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# EDITED TRANSCRIPT

ADM.N - Archer-Daniels-Midland Co at BMO Capital Markets Growth & ESG Conference (Virtual)

EVENT DATE/TIME: DECEMBER 05, 2022 / 2:00PM GMT

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## CONFERENCE CALL PARTICIPANTS

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

## PRESENTATION

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

Welcome back, everybody. Good morning, Vikram and Alison. We're so glad that you both are here to discuss the overarching role of sustainability for ADM.

Following more than 20 years in the financial leadership positions at both ADM and General Motors, Vikram has been pointed CFO at ADM earlier this year. He remains relentlessly focused on sustainability and growth as ADM continues to navigate an unprecedented environment and reap the rewards of growth and cost efficiency investments.

And Alison, as Chief Sustainability Officer for nearly 5 years, continues to position ADM to have a social and environmental impact on our global scale. In fact, under her leadership, ADM accelerated its non-deforestation commitment, announced a new goal to reduce Scope 3 greenhouse gas emissions by 25% by 2035. Previously, Alison had been Vice President for Sustainability at Siemens and served as Chief Counsel to the U.S. Senate Environmental and Public Works Committee. Thank you both for being here.

With that, let me turn it over to Vikram for a few introductory comments.

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**Vikram Luthar** *- Archer-Daniels-Midland Company - CFO & Senior VP*

Thanks, Ken. Alison and I are glad to join you.

ADM has built an irreplaceable global asset footprint as well as unique capabilities that align with 3 vital and long-term macro trends of food security, sustainability and health and well-being to drive long-term profitable growth. We have extended our value chain to get closer to our customers, and are well positioned and committed to take a leadership role in the decarbonization of the ag and food supply chain.

Over the last decade, in particular, ADM underwent a significant transformation Initially, we were laser focused on strengthening the core of the business and driving higher returns by reducing CapEx, optimizing structural costs and monetizing non-core businesses and idle assets.

We then pivoted to dynamically positioning the portfolio and investing for growth, which created the Nutrition business, and that remains an important engine of future growth. These actions, combined with key positive structural changes in the ag industry, have delivered strong financial results.

In fact, in the first 9 months of this year, we exceeded our prior record earnings in 2021. We delivered $5.91 EPS in the first 9 months, adjusted, and operating cash flow before working capital of $4.7 billion and ROIC of 13%. We also expanded gross margins over this period year-to-date comparison by 70 basis points.

We've also consistently returned capital to our shareholders using our strong balance sheet and cash flows. We've raised dividends each year for 49 years, and also returned capital in the form of buybacks.

We see this momentum continuing through Q4 and into 2023. Demand for our products is resilient. Crush margins remain strong. There's a positive outlook for sweeteners and starches as well as nutrition. We will continue to leverage our strong balance sheet and disciplined capital allocation to return capital to our shareholders and invest for long-term growth with a balanced focus on productivity and innovation across all 3 businesses.

And before we get into questions, I also wanted to address the RVO proposal that came out last week. Based on our preliminary assessment, Ken, of the proposal, we see the RVOs as a positive framework for the biofuel industry. And we think that it actually establishes a floor, not a ceiling, for demand going forward.

With that, I'll turn it back to you, Ken.

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## QUESTIONS AND ANSWERS

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

That's great. Look, let's start with ESG. The discussion of ESG continues to accelerate. And the vast majority of companies will need to meet a minimum threshold of ESG goals over time, but the most successful ones will differentiate themselves beyond "like table stakes" and develop what we call like superpowers. What is ADM's 2 or so superpowers and how they developed over the last couple of years?

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**Alison Taylor** - *Archer-Daniels-Midland Company - Chief Sustainability Officer*

Thanks, Ken. Good to be with you today. I think our superpowers, and I love that frame, are really attached to our place in the agriculture value chain. And so you look at where we sit, not owning farms and also not owning brands, but right in the middle of those consumer-facing customers as well as the many, many producers, hundreds of thousands with whom we work around the world, we have such an opportunity to influence the entire agriculture value chain to become more sustainable to lower carbon footprints and frankly, other aspects of sustainability are enhanced as well, like enhancing biodiversity, lowering water usage, et cetera.

