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Q3 2019 Archer Daniels Midland Co Earnings Call

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PRESENTATION

Operator

Ladies and gentlemen, thank you for standing by, and welcome to the Archer Daniels Midland Company Third Quarter 2019 Earnings Conference Call. (Operator Instructions) As a reminder, this call is being recorded.

I'd now like to introduce you to the host for today's call, Victoria de la Huerga, Vice President, Investor Relations for Archer Daniels Midland Company. Ms. de la Huerga, you may begin.

Victoria de la Huerga ***Archer-Daniels-Midland Company - VP of IR & ADM Ventures***

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

For those following the presentation, please turn to Slide 2, the company's safe harbor statement, which says that some of our comments constitute forward-looking statements that reflect management's current views and estimates of future economic circumstances, industry conditions, company performance and financial results. These statements are based on many assumptions and factors that are subject to risks and uncertainties. ADM has provided additional information in its report 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 important actions we are taking to meet our strategic goals. 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. This morning, we reported third quarter adjusted earnings per share of $0.77, down from $0.92 in the prior year quarter. Our adjusted segment operating profit was $764 million.

Our team delivered solid results this quarter. We stayed focused on the levers we could control, advancing our strategic plan despite the difficult external environment. North American grain export volumes on margins remained limited. Crush margins were far off their record-high 2018 levels, and ethanol industry margins remained challenged. Despite all of these, we delivered a performance consistent with the perspectives we provided last quarter, including a strong year-over-year growth in our Nutrition business.

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Throughout the quarter, we continued to deliver on our strategic plan. In our optimize pillar, we are successfully capturing synergies offered by the midyear combination of our Ag Services and Oilseeds business. By looking at the combined value chain of the new business, we've identified a wide range of opportunities to improve capital efficiency. We have already executed more than $200 million of capital reduction initiatives.

As part of our ongoing efforts to optimize our U.S. Origination footprint, we completed our previously announced transaction with Cargill to exchange grain elevators in Illinois and Indiana. We also celebrated the opening of our new state-of-the-art mill in Mendota, Illinois, an important milestone in our ongoing process of replacing older, higher-cost plants with more efficient facilities. And as we anticipated earlier this year, we're starting to see the positive impact of the measures we took to improve the long-term reliability of our Decatur complex.

In our drive pillar, we are continuing to see growing benefits of the improved analytics, technologies and processes we put in place after we launched Readiness last year. We're implementing innovative uses of AI, machine learning and robotic process automation across the company to do everything from identifying and solving IT issues, to reducing costs and improving efficiencies in our global business services center, to helping our customer-facing teams meet needs with more speed and flexibility. And the organizational redesign we completed in the first half of the year, including transforming our IT foundational services and centralizing our global operations organization, is delivering higher service levels at lower costs.

In our expand pillar, a key element of our growth strategy is focusing on major global trends, trends that have the potential to fundamentally change markets and in which we are solidifying our global leadership position. The first of those game-changing trends is one we see in the headlines every day now, flexitarian diet. ADM has a rich history of a leader in plant-based meat alternatives. Today, our full pantry of great tasting, innovative flavors, ingredients and solutions make us the provider of choice for customers looking to grow with this fast-moving market. Our new plant protein facilities in Campo Grande, Brazil, and Enderlin, North Dakota, are supporting the increased demand from our global customer base. And in the third quarter, we entered into a partnership with the world's largest beef patty producer to codevelop and produce 100% alternative protein burger that is now being offered in Brazil.

Another major global trend is nutrition for health. We are capitalizing on our investments in Biopolis and Protexin with the goal of building a leadership position in science-based microbiome solutions for human and animal health. There are tremendous opportunities here such as our recent announcement of promising results from clinical trials of our probiotics for skin health.

Another growing trend is sustainable materials. Our long-standing expertise and technology in fermentation and our research and development capabilities give us industry-leading abilities to provide the renewable feedstocks that underpin the creation of innovative, sustainable products. Last year, in partnership with DuPont, we opened the world's first production facility for FDME, which has applications as a sustainable replacement for plastics. And last month, we announced an agreement with LG Chem to develop sustainable superabsorbent polymers. This is a growing area, and we plan to continue to expand our presence on it.

Please turn to Slide 4. Readiness continues to underpin our strategic work and help drive our results. This quarter, our list of completed initiatives have grown to 280, which, taken together, will account for about $515 million in run rate benefits on an annual basis. We remain on target for our 2-year goal of $1.2 billion in annual run rate benefits by the end of 2020. As of the end of the third quarter, Readiness has contributed close to $200 million in 2019 in-year accrued results. We are confident we will reach our goal of $250 million to $300 million of accrued benefits by the end of this year.

Finally, more than half of our global workforce of 40,000 has now completed our comprehensive Ability to Execute, or A to E, training since we began the program. This training is a critical part of Readiness. It lays the foundation for the permanent culture change that we're working to instill to make our company better.

In some ways, we're entering a new phase of Readiness. We're moving on to a more complex process that will take longer to complete but will deliver more fundamental changes to how we run our company. And while external conditions in 2019 are impacting overall results, the benefits we're seeing from Readiness are real, and more importantly, they are long-lasting. These changes will make ADM better for the long run. I'll discuss Readiness more later.

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Now Ray will take us through our business performance. Ray?

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

Please turn to Slide #5. Beginning this quarter, we are simplifying the financial information that I will be speaking to on our calls. However, all the data we have included in the past will be included in the appendix of our quarterly slide deck.

