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EDITED TRANSCRIPT

ADM - Archer Daniels Midland Co at Stephens Investor Conference

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

PRESENTATION

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

All right. Thanks, everybody, for being here. I'll go ahead and kick things off. I'm Ben Bienvenu with Stephens. I cover the food and agribusiness industry. We're pleased to have with us here today in Nashville, Archer Daniels Midland, obviously one of the leading grain processors globally. And from the company, we're glad to have Ray Young, CFO; and Vince Macciocchi, Head of Nutrition business; as well as Victoria and Michael from Investor Relations.

And I think maybe a good way to kick things off would be just very briefly kind of give us a state of the union today. There's a lot going on in the broader backdrop. And then segue from there into ADM's strategy going forward for 2020 in particular and how you think about moving forward with the business.

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

Okay, Ben. Good morning, everyone. I'm Ray Young, the CFO. First of all, thank you for an invitation to participate in this conference here. And for those who are not that familiar with ADM, we are one of the world's largest agricultural processors and food ingredient companies in the world with a special focus and really growth in the nutrition business, especially over the past 5 years.

There is a lot going on around the world right now. And when a lot of people, when they talk to us, they naturally ask us about U.S.-China trade because we are one of the largest exporters from the United States to China. But what's interesting is we're navigating through a lot of these external issues right now. And frankly, we have some insights in terms of what potentially could occur. We don't have all the answers. But clearly, we've been managing through a bunch of external factors over the course of 2019.

But what really is -- gives us a lot of encouragement is we do believe all of these external factors become less of a factor in 2020. And a lot of things that we're doing to drive the business to grow, improve returns are going to -- frankly, going to be -- we're going to start realizing all this in 2020 in terms of the benefits here. And that's actually what really gives me a lot of encouragement about kind of what next year is going to bring for this company here.

And one of the highlights I mentioned is the fact that we are becoming a global nutrition company right now. So the ADM maybe 20 years ago, a lot of people kind of would view us as being a large agricultural merchandiser. But right now, as we continue to shift the portfolio with our capital investment strategies, our capital allocation strategies, the Nutrition business is one of these businesses which is less susceptible to a lot of these external factors. It's growing significantly and frankly following the global trends that we're seeing in terms of what the consumers want.

And maybe I'll just pass on to Vince just briefly for Vince to comment a little bit about kind of what's happening in our global Nutrition business here.

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

Thank you, Ray, and thank you, Ben. Appreciate the opportunity to talk about ADM Nutrition. So maybe just building briefly on Ray's commentary and also maybe giving you a little bit of a background as to who we are from an ADM Nutrition perspective, not sure everybody is fully acquainted with us. But as Ray mentioned, we're coming off a period of great growth, we announced in Q3, and poised for continued growth as we move forward to Q4 and into 2020. In fact, if I -- if we think about our growth, thus far, year-to-date in 2019, we've essentially equaled all of 2018 from an operating profit perspective.

Just to give you some further relatives in terms of our size and our component structure. So if you look at us inside of ADM, we -- in 2018, we were 10% or so of the operating profit of the total company. This year, we'll be low-teens and we have the aspiration of becoming north of 25% of the operating profit of the company probably over the next 5 years. As Ray alluded to, we're completing year 5 as ADM Nutrition. And obviously, huge aspirations for the next 5 years.

I think that same time horizon also plays -- applies to where we're at from an ROIC perspective in the company. We will go from mid-single digits to north of 10% over that same time horizon. I think as it relates to the industry landscape and the marketplace, just to give you a relative, we'll approach $6 billion in sales in 2019. And if you look at the nutrition landscape on a global basis, that would certainly put us in the top 3 in terms of revenue on a worldwide basis in terms of the Nutrition business.

A little bit closer in on our structure. It's really a convergence of Human Nutrition, Animal Nutrition and Health & Wellness is how we think about the business. And on the Human Nutrition side, it will be WILD Flavors, the legacy Specialty Ingredients business and our Health & Wellness business. And on the Animal Nutrition side, the legacy footprint from ADM as well as the recently acquired Neovia business on a worldwide basis. So that's a little bit about our structure.