And what we see is that more of our customers, driven by consumers, are wanting information about where food is coming from. They're wanting quantified footprints. They're wanting to know more about how to compare certain types of food or even certain brands, one to the other from a sustainability point of view. And we have the opportunity to provide that information through enhanced traceability throughout our supply chains, our ability to work with farmers on sustainable or regenerative agriculture practices and to measure their continuous improvement and the removal, for instance, of carbon from the atmosphere through their soil health practices.

We're also able to influence other aspects of the value chain, such as transportation, owning a transportation network and greening that network, also processing, which we have a decarbonization strategy throughout our processing network. So we can deliver information. We can deliver a lower footprint. We can deliver a lot of knowledge about sustainability and regenerative practices. We're collaborating with customers who are looking to lower their footprint, so they want this information. They want these sustainable products.

And we're also able to deliver that essential food security need. Food security and sustainability had become a much bigger topic, and they're also absolutely compatible. As we can pivot around obstacles and supply chains and still supply those sustainable credentials, we really see that as the sweet spot for ADM.

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

Great. And then what are the two greatest advancements you think you made over the last 12 months, like tangible changes that people could kind of think sink their teeth in.

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**Alison Taylor** - *Archer-Daniels-Midland Company - Chief Sustainability Officer*

Yes. I think that some of the last 12 months have been really focused for us on increasing that regenerative agriculture offering and the way in which we're working with so many of our customers on this.

As we announced some customer agreements that were very substantial in this space, both because our customers have regenerative agriculture goals, they want to transform practices, but also because they're looking to decrease their upstream footprint, the so-called Scope 3 footprint. We've had a lot of interest, commercial interest, in how we can deliver acres.

So we have a new goal now, 1 million acres of regenerative agriculture within the next year. That's a great acceleration over just the last year and certainly, the year before as well as we see more of that demand coming online. So we are working with farmers to use platforms in which they can be measuring their sustainability practices.

We're seeing more and more farmers interested in this because they see that there is a real market for these credentials, and there's also enhanced resilience of their farm practices and efficiency of their farm practices that we're able to talk to them about. This has become a real buzzword within our company, and I think one of our greatest areas for growth, but also certainly focused in the past year.

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

Great. I know you guys did announce a new goal to reduce Scope 3 greenhouse gas emission 25% by 2035. What actions and commitments will be needed? Are there some intermediate milestones to get there? 2035 is pretty far away. So how does this play out? And what are you committed to and has worked?

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**Alison Taylor** - *Archer-Daniels-Midland Company - Chief Sustainability Officer*

Sure. So Scope 3, 25% absolute is our goal. You're right. And Scope 3 by definition, as a lot of people may know, is what's not directly in your control. So we have to work with our downstream and upstream partners in order to achieve these goals. And again, back to regenerative agriculture, because those upstream emissions are a big part of our Scope 3 inventory, that's a huge part of our strategy.

So we can probably assume that with customers having more interest in regenerative agriculture, we'll be moving faster in that category or that aspect of our Scope 3 reductions. And as I said, 1 million acre within the next year is a short-term goal that we intend to hit there. And we look at about 0.5 metric ton per acre reduction in carbon when we're looking at those kinds of acreage goals, and it can be higher depending on the crop and depending on the location.

Another big part of our strategy is to work with our downstream customers who are also setting their Scope 1, Scope 2 goals to reduce their own processing footprint. That's a part of our Scope 3 categorization as well. So part of our collaboration is understanding their strategy for reducing their processing footprints.

And collaborating in some of our know-how. We're a thermal energy user. We have Scope 1, 2 goals as well. So this is where a lot of conversation takes place, and we talk about what's worked for us, what technologies we're looking at in our decarbonization strategy to help our customers to think more about how they can be reducing that Scope 3 downstream footprint for us.

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

Great. And just kind of parlaying that into the Inflation Reduction Act. I know there was a lot of carbon issues in there as well. Can you talk about, from both the financial side of it as well as the ESG side of it, which businesses will have the most impact? How much? And how will the IRA play out in the timing? How do you guys see it?

**Alison Taylor** - *Archer-Daniels-Midland Company - Chief Sustainability Officer*

Let me take that. Sorry.

**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Maybe you want to start with it, and then I'll complement, Alison.

**Alison Taylor** - *Archer-Daniels-Midland Company - Chief Sustainability Officer*

Yes. Exactly. I wanted to just give a little frame for how we're seeing some of the awareness that's been building around the IRA in the ESG space, certainly. So there's a lot of activity around decarbonization strategies and technologies in a lot of our -- my peer base anyway. And the IRA has created a lot of buzz.