As Juan mentioned, adjusted EPS for the quarter was $0.77, down from the $0.92 per share in the prior year quarter. Excluding specified items, adjusted segment operating profit was $764 million, down 11%.

Our trailing 4-quarter average adjusted ROIC was 6.5%, slightly below our 2019 WACC of 6.75%. The effective tax rate for the third quarter of 2019 was approximately 19%, in line with the range of guidance we provided last quarter. For the full year, we continue to expect an effective tax rate in the range of 17% to 20%, which was our initial guidance.

We generated about $1.7 billion of cash from operations before working capital in the first 9 months of the year, slightly lower than the prior year period. Return of capital for the first 9 months was about $740 million, including about $150 million in opportunistic share repurchases throughout the year to offset dilution.

We finished the quarter with a net debt to total capital ratio of about 30%, up from the 27% in the year ago quarter and continuing to improve from the first quarter high related to the acquisition of Neovia. Capital spending for the year is forecast to be around $850 million, in line with our previous guidance of $800 million to $900 million.

Turning to Slide 6. Other business results were $47 million, significantly above the prior year period largely due to favorable underwriting results and captive insurance. The revised full year estimate for Other will be in the $70 million to $80 million range, lower than the $80 million to $90 million we previously guided largely due to lower expected underwriting performance in the fourth quarter.

In the corporate lines, unallocated corporate costs of $139 million were down versus the prior year period principally due to lower accruals for performance-related compensation and the benefits of our restructuring earlier this year, partially offset by higher spending in IT as part of our business process transformation investment and by Readiness-related costs. As a result, we're expecting full year unallocated corporate costs to be in the range of $625 million to $650 million, significantly below the $700 million initial guidance we previously communicated.

Net interest expense for the quarter was similar to last year's quarter. We continue to expect full year interest expense on a segment presentation basis to be in the range of $350 million to $375 million, down from our initial guidance of $400 million.

Corporate results also include noncash early retirement charges and global workforce restructuring charges of $47 million or $0.07 per share and a LIFO credit of $16 million or $0.02 per share.

Next, I'll discuss our business segment performance for the quarter. Please turn to Slide #7. Our newly combined Ag Services and Oilseeds business reported results that were lower than the third quarter of 2018 but up over the second quarter of this year. Ag Services results were in line with the prior year quarter. In North America, improved merchandising results, particularly from ownership positions in corn and soybeans, helped to offset a weak U.S. export environment. South American results were higher as we captured better origination margin opportunities in Brazil compared to the previous year, and export volumes from Argentina increased.

Crush results were down year-over-year. Global crush margins have come down from the record-high levels of last year, but our teams, nevertheless, delivered solid margins in North America and EMEA in the third quarter. In South America, margins were pressured by higher input costs, caused by continued Chinese demand for Brazilian soybeans. Overall, our global crush margins benefit from positive net timing effects of approximately $50 million during the third quarter.

Refined Products and Other results were significantly higher than third quarter of 2018 largely driven by significant improvements in our

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Golden Peanut and Tree Nuts business. Wilmar results were lower year-over-year.

Now looking ahead to the fourth quarter, we expect Ag Services and Oilseeds results to be substantially lower year-over-year, though performance should be stronger than the third quarter of this year, with Ag Services expected to be sequentially better and Crushing expected to be sequentially down.

Slide 8, please. Carbohydrate Solutions results were substantially lower than the year ago period. Starches and Sweeteners results were down versus the third quarter of 2018. In North America, higher net corn costs pressured margins, partially offset by lower manufacturing costs, including the benefits of our work to improve the reliability of our Decatur corn complex. Starch volumes remains steady.

In EMEA, continued challenging marketing conditions, including pressure from Turkish sweetener quotas and lower liquid sweetener prices impacting Central and Eastern European operations, led to lower results for the year. In wheat milling, an increase in sales volume was more than offset by lower margins due to limited opportunities in wheat procurement.

Bioproducts results were significantly lower driven by high industry inventories and higher net corn costs in North America, leading to a challenged industry margin environment. Ethanol margin conditions remain negatively impacted by the lack of Chinese purchases from the U.S. and by the small refinery exemptions.

Looking ahead, with typical seasonal reductions in sales volumes for sweeteners and for ethanol as well as the continued difficult conditions for the ethanol business, we expect fourth quarter results in Carbohydrate Solutions to remain challenged. But with the continued benefits of our improvements at the Decatur complex, we expect fourth quarter results to be sequentially similar to the quarter just ended.

On to Slide #9. Nutrition results were substantially higher, with operating profits approaching double the year ago quarter. WFSI results were significantly higher than prior year quarter with growth across the portfolio. WILD flavors delivered its strongest quarterly profit ever. Sales were up 16% year-over-year on a constant currency basis. Organic sales, excluding acquisitions, were up 7%.

In Specialty Ingredients, the protein business continued to expand, powered by our leadership position in supplying solutions to meet growing customer demand for alternative proteins. Continued contributions from our growth investments in bioactives and fibers support the higher results in the Health & Wellness business.

Animal Nutrition results were up substantially year-over-year as our Neovia acquisition continues to contribute. Vitamin additives were another strong performer, particularly coming off the year ago period when margins were significantly compressed. Lysine production has shown improvement, though market pricing has been negatively impacted by lower global demand due to the effects of the African swine fever in Asia.

With the robust pipeline of new opportunities and continued benefits from investments, we expect Nutrition's growth story to continue in the fourth quarter, with results once again approaching double the prior year fourth quarter profit of $62 million. WFSI should continue to benefit from increasing sales in flavors and alternative protein solutions. Neovia will contribute to improved Animal Nutrition results, though results will be impacted by the excess lysine production in world markets.

