follow up with me if you have any other questions.

Have a good day, and thanks for your time and interest in ADM.

Operator

This concludes the Archer Daniels Midland Company Fourth Quarter 2018 Earnings Conference Call. We thank you for your participation. You may now disconnect.