As you may know, ADM has operated a carbon capture and storage facility in Decatur Illinois over an aquifer over, which we're located for over a decade. And it's technology that we decided to demonstrate years ago. We've been utilizing this with what's called biogenic emissions for years.

But after the IRA, we've certainly seen a lot of interest in this type of technology. How did it work for us? Is it possible that other companies could use this? Is it possible that others could be connecting to this and utilizing our wells? We see that as a direct result of the IRA and the incentives that are provided there. Awareness around the types of technologies that we're looking for in the decarbonization strategy, the fact that they may actually scale to a point where we could realize the utilization of those technologies in order to meet our own goals, especially even our 2035 goal.

We feel a lot more energy and hope around those kinds of technologies actually being scaled. And then there are specific incentives that are really helping some of the areas in which we're focused, which Vikram, I'm sure, is going to talk about, too.

**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Yes, thanks Alison. Actually, as I mentioned in my introductory comments, Ken, ADM is well positioned to lead the decarbonization of the food and the ag supply chain. And we, as Alison said, on the carbon sequestration, we were the first and the only on-purpose carbon sequestration facility that was formed, right?

We have 2 wells. We've injected about 3.5 million metric tons of carbon dioxide already, and the IRA has just created, as Alison said, a lot of additional interests about this opportunity. And you've seen we've made some MOU announcements regarding our partnership with certain pipeline companies as well because we are looking at ways to decarbonize our asset footprint. We are large thermal energy users, as Alison noted, and the carbon sequestration capability and some of the incentives offered by IRA will accelerate that and expand the economic opportunity for all parties concerned. So that's one important area.

The second important area is related to the biodiesel tax credit. The fact that, that was defined for a longer period of time for 2 years, gives more certainty. And certainty is always good when it comes to infrastructure investment, and it supports as well our ongoing biofuel and energy transition, which is an important element of the future growth of ADM.

And finally, on SAF, we've talked about how we're looking to pivot some of our ethanol assets into SAF. We're working through elements of that partnership as we speak, but there's an opportunity to convert 900 million gallons of our ethanol into about 500 million gallons of SAF. And some of the incentives that were defined in the IRA increases the certainty around that and will likely accelerate and expand investment in SAF going forward.

We know the customer demand from the airline industry is very robust. Almost every day. You see new airlines talking about their interest in blending SAF, and the market opportunity is there. We are very well positioned from the scale of our assets, fermentation in terms of low carbon intensive feedstock as well as a carbon sequestration and some of the partnerships and pipelines to participate in that trend in the IRA is going to help stimulate that further.

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

Two follow-ups to that. One is, can you dimensionalize how much this would be as a financial impact to you overall from the IRA and the components? And the second part of it is, at what point do you think SAF is actually at a price where it become -- can be commercialized? There's a lot of debate that $1.25 to $1.75 is not enough. Do we need more? And what is the pathway to get that? Those are my two follow-ups on the IRA.

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**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Yes. At a Global Investor Day, Ken we talked about the Carbohydrate Solution business generating another -- about $500 million of operating profit from some of the decarbonization elements we just discussed in the IRA is going to stimulate that. And there are various elements of that.

Clearly, the elements associated with carbon sequestration and our relationship with the pipelines and how we can participate in that particular aspect. And the SAF component is also very important in terms of the partnership we are working with both with potential off-takers as well as technology providers.

And that's going to create another framework of value creation. It is going to require investment by, not necessarily by us, but it is going to require investment for the SAF side, which takes a long time. So probably SAF, in terms of reality to come online, at least for us, is going to be in the 2026 type of time frame. And at that point in time, given some of the covenants, the PTCs, the producer tax credits that are baked into the IRA, we believe there's enough economic incentive for SAF to be profitable and to be a viable blend for jet fuel.

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

Do you think it's viable right now? If it was $1.25, $1.75, that's enough for it to be.

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**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Yes, depending on carbon intensity and some of the LCFS credits around that, yes, we believe there is some profitability already in SAF.

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

And what do you guys need -- you said that there's going to be some capital investments outside of ADM, but what does ADM need to do to realize that $500 million opportunity in Carbs.

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**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Well, we talked about some of this, Ken. But essentially, it is finalizing some of the agreements we have with the pipelines. We are looking at expanding the number of wells we have in the carbon sequestration within the Decatur facility. All that is going to be an element of that.