Juan?

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

Thank you, Ray. Please turn to Slide 10. As Ray explained, market conditions in the third quarter remained challenging, yet we delivered what we said we would 3 months ago. We pulled the levers under our control to turning a solid performance, and I appreciate the team's good work.

We also continue to focus on the 3 key areas of our growth and returns algorithm. First, we improved underperforming businesses. Golden Peanut and Tree Nuts, our Decatur complex and lysine production are all showing improved results. And we're now targeting

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December 1 for the launch of Vantage Corn Processors, our stand-alone ethanol subsidiary. This is an important step as we continue to evaluate the strategic alternatives for our dry mills.

Second, Readiness continues to spur our efforts to make ADM a more efficient, more innovative and more customer-focused company. We're seeing some truly exciting Readiness initiatives advance in the back half of this year. For example, we've completed the pilot programming one of our oilseeds processing facilities that utilizes advanced analytics to deliver real-time analysis of production data, significantly increasing efficiency and quality. We're now rolling this technology out to more plants, leveraging the center of excellence structure we put into place for our global operations.

We've also piloted and are rolling out an innovative data mining and analytics package that will provide our merchandising and sales teams with an important new tool set to better capture market opportunities.

We're also seeing good progress on results from the third pillar of our algorithm, our harvesting our growth investments. Back at the beginning of the year, we said we expected 2019 to be a breakout year for Nutrition. For the first 3 quarters of 2019, our Nutrition business has delivered $316 million in adjusted operating profit, just shy of the total for all of 2018. Additionally, we're delivering on our synergy targets for our Neovia integration, and that business is strongly contributing to our results.

And we're also seeing the benefits of growth in our core businesses, from our expanding stevedoring and destination marketing businesses, to the development of new applications from our full portfolio of vegetable oils, to our increasing capabilities in food grade and industrial starches. We are making good progress. However, while we believe our results this quarter were solid in the context of the external headwinds we face, our team, nevertheless, is not satisfied. There's still more we can and will do to reach our returns objectives.

Looking ahead, we expect some external headwinds to continue in the foreseeable future. Conditions are fluid. However, external conditions, good or bad, do not change our fundamental plan. We will remain focused on taking actions under our control to improve our near-term results, and we will continue to advance our strategic objectives, including driving growth from the major global trends I discussed earlier. We remain confident that our strategy, combined with our continued disciplined capital allocation, position us well for stronger results in 2020 and beyond.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Eric Larson with Buckingham Research, your line is open.

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

So my first question is Ray's comments on fourth quarter Ag Services. It's -- obviously, we don't know your ownership position and that segment was actually quite a bit stronger than I had thought for the quarter. So when you look at kind of the difficult harvest, maybe farmers holding pretty tight to new crop, maybe limiting some of your merchandising opportunities, how does the fourth quarter -- how does all that play into your outlook for the fourth quarter?

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

Yes, I mean, I think you're right. I mean the general export environment remains somewhat challenged for the entire U.S. agricultural industry. But sequentially, we're having a later harvest this year, so we will be procuring. I mean we have procured a lot. We will continue to procure. We will be exporting a lot of it to markets outside of China.

The other thing to note is that with the wet harvest that we're having, we are anticipating to gain some significant drying revenue as well within our business. And then also, I just want to remind people that our Ag Services division really has diversified significantly. And so when you take a look at some of the other businesses such as the stevedoring business, such as the global trade business, such as the destination marketing business, every year, those businesses represent a greater contribution to our overall results within Ag Services. So

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as I indicated in the call, I mean, we do believe on a sequential basis, Ag Services will be stronger in the fourth quarter compared to the third quarter.

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

Okay. On a year-over-year basis, will you expect it to be flat, down, up sequentially? Obviously, a little bit better than Q3, but how might that compare with Q4 a year ago?

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

Yes. Versus last year, it'll probably be similar to slightly better directionally in that area, just speaking to what we're seeing here.

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

Okay. And then the combination of crush -- your crushing results and Wilmar, I would assume that Wilmar is facing some pretty tough comps in Q4. So that -- I would assume that, that was probably going to be down year-over-year as well. Would that be a fair observation?

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

Well, we said on crush, again, crush will be -- compared to the third quarter, crush we expect to be sequentially down in the fourth quarter compared to third quarter. Again, a lot of it will be a function of crushing which has kind of evolved, right, in the fourth quarter. On the case of Wilmar, I mean, Wilmar will be announcing earnings in a couple of weeks. So I think you'll have a better perspective in terms of what it means for our fourth quarter after Wilmar announces its results there.

Operator

Ben Bienvenu with Stephens, your line is open.

Benjamin Shelton Bienvenu ***Stephens Inc., Research Division - MD***

I want to ask a question as it relates to Argentina. Given the political change there and the prospect for a potential return to elevated export taxes, is it possible that, that dynamic, if it constricts the exports of oilseeds derivative products out of Argentina, that, that could be a net positive for your overall Crushing margins operations? I know you don't have Argentina exposure, but just curious to hear your thoughts there. And then also kind of juxtaposing that with potentially weaker meal demand out of Philippines and Vietnam as a result of ASF in the near term would be helpful.

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

Yes, Ben. So Argentina changed governments. And of course, part of this government in their previous experiences have some export taxes for the country. The country faces significant phase of their debt going forward. So of course, the economic situation is to be consolidated. And obviously, the ag industry is one of the biggest revenue producers of Argentina. So the possibilities there, we don't know yet. December 10 is when they take power. I would say, at this point in time, what's happening in Argentina is crush is down because basically, the farmer, given the results of the elections, are holding to their grain. So in that sense, we see lower crush, which is always helpful for profitability in Europe, I would say, when crush from Argentina is low. So whether that's going to happen next year or not and to what degree, I think we will have to wait until December 10.