Just about our go-to-market briefly is that it's a business that's very customer-intensive, heavy focus on the customer, heavy focus on speed, innovation, building winning systems and solutions in the marketplace backed by science. And it's a business obviously we're very excited about and happy to take questions moving forward.

QUESTIONS AND ANSWERS

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

Yes. I think maybe a good jumping point from that, Vince, would just be to talk a little bit about the roadmap going forward. In light of the significant investments you all have made in Nutrition to build out the platform, what does the run rate look like for growth when you think about the prospect of improved profitability as you start to harvest some of the returns on that investment that you've made would be helpful context for us.

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

Sure. I think, Ben, it's interesting. And I'll talk about harvesting our investments because we've made substantial investments. But I think it's probably a good point to start upfront about our opportunity for organic growth. With the business we have in place, we've grown significantly on an organic basis when we think about the breadth and depth of our portfolio, our technical capabilities, our global footprint and actually how we've been winning at a disproportionately high rate in the marketplace from a product launch perspective. So organic growth is always going to be a cornerstone of our business and something we expect as we continue to expand.

You talk a lot -- we talk a lot about harvesting. We've done an incredible amount of investment internally as well as via M&A. If you look at some of the internal investments, building a protein facility in Campo Grande, Brazil; building a new pea protein facility in Enderlin, North Dakota; doubling the size of our Beijing, China flavor capability; doubling our color capabilities in Berlin, Germany. So we've invested internally in our facilities, building new facilities, expanding our current facilities as a result of our great growth. Simultaneously, we've done some platform deals and some bolt-on

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deals. When you look at WILD Flavors, certainly a platform deal. And when you think about WILD, we're in year 5 of WILD, after year 4, we more than doubled the operating profit of the WILD business. And we continue to expand that business on a worldwide basis. That was a platform deal.

When you look in our Health & Wellness business, Biopolis and Protexin were both platform deals on a combination, really focused on prebiotics and probiotics, capitalizing on the trend and our focus on the microbiome. And then obviously, you look in Animal Nutrition, and Neovia was a fantastic deal for us because it completed our Animal Nutrition business. The legacy business had a very good footprint in North America and China. And Neovia was essentially everywhere else in the world. And we can run the full spectrum of the value chain in Animal Nutrition, with a heavy focus on margin improvement businesses - when you think about aquaculture, you think about companion animal, the amount of money people are spending on pet treats and the humanization of pet, we're well positioned. So what we intend to do with that business is continue to shift the mix and margin that business up as well. So I think again, to summarize, Ben, it's organic growth. It's harvesting our investments. And on an opportunistic basis, we'll continue to do smart bolt-on M&A as we earn the right to do more through our performance.

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

So in light of that, what's a reasonable expectation for us to think about in terms of the maturation of EBITDA margins and growth over time? And kind of how do we get there to where you'd like to be?

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

Yes. I think we've seen some of that maturation from EBITDA margins. For example, when we bought the WILD Flavors business, that business was in the 12% to 13% EBITDA margin percentage perspective. When you look at where that business is at today, it's the high-teens and continuing to accelerate. Other pockets of the business, obviously similar-type margins in the Health & Wellness space. And then obviously, on the Animal Nutrition side, you've got mid-single digits. We're going to apply that same blueprint that we talked about from the WILD perspective and margin up that business in the neighborhood of high single digits, low double digits from Animal Nutrition business.

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

Well, we've made it this far without talking about African swine fever. But I have to ask about it. And I'd be curious to hear it from both perspectives, the total enterprise as well as kind of the nutrition side. China has been talking about and you guys have talked about the opportunity for them to start rebuilding their hog herd back toward more normalized levels. Just how realistic do you think that is? What's a realistic time line? And what are the barriers to getting there and then the implications for your business as well?