But the biggest component would be the partnership that we are working through on SAF that will likely come online, as I said, 2026 time frame. And that will be a conversion of about 900 million gallons to about 500 million gallons of SAF. The investment will be likely in the downstream. There's going to be a potential investment to convert the alcohol ethanol feedstock into the final product of sustainable aviation fuel.

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

The current environment in Carb Solutions seems, if I take away the ethanol side for a second, it seems exceedingly positive on the pricing side. How do you think about your pricing power across the Carb Solutions business? Do you expect to see some margin expansion as with pricing going up and corn potentially leveling off?

**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Yes. We are optimistic about the sweets and starches business into 2023. And for some of the reasons you cited. We -- from a volume perspective, we had mentioned that, in general, we see some secular decline in high fructose corn syrup over time. Although more recently, given what happened with pandemic, we see very robust demand on the food service side, and we don't see any necessary tail-off on the demand of the core product.

In parallel, what we're doing from a margin perspective is you're right with the strong co-product pricing, we think the input costs on a net basis should remain attractive. And we see opportunities, given some of the continued tightness of supply, to see continued opportunities to maintain and potentially expand margins into 2023.

The other thing that's important in Carb Solutions that we continue to do is change the mix. We will see some secular decline going forward, and we are changing that mix to focus a lot more on biosolutions, and that business is growing by more than 10% on an annualized basis. We've talked about that in 2021, and then so far in 2022.

That is not -- that is going to be a continued engine of growth in Carbohydrate Solutions as we change the mix and divert some of this dextrose that we would have gone otherwise into fructose into starches. We're looking at expanding such capacity in one of our facilities, in Marshall. We're looking at new applications to move these products into to continue expanding margins and improve the mix of profitability across Carbohydrate Solutions.

And then finally, some of the other aspects I talked with respect to carbon sequestration, SAF, but also the LG Chem announcements, the two joint ventures we talked about on lactic. We've announced on lactic acid as well as PLA will provide some additional profitability to the overall evolution of the Carbohydrate Solutions business.

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

So if I look at 2023, 2024, it does seem like you're not just looking to just grow dollar profit, you could actually enjoy some margin expansion between the pricing and also the mix shift? Is that a fair way to think about it?

**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Potentially for '23. Yes, that's a possibility. Yes.

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

2023 into 2024. Just for the next couple of years, I didn't mean to pin you down to exactly 2023, but yes? Directionally?

**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Yes, directionally.

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

On the most recent conference call, ADM did shift their nutrition profitability of about 15% to constant currency for obvious reasons. Do you still see yourself reaching the $1.25 billion to $1.5 billion target by 2025? And what will drive the growth in terms of -- is it organic? Is it M&A? Can you talk a little bit about that?

**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Yes. Certainly, we see our path to grow get to $1.25 billion to $1.5 billion in 2025. That has not changed. Yes, we've had some supply demand fulfillment challenges this year in Q3, in particular, that will persist for a few more quarters. But fundamentally, fundamentally Ken our pipeline on the human nutrition side has never been bigger.

Our win rates remain very, very robust. Our value proposition with our customers across the entire customer spectrum, Tier 1, Tier 2, Tier 3, is resonating more than ever before. What we need to do is make sure that our capacity and a demand fulfillment comes in line with that exceeding growth in customer demand.

And that's what we are focused on, unlocking capacity in our existing facilities, building new capacity, whether be it flavors, whether it be it in pet, in specialty proteins, in probiotics, all that's going to come online and going to provide some further boost to volume expansion in the future years.

Will we need M&A? M&A is not a necessity to get to the $1.25 billion to $1.5 billion, but it is our responsibility to continue evaluating additions of people, assets and technology capabilities. And we've got a rich pipeline of opportunities to explore and look at and a strong balance sheet to execute on, but we don't need that to be able to get to $1.25 billion to $1.5 billion target by 2025.

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

Can you talk about the supply chain? How much is it -- you said that you would build some new capacity. Can you -- is it within your control to improve the supply chain? Or is it -- or we have to wait for the environment to loosen up across the supply chain that's out of your neutral? How do you think that plays out?

**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

I mean I'd say a lot of it is in our control, but there are certain elements such as delays in equipment delivery, some of the supply chain, longer lead times with certain materials, that is outside of our control. But I'd say a significant component is also self-help and things that we are focused on across our productivity and innovation pillars that will support nutrition and help drive volume expansion and volume growth and help us achieve our profitability objectives over the next few years.