Your second question was on soybean meal demand. We actually continue to see strength outside China. Our forecast outside China, soybean meal growth is about 3%. And although there are a lot of headlines about ASF maybe expanding into Southeast Asia, we need to be mindful of the relative size of the market like Vietnam versus a market like China. So I think still the discussion is about China. That is what the gap in protein is.

And I would say, if you look at China and with the information we can get, it feels to me that the decline in the herd has peaked or bottomed, whatever your perspective is on that. And I think that the incentives that big, high prices are giving and the producers are having record profits right now in China, they are starting to think about how to rebuild the herd. A lot of them have shifted -- about 1/3 of them have shifted into poultry production. That has softened a little bit the decline in soybean meal because obviously you need to feed them. And a lot of people are looking at more sophisticated meals because the whole production is being more professionalized and

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the standards are rising. So I think that people are looking for higher-quality feed producers and high-quality feed, of which soybean meal is inclusive in that. There's also these big prices that we have for pork, big pork inflation has created the incentive to increase weight before slaughtering. So we're seeing higher feed on animals as well.

So I think in general, we continue to be positive about soybean meal demand going forward. We don't see a significant decline. Of course, I would say, you will have the balance that rebuild of the herd in China and all these things in China are going to be positive to demand. Expansion in Southeast Asia is negative to demand. But I think given the magnitude of both, we are not that concerned about the expansion in Southeast Asia.

Benjamin Shelton Bienvenu ***Stephens Inc., Research Division - MD***

Okay. Very helpful. My second question relates to the ethanol business. You mentioned the formation of the subsidiary. Curious around current improvement that we've seen in stocks. Production levels kind of dipped in mid-September. They've been steadily climbing back. We have a lot of idle capacity in the U.S. I'm just curious to hear your thoughts around what you think about sustainability of improved performance in the near term and then just your outlook to the extent that you can offer one in the intermediate term.

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

Yes. I think a couple of things. As Juan indicate, we are standing up the stand-alone ethanol subsidiary as of December 1. Just for context, starting January 1, we will report Vantage Corn Processors as a separate subsegment within Carbohydrate Solutions. So clearly, we're in the process of making sure the transactions are occurring between the new subsidiary with ADM. So we're well on our way. And the good news is we've got quite a few interested parties that we're talking to right now at the initial stages about some form of sale, joint venture or other type of structured transaction. So we're along -- well along our way there in terms of our strategic alternatives.

You're correct. There has been idling of facilities, idling of production in United States with respect to ethanol. I think the ethanol margin environment this year clearly has been extremely challenging, and there's real production levels had come down. And that's frankly resulted in ethanol margins in the industry improving in the month of September after Labor Day, which, by the way, it's unusual because normally after Labor Day, you actually see ethanol margins deteriorate. And so there has been some rebalancing of supply and demand.

You pointed out there's probably an increase -- a little bit of an increase in terms of production recently. We have to watch that carefully. I think what we've learned here frankly is that when you get supply and demand a little bit more balanced, the margins do improve in our industry here. And so we are looking at that very, very carefully.

I think it is also important to know here in getting back to ethanol in terms of what ultimately will drive the ethanol margins higher is that we do need to drive incremental demand here. And I think the discussions right now in the U.S.-China trade regarding ethanol are important as an additional catalyst in terms of driving incremental demand for ethanol, which, by the way, when we buy ethanol, we're actually buying corn from United States. And so that's -- for the U.S. agricultural industry, this is actually a very important part of the discussions here.

We also have the special refinery exemptions. We've had -- clearly have had some negative impact in 2019, but again, there's further discussions in terms of that as we go forward. So I think that when you take a look at 2020, you ask the question, can it get worse than what we've seen in 2019? It's actually very difficult to see a scenario by the industry ethanol margins in 2020 being worse than 2019 because it's been tough in 2019. I'm somewhat encouraged to seeing idling of facilities. So there seems to be a little bit more discipline within the industry right now in terms of just trying to better match supply and demand. But again, I do believe it is important that the U.S. ethanol industry is strong because that results in basically the U.S. agricultural industry being strong. And so, therefore, we remain optimistic that we'll get toward some solution that will drive incremental demand and hence stronger ethanol margins in the future for our industry here.

Operator

Tom Simonitsch with JPMorgan, your line is open.

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Thomas Marc Alfred Simonitsch ***JP Morgan Chase & Co, Research Division - Analyst***

So just following up on ethanol. Could you give us your expectations for U.S. ethanol exports in 2020 with and without China?

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

Yes. I mean, I think that 2020 scenario, excluding China, will be very similar to this year, which is approximately 1.5 billion gallons. I think if you include China -- again, a lot of the function of when you get towards the trade deal and how that is phased in, we've always talked about the fact that China, if they move towards an E10 national blend for the country, based upon our calculations, they could easily buy 1 billion gallons from the United States. I mean the deficit is fairly significant in terms of China production relative to the overall demand. Now what number ultimately we'll get towards in terms of a trade -- that's to be determined based upon, I suspect, the phase in, in terms of gallonage over time here. So again, we've always thought that the potential could be up to 1 billion gallons down the road here.