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

So earlier this year, we kind of highlighted in one of our earnings call that we felt that one of the fundamental issues that the world is going to have to deal with in our industry is going to be the outbreak of African swine fever in China. And we actually indicated, I think it was earlier, the first quarter earnings call, that the deficit in terms of protein in China probably would be in the neighborhood of 10 million metric tons. I think as we kind of reflect upon where China is right now in terms of the outbreak of ASF, I think the number is probably going to be closer to 20 million metric tons. So I think the severity of ASF relative to where we thought it was at the beginning of year is probably a lot more severe than we thought, okay?

We also indicated that we thought that the impact on the global meal market would be felt by the end of the year, the fourth quarter, back half of the year. We really haven't felt it yet in terms of the overall crush margins. I think probably on a marginal basis, there's been some positive impact. But the overall impact, we probably haven't felt yet in terms of overall crush margins. I do believe that as we move into 2020, given the severity of the disease in China, and you're seeing a lot of evidence in terms of how severe the disease is, you're starting to see, as an example, a lot of the U.S. packers converting their plants to be able to ship carcasses over to China. You're starting to see China now starting to purchase meats from Canada. Remember, they actually stopped buying meats from Canada because of this dispute over the Huawei issue. Now they're actually starting to allow

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for the importation of meats from Canada. You're starting to see significant export activities of meats coming from Brazil, coming from the EU into China. So the deficit situation in China in terms of pork is, in my mind, starting to result in a significant pull of animal protein from around the world. And that should translate into incremental soybean meal demand.

I think one of the protein producers yesterday announced earnings and indicated that in the United States next year, there are probably going to be an expansion in terms of animal production of anywhere from 2% to 3%, right, so -- and this is really before the full impact of ASF. So everything points towards the impact of ASF on animal protein markets around the world. And hence, the second order effect will be on the soybean meal market, should be a positive in 2020. So therefore, we view that frankly as an upside in 2020 for us. As we kind of think of our 2020 plans, we're going to be focused a lot on things that we can control. So things that we can control include, as Vince talked about, harvesting the investments that we've made. The readiness initiatives that we've put in place in order to make the company better will continue to drive incremental improvements. There are certain businesses that we're improving, which we'll get the full year benefits next year as well as some of the actions we took this year in terms of interventions that will benefit the full year in 2020. So we publicly communicated that next year, we should have about $500 million to $600 million of incremental pretax earnings improvements even before industry market factors, right? And the industry market factor of ASF, we view that as a positive upside.

The ethanol margin environment in 2019 has been terrible for the industry. I mean the industry is basically running at breakeven EBITDA margins. We think next year, 2020, I don't think the margin environment could get worse than 2019. We're seeing evidence right now just based upon idling of certain ethanol capacities around the country that the margin environment actually has picked up in the back half of the year, which is unusual because normally after Labor Day, ethanol margins come down in the industry. But whereas this year, we're actually seeing ethanol margins actually improve a little bit. So I'm actually quite optimistic that in 2020 with the improvements that we're driving under our control, $500 million to $600 million of incremental improvements, layer on top of that the ASF impact which I view as an upside, and the ethanol environment, which is basically can't get -- shouldn't get worse in 2019, frankly you have the Phase 1 trade deal, there could be some further positives on the ethanol environment in 2020 that I think we're setting up for a very nice year in 2020. Now in terms of the ASF impact on the Nutrition business, I mean I'll ask Vince to comment in terms of what he's seeing on the Animal Nutrition side right now.

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

Yes. So obviously, we've had an effect this year. And I think it's been most impactful to our amino acids business, lysine in particular. So if you look at the combination of probably 3 factors, ASF, we had our own internal production issues, which we've since remedied and then obviously lower demand and lower pricing in the marketplace, it's been a very difficult year and created significant headwinds for us in our amino acids business. I think as Ray indicated, as we begin to rebuild herd and feed more animals, we're going to see an uptick. And by the way, we have better quality product. We have our production issues in order. And we think we've probably seen the bottom from the lysine side of things. And it's giving us some optimism for 2020 as we look at that as part of our Animal Nutrition portfolio.