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

And what are your -- how quickly can you adjust the self-help side of it? Is it something that's going to be a 1 quarter? Is it a 1-year, a 12-month? How do you think about it?

**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Yes. Over the next quarters, through 2023, we expect we'll be able to address many of these demand fulfillment challenges.

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

Okay. And then going back to your Analyst Day, you did point to a $1 billion headwind attributed to market forces over the next 5 years. What were the biggest drivers of these headwinds? How have they materialized? And do you have enough productivity initiatives to offset them? How do you think about the balance of those two?

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**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Yes, so the headwinds we talked about were a function of inflation as well as some margin normalization. Now remember, that was in December of last year, we were talking about a base of 400 to 450 and 6 to 7 EPS by 2025. Here, we are sitting in 2022, and we've said we will clearly exceed $7 EPS this year.

So the elements of margin normalization could likely be a little more than what we had anticipated at that point in time. But importantly, we have enough in our productivity and innovation agenda over the next few years to be able to offset that.

And on the productivity side, this year, in 2022, inflation was outrageous. It was very, very significant. And our productive efforts were unable to offset that. In spite of that, we talked about our expansion of margins. So some of those elements on the margin expansion are durable on the commercial side.

But as you look forward to 2023 and beyond, inflation should -- while it will be persistent, will likely be a little more muted. So our emphasis on making sure that our productivity, in general, continues to more than offset inflation, should prevail in 2023 and beyond. So that should provide us some ways to offset inflation as well as some margin normalization.

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

Do you think that the inflation numbers were -- if you look back, the $1 billion was an overestimation of the inflation, and it came in a little bit lower? And then at the same time, your productivity also came in higher? I mean, again, from an outsider's point of view, that's what it seems like, but I don't want to put words in your mouth?

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**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

No. I'd say, frankly, maybe we underestimated the inflation effects in the $1 billion at that time. And therefore, at least for 2022, the productivity agenda we had wasn't sufficient to offset that. But given what we expect inflation not to be at similar levels, although persistent into 2023 and potentially beyond the productivity agenda, net-net should provide more opportunity to offset that.

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

I see. I see. So you alluded to in your opening comments, it's something that I think we should kind of explore a little bit more. How do you assess the RVO announcement? And how will it affect ADM specifically? You did say that is also a floor, is that floor lower or higher than you expected? Just kind of walk us through this because I've been doing this 20 years. I got to be honest with you, I was surprised.

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**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Yes, as I said in the opening remarks, Ken, we view this RVO proposal, firstly, as a positive framework for biofuels. We view and reinforce that these RVOs are not a ceiling in our opinion, for demand, but rather it establishes a floor. Also importantly, we are encouraged by the multiyear proposal. I think that's -- we haven't had that for a while, if ever.

And helping -- this helps the market with certainty. And we appreciate the implied ethanol volumes, which is an area that we participate in. But we see opportunity for improvement in volumes of biomass-based diesel category. Critically, this does not -- and this is important. This does not change our risk-based assessment of additional renewable diesel capacity to come online by 2025. We still believe 3 billion to 4 billion gallons of renewable diesel capacity will come online by 2025.

And Ken, as you well know, there are multiple drivers for RD. Our view is just one of them. There are state LCS programs. There's the IRA. There's corporate decarbonization initiatives. There's energy security It's not just dependent on RVO. Our team is still studying the proposal. And as we continue to evaluate, we will do what we do for every RVO and collaborate with the EPA and industry associations to make it better accomplish our objectives.

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

You said 3 to 4. You mean 4 to 5? I think 4 to 5 is what you originally thought it was? Or is it 3 to 4 now?

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**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

It's been 3 to 4. On a risk-adjusted basis, it's been 3 to 4. And I think we've said that consistently. We maintained that over the last, I think, a few quarters.

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

Okay. And do you think this elongates this? Or do you think that the speed to which you're seeing capacity coming on the line is slowing and then it comes back once they digest this? Or do you think there's a similar amount in terms of timing? How is this change your timing?

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**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Well, I think on a risk-adjusted basis, again, we think it's 3 billion to 4 billion gallons by 2025. You've got about over 4 billion gallons of capacity already in line by the end of this year. So it's possibly relative to announced capacity relative to announced capacity, which is over 5 billion gallons on a risk-adjusted basis, we think it's going to be lower. But that doesn't mean it's going to stop there. And it all depends on how this evolves because this is still a proposal, and it is subject to comment, as you well know.