Thomas Marc Alfred Simonitsch ***JP Morgan Chase & Co, Research Division - Analyst***

Okay. And on U.S. corn exports, volumes are down 60% in the 2019, '20 marketing year-to-date. When do you expect competition to ease at current exchange rates? And USDA projects U.S. corn exports down 8% this marketing year. And clearly there's still a long way to go, but how realistic is that projection?

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

I think that it's true. Right now, U.S. corn is not that competitive relative to, say, South America. I mean we do expect that eventually U.S. corn will become competitive. Our thinking is when we get into the first quarter, it's probably a good period whereby at that juncture, U.S. farmers will be looking probably to sell more of the corn because they start thinking about freeing up space for next year. So I think our assumptions right now in the fourth quarter, U.S. exports in general will be challenged, and that's reflected in my guidance commentary here. Getting in the first quarter, we believe U.S. corn will become more competitive, so there'll probably be more movements of U.S. corn.

I think the fact that you're not seeing that much pull of U.S. corn in the fourth quarter, it actually is a benefit for the processors like us because there's frankly plentiful of U.S. corn for us to actually pull in order to put into our corn processing plants. And so from a processing business, that's a benefit for us.

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

Then also, Tom, also don't forget with this competitiveness of Brazil, we are exhausting the inventories in Brazil. And due to the dryness, soybean was a little bit late in being planted. That may make the safrinha being a little bit late as well. That may extend the window for the U.S. to be competitive when Ray mentioned in Q1. So that's another possibility there.

Operator

Heather Jones with Heather Jones Research Group, your line is open. Michael Piken with Cleveland Research, your line is open.

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

Just wanted to dig a little bit deeper as we sort of think about the crushing environment in the U.S. I know previously you had said that potentially we could see something close to $1 margins, I guess, on the board crush on the basis that if China has taken less soybeans, there is a lack of a trade agreement. I mean how do you see the market evolving given that the U.S. corn production numbers are up and the chicken production numbers are up and yet the crush margins have been, on the board at least, a little bit weaker?

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

Yes. Michael, thank you for the question. Listen, we believe in the fundamentals of the crush margins business going forward. Of course, the market right now is trying to digest a lot of significant changes, whether it is Chinese soybean buying patterns and the U.S. -- the size of the U.S. crop, some of the timing of the ASF impact that we will eventually see here. So I would say, we've seen a decline in crush margins over the Q3. But we're also seeing that when crush margins decline, the industry reacts because demand continues to be, as I said before, about 3% and fundamentally sound. So we're seeing already crush in Argentina taking down a little bit. We've seen some of the plants that are dedicated to export in Brazil taking some of that capacity down. We're seeing some shift in Europe also from soybean to rape just because there is more profitability there.

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So I think that we see the industry adjusting. In the U.S., we continue to see our customers announcing production increases going forward. And if you think about what happened over the last 2 weeks, we've seen a recovery in crush margins of about $0.16, $0.15 per bushel. So they are kind of climbing back to maybe the 5-year average. So again, I think that we knew that it could be a short-term bleed when China accounts for sporadic purchases of U.S. soybeans. But the fundamentals are there. And we think all these bleeds are temporarily at best.

So we feel good about our Q4. We came into Q4 with a reasonable hedge book for crush. We also have some positions into Q1. So we have visibility into what's happening. And we are fundamentally believers in the crush environment for 2020 given 3% growth outside China.

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

Terrific. And then just shifting gears. I know I've asked this question before, but on the Readiness initiatives, do you have any more clarity on where we might see the accrued savings, which segments, like a little bit of a breakdown? And is Nutrition getting any of it? Or any help there would be helpful.

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

Yes. No, I would say, Michael, Readiness come in several buckets, as I was describing earlier. But I would say, given that a lot of those savings are coming from operations, the big businesses that own the big assets is where you see most of the benefits. So you're going to see it in corn. You're going to see it in Oilseeds and Ag Services.

I would say, Nutrition earnings are driven mostly from growth and the impact that our value proposition has on customers and those applications. So we are outperforming market rates, and we continue to grow our EBITDA margin on sales on that. And that's not Readiness-related. They are improving with Readiness because the whole company is getting better in executing. But it's mostly the success of our value proposition. I would say, most of the Readiness efforts, you're going to see them in either corporate or corn and Oilseeds and Ag Services.

Operator

Vincent Andrews with Morgan Stanley, your line is open.

Steven Kyle Haynes ***Morgan Stanley, Research Division - Research Associate***

This is Steve Haynes on for Vincent. Just maybe a quick question on CapEx since you mentioned that you found some more opportunity to optimize capital allocation. Kind of what's the go-forward run rate for CapEx as we think about 2020?

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

Yes. When we look at 2020, we're still going through the plan. But it will be in the range of maybe $800 million. So if you think about it, that's -- we've been trickling down to those levels from the billion level. Depreciation and amortization, given Neovia these days, is about $1 billion. So it will be a little bit under that. And we feel comfortable, we said it before, that our 5-year plan doesn't have anything spectacular put there. It's mostly harvesting plan. So you will see our CapEx in that range. And it may fluctuate as we do things like 1ADM and all that. But it will not fluctuate more than just in -- $50 million or $100 million down depending on the year. But putting something in the range of $800 million to $850 million is reasonable going forward for us for the few years ahead of us.

Steven Kyle Haynes ***Morgan Stanley, Research Division - Research Associate***

Okay. And then if I could just squeeze in a follow-up. Any updates on the house view in terms of U.S. production? And maybe some early thoughts on what's going on down in the southern hemisphere?

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

Production of what? Sorry, I couldn't hear your wording.

Steven Kyle Haynes ***Morgan Stanley, Research Division - Research Associate***

Just the U.S. corn production, U.S. corn production and then just kind of a house view.

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

Yes. Well, the crop is late, and now harvest started and then wet conditions make it stop. And I would say, the farmer right now is shifting more to harvesting the beans, and they may come back to corn later. There have been rumors in South America about weather. I would say, it has rained in Argentina recently. That has benefited the crops. So I wouldn't put a lot of issue into Argentine weather. Brazil, we're talking about dryness. But I lived 3 years in Brazil. Brazil is a tropical country. It always rains. So it will catch up with that. So I would say, I wouldn't put a lot of weather into South America yet. South America, weather is more important into January, February, if you will.

I guess here, I think that the farmer will deal with this weather and will harvest the crop. Whether the crop initial results in terms of yield, you have your favorite numbers out there, maybe coming a little bit softer in terms of yield than maybe initially expected. But too early to tell probably, Steve.

Operator

Vincent Anderson with Stifel, your line is open.

Vincent Alwardt Anderson ***Stifel, Nicolaus & Company, Incorporated, Research Division - Associate***

I appreciate your earlier commentary on African swine fever, but I was hoping you could talk about maybe what has surprised you even most in terms of how the situation has played out over the course of 2019 and how you're positioning yourself now. And specifically, have you continued to see feed mills closing in China given the somewhat more sustained demand that we've seen in feed than maybe we initially expected?

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

Yes, Vincent. I would say, the thing that surprised us the most probably is maybe we thought the acceleration of growth of production outside China was going to be faster. It's taken some of these countries, whether it's Brazil and all that, a little bit of time to grow their chickens and all that. So I would say, we didn't see right now the extra impact in our crushing compounds about that extra demand that we are expecting. We think we're going to see that in 2020, but it didn't happen in this second half of the year. I still maintain what I said in the second quarter of our earnings call that second half for us will be stronger than first half. And we have line of sight on that, and I can say that with confidence. So that hasn't changed.

I would say, in China, we see this structural shift into more professionally driven farms and productions. That, as I said, is going to be a positive for us. We have not shut down any of our plants nor we are planning to because we think that sophisticated feed rations and sophisticated feed producers like us will be seek to help the industry getting out of this. China will have to produce again, and certainly, we'll not do it in the same conditions that they've done it today because that have brought them ASF.

So we feel there is a lot of work to do, and we're working closely with our Chinese counterparts in that. I would say, outside China, I think that given the conditions are different, although the disease has spread, I think that the ability to these countries to control the disease is better than what China have. So the disease can impact your country, and yet you can still continue to produce and continue to be an exporter that we have seen with Europe for many years. So we're a little bit more positive about that. And as I said at the beginning is the delta magnitude between what's happened in Southeast Asia versus the amount of pork that is produced in China, it makes it just a China discussion, at least from my perspective.

Vincent Alwardt Anderson ***Stifel, Nicolaus & Company, Incorporated, Research Division - Associate***

Great. And just staying on the topic of ASF. We've read studies showing that the virus has a pretty decent half-life in contaminated feed. How exposed is your global feed network right now that potentially being part of the virus is spread? Are you situated now in any countries with ASF in terms of your feed production assets? Are those assets really only moving feed between other infected areas?

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

Yes. That's a very good question because we need to be very vigilant to make sure that nobody contributes to the spread of this disease. The disease spreads because people move either pork -- people move food around countries. I would say, in the feed side, I mean, we have extreme care in making sure, as I said, that feed doesn't go into areas where -- from areas with disease to areas without the disease

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and without the proper care. So I would say, we have extreme measures on that as we have extreme measures on everything we touch. I mean we are a food company, so quality and preservation of the value chain and value integrity, if you will, is paramount to us. So very much on top of our agenda.

Vincent Alwardt Anderson ***Stifel, Nicolaus & Company, Incorporated, Research Division - Associate***

And actually, if I could sneak in just a real quick follow-up. How strong would you say your feed mitigant portfolio is right now? And is that a place you see yourself making incremental investment if vaccine is truly years off like some exports are saying?

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

We expect -- our feed business is part of our growth in the Nutrition division, of course. So you saw our investment in Neovia significantly expanding our footprint in Asia. So we have very big prospects for that. And we understand, as you're pointing it out, that ASF will be a multiyear impact in the industry. So we see -- we're going to have to work together with our Chinese counterparts to bring new technologies and more sophisticated feeds and systems into the country, and we're really positioned.

Operator

Robert Moskow with Crédit Suisse, your line is open.

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

I wanted to do a little check in on the Neovia acquisition. And just some math here, like you paid $3 billion for WILD, and it looks like the returns are good on that acquisition. It's $360 million of operating profit or so. But Neovia, you paid $1.8 billion. It looks like maybe $30 million of operating income per year right now. I think when you bought it, it was earning over $100 million. Can you please correct me if my math is wrong? And if not, maybe tell us again, has there been a step backward on this business in year 1 after the acquisition?

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

I think, Rob, I think that when you look at to solid Animal Nutrition line, you'd be careful because lysine, as Juan indicated, which is part of the Animal Nutrition line, it's actually suffering from the impact of excess lysine in the world due to ASF. And so there's a negative number in the Animal Nutrition line, which kind of masks kind of the benefits of Neovia.

So when we look at Neovia, relative to our deal model, it's basically in line with our deal model in the first year. Again, we closed 1 month later. We also had some adjustments to the inventory due to PPA. But you take that out of the consideration, it's in line with our deal model right now. And so when we look out into the future, especially given that the cost synergies are coming in a little faster than what we thought, we feel good about the acquisition in terms of the context of our financial objectives, including return objectives right now.