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

So that's a good follow-up question. Let me write to the where I want to go. The comment period is in January. Do you think it will yield any changes? And what do you think the precedent for the possibility of changes could be?

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**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

It's -- as I said, we are from -- and we see an opportunity for continued improvement in the biomass-based diesel category, which relates to RD. So we'll have to see. As I mentioned, we're going to work with the EPA and the industry associations to put forth our case. And we believe we'll get to the right collective response and the feedback from the EPA on those comments. So I don't think I can say more than that at this point, Ken.

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

But you do think -- okay, but you will be lobbying for more RD, because it was -- the RD seemed to have flattened out, again, not that I'm an expert, but more than I would have expected. And you will try and seek to see that. That would be the only change that you would seek for?

**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

We'll look to work with our with the industry associate and EPA to accomplish our common goals. As I mentioned that we see an opportunity for further improvement in the bio-based diesel category.

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

Great. And how do you think that RD -- so if the evolution is still on its way, how do you think that will impact your crush margin assumptions and your vegetable oil demand? And has anything changed with how you're thinking about that relative to the last time you updated us?

**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Absolutely not. It is very consistent with the way we've always been thinking about this. Our view on $3 billion to $4 billion of risk-adjusted capacity coming online by 2025, hasn't changed. And frankly, we think RD will continue to provide a strong leg of demand for soybean oil and will help continue to support the crush margins.

We said at the Global Investor Day that we believe soy crush and canola crush would expand by $5 to $10 per metric ton, respectively. We actually see that even being greater, given what we see currently in terms of the structural outlook and the tightness in the market for grains in general. The other aspect, which is important from a crush perspective, Ken is soybean meal.

We see inclusions of soybean meal becoming more and more relevant to the feed chain, particularly as wheat remains in relative shortage given what's happening with the war in Ukraine and other factors. So both the soybean meal leg as well as soybean oil leg in North America for RD will be very supportive of crush margins in the medium to long term.

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

So you actually think that there's more opportunity on the upside on the margin potential, both on the oil side and the meal side?

**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Yes. Beyond what we said in the Global Investor Day, yes.

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

So the clear lead up, and I think you kind of answered this implicitly, during last week's announcement, there's no reason that you would change your capital spending on your new plants coming in on the end of 2023? There's no reason that you would be shifting that at all?

**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Not at all. We're excited about that capacity coming online. And as I -- as we mentioned before, it should be online before harvest of 2023.

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

And then just refined oil margins have been way, way above historical levels. Do you still see that holding at these levels? Is there any normalization of them? Are you hearing any pretreatment coming online? Or do you think that this is now a new normal for refined oil margins, which would be a pleasant surprise?

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**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Well, I think the premium and the refined oil margins are more durable than maybe what we had thought. There was an expectation pretreatment would come online faster, but that's getting delight for various reasons, including supply chain and logistics issues.

The other aspect that's interesting, Ken, that applies to capacity expansion in general is rising interest rates and rising hurdle rates and more challenging access to financing. So all that's going to probably delay capacity expansions for players. So I think net-net constructive.

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

So it will -- so the environment will delay the pretreatment, but not the RD? And so that balance between the two, is that the RD should still come online, but there's maybe a little bit more delay on that?

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**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Delay on the pretreatment side, that's what we are seeing. Yes, that makes the premium -- the current refining premium more durable in our opinion.

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

Great. There is a lot of going on with the global grain balance sheet, the trade flows. You got Ukraine war, you've got China imports, you've got shifting imports. How does this all play out for ADM? Because, again, there seems to be more movement from Brazil to China or at least at starting. There's even a view that maybe China might take some import some soybean meal for the first time. So how does this all play out? How does ADM position? And how does this change your Ag Services outlook?

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**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Well, so the tightness in the grain markets, we believe will persist through 2023 and potentially beyond as well. We've talked about two crop cycles in the past.

And let's break it down into different elements. The Ukraine war is ongoing and it's unfortunate. But the fact of the matter is that they've been able to open up the export corridor, which is good news. They've been able to get out about 7 million metric tons a month, and I think that's likely going to slow down to about 5 million metric tons going forward given winter issues, given some of the infrastructure has been damaged.