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

Were your return objectives more stringent on Neovia or more liberal than for WILD?

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

They're consistent. I mean we always said that it's important on these strategic acquisitions that by the time we get to year 3, that we're earning in excess of our cost of capital.

Operator

Adam Samuelson with Goldman Sachs, your line is open.

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

I was hoping you guys could comment a little bit on the outlook in Starches and Sweeteners and just maybe any thoughts on how the contracting season is progressing, and more broadly, the impact of some of the dislocations in corn bases, co-products and late harvest and how that's impacting kind of the business and how you think about some of the improvement from your own operations that you should be having going into 2020.

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

So a lot wrapped up in the questions. So I would say, let's start with the contracting season. I mean it's going as expected. I think it now -- I mean we -- I think everybody wants to see what's happening with corn and how the planting goes. So it may be a little bit more -- maybe a little slower than other years, but it's progressing along and is ongoing. So we normally comment, as you know, in our next earnings call. So when we talk at the end of January or February on this when the results are done, but it's going okay.

I would say, this quarter, it was a tough quarter for Carbohydrate Solutions in general. You saw that we have higher corn costs, higher corn costs than normally. By this time of the year, we will see a little bit more of a break given the harvest. And this year, we see maybe a little bit better or maybe breaking a little bit more in the west than maybe in the east. I would say, the biggest drivers this quarter of the shortfall, if you will, have been higher corn costs, which were offset a little bit by better manufacturing costs given the improvements that we've done in Decatur but not completely, and then some issues that we have in Europe. We have a business in Europe that has been affected by the Turkish sweeteners quota. And that's probably something that maybe you didn't have that much visibility as you look at the numbers from the outside.

I think from a volumes perspective, volumes have evolved as expected, I would say. Sweeteners remain consistent with what we've been communicated and which -- year-to-date, they are down less than 2%. When we look at starches, this is a better story. And starches story is our volumes were basically flat because we are out of capacity, but we've been able to play with the product mix and shift some of that to the higher-value margins, and so we have expanded margins. And of course, you know of our announcement of the repurposing of Marshall, so to be able to shift some of our 42 capacity into starches just because of the growth that -- and the opportunities we see in that, especially in the food area.

So all in all, we continue to be positive about this business. Sweeteners and Starches -- or Starches and Sweeteners is a very solid type of business. And we get good returns here, so we are positive about it.

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

Just to give prospective. I know like on a quarter-by-quarter basis, we're down $38 million in Starches and Sweeteners compared to last year. But it's important to give context. I mean milling last year, we had some very strong procurement gains. This year, we had smaller procurement gains. And so the milling division, we were down about $10 million. And then on the corn, starches and sweeteners, the majority of the other variance is actually related to the European operations, as Juan indicated. We were down in North America a bit due to just higher net corn costs, but the majority of the variance is really attributable to more the EMEA operations, which is, again, a lot if this deal in the Turkish quota situation live is just due to European sugar prices, which, by the way, is starting to recover right now. So there's a lot of transitory issues that are in Europe, which are going to pass here.

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

Okay. That color is really helpful. And then just second for me. Last quarter, you'd kind of talked about, give or take, $500 million of operating earnings improvement potential in 2020 from the Readiness initiatives and normalizing of production at the Decatur and the absence of -- just the absence of some of the flooding and the North American weather does bring. Does that guidance or that view still hold? Is that opportunity still in front of you?

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

Yes. I think, Adam, we like to present it that way because those are things under our control. And those are not forecast, but actually plans. There are actions behind those things. So we continue -- probably with the exception of the weather that we hope that it's not going to be as exceptional as it was this year. But part of that is to continue to fix the linkages of the issue that we have in Decatur and lysine that we were -- we are finalizing that, so we're not going to have those issues in 2020. We're going to have the full run rate of some of the organizational changes we have this year, and we are controlling that very tightly, so it's going to happen.

As I described before, I think Readiness, we're going to have another $600 million of run rate increments. And we have those. We have the projects, so we don't need to invent anything. WE just need to move the projects along. And then we have all the incremental harvesting from M&A and the growth. And you saw the results of Nutrition this quarter, and you're going to see similar jumps in Nutrition

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as we go forward. We look at Q4, even Q4 for Nutrition, we think the possibility of also about doubling the results of Q4 last year. So when you have almost 2 consecutive quarters of doubling, you can think of what is the potential for next year. So we feel very good about that number of maybe $500 million to $600 million improvements that are under our control coming to the P&L next year.

Operator

Heather Jones with Heather Jones Research Group, your line is open.

Heather Lynn Jones ***Heather Jones Research LLC - Founder***

Sorry. I had to go back and forth between 2 calls. I know we're near the end, so I'll try to make this quick. And I apologize if somebody's already asked you this. But you mentioned higher corn costs for the Starches and Sweeteners business. But was just wondering if you could give us any early color you have about how you think basis is going to be trending for next year given the late harvest and continued weather issues and all. Like what are your thoughts on basis for next year?

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

Yes. I mean basis is -- I mean one comment. Basis is actually fairly high. I mean it's -- particularly on the East Coast, the eastern part the United States. The Western side has come off a little bit, but again, on a -- when you look at it from a seasonal perspective, we've got extremely high basis compared to historical norms. Our -- I mentioned that part of the reason why our third quarter North American sweetener results were slightly down versus last year is just due to the fact that we had higher net corn costs. We normally hedge a lot of it, but there is a certain portion that we don't hedge. And so for the unhedged portion, we incurred some higher costs.

As we kind of look forward, we do believe at some juncture, corn will get commercialized. I mean the crop is out there. It's a late harvest. I mean, remember, only 41% of the U.S. corn has been harvested right now versus the 5-year average of 60%. So it is a late harvest. But at some juncture, the harvest will occur, there will be accumulation. And at some juncture, there'll be commercialization, especially as U.S. corn becomes more competitive in the world markets. And so the timing of when basis will break, is it going to be latter part of the fourth quarter, is it going to be the first quarter, to be determined. At some juncture, we do believe that there will be a break in the basis here. And that will benefit the originators like us.

Heather Lynn Jones ***Heather Jones Research LLC - Founder***

And my final question is just ASF. One of the times when I was on the call, I heard you, Juan, mentioning that there's -- given the margins in China and all, there's some producers that are trying to expand. And I was just wondering if you could add further color on that because like Vietnam continues to have recurrent breaks. China is having recurrent breaks. So I was like wondering if you could qualify the magnitude you're seeing there. And then secondly, if you could give further color on when you expect the benefit to show in 2020 -- because of the trade issues, the impact on U.S. producers has been delayed. And like do you expect that expansion start in early 2020? Or do you think that's going to happen more in late '20? And just if you could give us more details on that.

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

Yes. So difficult to speculate in all this. But I would say, given the information we have on the ground in China, we do know that producers are increasing the weight of the pigs before slaughtering. We do know that. We certainly know. We have data from our team that about 1/3 of the producers have shifted to poultry production given the opportunity there. And we do know that the incentive that price is providing to some of these producers, especially for the more industrialized ones, they are starting to rebuild the herd. Those were the ones that were preserved the most, if you will, unless impacted, and they have better sanitary conditions. Very difficult for me to put any numbers beyond these, Heather, in terms of what we know because it's a large country with many operations like this.

In terms of the impact to us, I would say, we're going to see the impact in 2020. We're starting to see the impact in Brazil or in Europe. I think the impact on the U.S., I mean you see our customers have been getting ready, whether it's getting rid of ractopamine or getting ready to export. It will depend on what's happened with the 62% tariff that China is imposing to that. If they want to get rid of that, if they want to issue a tariff exemption or if there is -- or this is part of a Phase 1 deal, we will have to see, difficult to handicap. I would say, we will see the Europe and South America certainly start it on the first half. Whether we see it in North America will depend on the geopolitics of all this, which I won't handicap at this point.

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Operator

Your final question comes from the line of Ken Zaslow with BMO Capital Markets.

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

I know there's been a lot of questions asked about this, but just -- is there a way to just frame how much the delay in harvest has actually impeded your profit in 2019?

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

I guess that's complicated, another complicated question.

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

I know. And so some...

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

Right? But there's other factors, right, that impact this whole -- it's not just a supply issue in terms of us procuring the crop. It is also demand since that China is not really aggressively in the market here. So it's a complicated issue to say that just because of the delayed harvest, that had this much impact. I do think that, Ken -- the way we kind of think about it is that eventually the harvest will occur. Eventually, we're going to be procuring all the products. Eventually, United States is going to be competitive in corn and soybeans. And so eventually, we will be moving the crop out to the world markets here.

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

I think, Ken, the way I tend to think about it is sometimes it's not that much the volume or the delay in the harvest is what that does to the farmers' marketing pattern, if you will, and I think what it does today since they don't know the size they are holding to the grain. And that's where the impact comes. That's where we're having the high basis today when we should -- basically should break more of the harvest. But the farmer doesn't know with 40%, and at this time of the year being late, what kind of crop he has.

So I think as Ray said, at the end, we're going to have a big crop. There are big inventories. All that will be moved to the market. We will move that. We will dry a lot of that because it's going to be wet and early. But I think the main issue is how all these things, whether this China trade or whether it's the delay, impacts farmer commercialization. That's probably the biggest disruptor. And today, you see it in our -- in some of the impact we're getting in basis in the U.S.

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

Okay. But you think that over time -- I mean it is profit, but between the China trade deal as well as the delayed harvest that you will regain somewhere in 2020 or 2021 that will come fully back to you, that 2019 will be kind of aberrational in terms of the profit level. Is that a fair assessment?

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

It depends. Some -- so some will come back because we will commercialize that, and we have the assets to do that. So it will go through our assets. Some also will depend on the timing because part of our previous years, Ag Services, great Q4. So remember, count it on both having an export -- a simultaneous strong soy and corn export programs out of the Gulf. That's what made elevation margins pop. So part of that will depend on that dynamic, and we will have to see it in the Q4 of 2020, if you will.

But in the meantime, I think that our team has done well. Look at this quarter. This quarter results for Ag Services, given the lack of export volumes of corn, were very significant. So I'm proud how the team has been playing it. And I think the river getting back into navigation and normal rates have helped a lot, that at the beginning of the year for the first half was almost impossible to manage. So I think the team has done an outstanding job, and I'm sure they will do the same in 2020.

Operator

I would now like to turn the call back over to Victoria de la Huerga for closing remarks.

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Victoria de la Huerga ***Archer-Daniels-Midland Company - VP of IR & ADM Ventures***

Thank you for joining us today. Slide 11 notes upcoming investor events in which we will be participating. As always, please feel free to follow up with me if you have any questions. Have a good day, and thanks for your time and interest in ADM.

Operator

Ladies and gentlemen, thank you for attending the Archer Daniels Midland Company Third Quarter 2019 Earnings Conference Call. We thank you for your participation. You may now disconnect.

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