So that part of the supply, coupled with the fact that the grain plantings were about 1/3 lower than typical, which suggests that element will continue -- will play into the continued tightness. You talk about Brazil, yes, Brazil should have a strong crop coming off from a very relatively weak crop, based on what we can see, 150-plus million metric tons of soybeans next year. So that should be supportive to the overall grain balance sheet.

But just an important element, we still need that continued strong cycle to continue for a period of time. You never know what weather issues, et cetera, could do. Argentina, well, the soy dollar #2 is going to generate some more soy bean exports. We've already seen about 1 -- a little over 1 million metric tons. Maybe there's a few or 2 million to 3 million, 4 million metric -- or maybe 3 million to 4 million metric tons more to go there. That's going to shift the trade patterns in terms of when beans become available for exports.

And finally, on the China side, I think they're creating optionality, which is the right thing to do. They always manage the risk on the grain purchase side. They're creating optionality with buying corn from Brazil. You know, we've mentioned this, we've got an irreplaceable global asset footprint, which is not just North America, but also South America.

We are actually the largest exporters of corn out of Argentina. So we will -- one way or the other, we will benefit from this. And remember, finally, on the ag services side, what we've done with our global trade and destination marketing is make sure that we have a footprint that allows us to serve global food security needs regardless of what the trade patterns are in respective countries. So I think we are well positioned to in a way benefit from this continued tightness over 2023 and potentially beyond.

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

So the earnings step up over the last couple of years in Ag Services should remain pretty healthy, given the ongoing tightness and even the trade flows going from one way or the other way? You guys can continue to hold that new level of profitability, is that a fair way of thinking about it?

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**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

We are constructive about the outlook for 2023. At the same time, Ken, we know, you know that there is heightened uncertainty from a market perspective, geopolitical perspective, right? So based on what we can see, we are constructive and optimistic about the outlook for AS&O in 2023. And we are going to continue to navigate this dynamic situation.

We're doing scenario planning, as we always do. And you have seen us execute in the most dynamic circumstances. So we're going to continue building that muscle, while, at the same time, building on our controllable productivity and innovation agendas, which will continue to drive long-term profitable growth for ADM.

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

Going to try and sneak in 2 more here. You guys have a stellar balance sheet. There's no question about you guys generate good cash flow. How do you intend to leverage and deploy capital? And what type of returns can we expect to see as we think beyond the $7 number and kind of thinking about the returns on that?

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**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Yes, I think that's a strength of ours, the strength of our balance sheet and our cash flows. As I mentioned in my opening comments, we actually generated $4.7 billion of cash flow from operation before working capital. All of last year, 2021 was $3.9 billion. So that enables us to invest for long-term growth, while driving near-term performance.

Our capital allocation philosophy is disciplined and it's balanced. We've said consistently, we'll use about 30% to 40% of our capital to reinvest in the business. And we see opportunities across all our 3 businesses. Nutrition, we've always seen. Fermentation-based proteins microbial technologies. We've developed an ecosystem already. So we've got a lot of opportunity to invest for core growth. But at the same time, we've got about 60% to 70% of the capital that we'll deploy to return to our shareholders in terms of dividends.

We have increased our dividends every year for 49 years, and we will also return stock. We will also buy back stock as we've announced even yet in 2022. And we'll keep enough dry powder for M&A. We've got a rich pipeline of opportunities. We got to make sure that the returns profile look good. Very few other companies can offer the speed and certainty of transactions that we can, but we are -- we will always maintain our discipline on value and returns.

So that's a quick response to your question.

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

We went through a lot of things today. What opportunities excite you the most? And is there something that we have missed? And I'll leave it there.

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**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

I think we've covered a lot, Ken. I would tell you, I've been with the company now 18 years in very different roles across the organization. I am not -- I haven't been more excited about ADM than I have today. Because we have growth engines across all our businesses as well as the opportunity to create new growth platforms like the microbial technologies, and we are building an ecosystem using our ventures investments to be able to participate in that.

We have access to low carbon intensive feedstock. We have assets -- fermentation assets at scale. We have agility, and we have the technical know-how to be able to actively participate and drive growth for the long term at ADM. So.

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

That's perfect. We're going to leave it there. Both of you guys could not be more appreciative every time. I look forward to watching ADM grow. Take care.

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**Vikram Luthar** - *Archer-Daniels-Midland Company - CFO & Senior VP*

Thank you so much.

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**Alison Taylor** - *Archer-Daniels-Midland Company - Chief Sustainability Officer*

Thanks, Ken.

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

Thank you for your time. Bye.

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