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

Maybe just on the herd rebuild, the question on China rebuilding its herd. It's going to take some time, right? I mean they're not going to be able to rebuild the herd in 2020. I think in 2020, we're going to see probably a stabilization of the herd. I mean the numbers -- remember, when we started off this year, we were saying that ASF will probably result in about 30% of the China hog population being culled. Well, the number then moved to 40%, right? And the latest estimates are more like 50%. And now we're starting to even hear higher numbers than that, right?

And so I think getting control of the disease in China, I think they probably will get control of the disease in 2020. I think the herd rebuild aspect is going to take some time. And by the way, as they rebuild their herd, they're strategically looking to rebuild their herds in what I call more the professional farms as opposed to the backyard farms, right? Because they want to make sure that they make some structural changes in terms of the sanitary conditions, how you raise animals to avoid these types of diseases in the future and how rapidly they can spread.

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

Great. Could we get your most recent thoughts on U.S.-China trade? And then as a follow-on to that, given that China is buying more Brazilian soybeans, how do you think about the U.S. farmer? Do you think they've been structurally displaced by the Brazilian farmer? Or how do you think that shakes out longer term and what potentially permanent trade flow damage has been done?

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

The U.S.-China trade negotiations have been prolonged, right? I mean I think, remember, at the beginning of the year, I felt optimistic that we would get something done by the middle of the year. Well, we're now at the end of the year and we're still not quite there. There are some encouraging signs that a Phase 1 type of deal will probably get done. I mean is it going to be done in December? Is it going to be done in January? I can't tell you exactly when. But I do think that the stars are lined up to get something done in terms of a Phase 1. This is actually quite important for our industry because what happened this year in 2019, and a lot of people are surprised, I mean China actually has been buying U.S. soybeans, right? A lot of people assumed that with the China trade war, China has not been buying any U.S. soybeans. By the end of the year, they'll probably buy about 20 million metric tons of U.S. soybeans. The all-time record, by the way, was 37 million metric tons. So it's maybe a little half of the all-time record. The fact that China has strategically has been buying soybeans has caused the markets to kind of move up and move down, right? So when China announces they're going to buy a certain amount, prices move up, crush margins move down. And then when they stop buying, then it kind of reverses itself.

So the markets have been actually moving, not based on fundamentals of supply and demand necessarily, but had been moving based upon rumors and speculation. That's not a healthy environment for a company like us who basically manages based upon fundamentals. So I would say that U.S.-China trade war has kind of hurt ADM somewhat this year because the markets have not moved on the basis of fundamentals. That's the reason why it's important for us to get towards a Phase 1 deal, whereby there's clarity in terms of what China will buy. That will allow the markets to return towards trading more on the basis of fundamentals. And that will then allow processors like ADM to actually be able to manage supply and demand and manage our risk appropriately. So I do believe we will get towards a Phase 1. I believe that will be good for our industry. A Phase 1 deal will include agricultural products. So that's one of the targets. And so I do expect that part of the package would be U.S. agricultural products, including pork, by the way, because of the ASF issues. And then we've been talking about ethanol also with the Chinese regarding the importance of ethanol. Because when you export ethanol, you're exporting corn to China, right? And as you know, China is moving towards an E10 type of blend for the country there. So overall, I feel that we'll get towards some sort of Phase 1. The question is simply timing, I'm not sure exactly when.

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

Could you talk a little bit about current crush margin dynamics across your global footprint? And then prospectively, looking into 2020, I know it's difficult to predict, maybe as far out along the curve as you can look, and maybe that's the next 3 months or so, but just curious your thoughts across your geographies.

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

Yes. When you look globally about crush margins right now, I'd say the U.S., we're probably around $20 to $25 per metric ton crush margins right now. And the domestic demand for U.S. soybean meal is actually very strong. I mean animal protein producers in the United States are running well right now. And there's upside as you heard from the call from one of the animal proteins yesterday. When you take a look at Europe right now, the crush margins are probably running about half that of United States, right? So they've been under a little bit more pressure over in Europe. When you take a look in South America, I would say the Argentine crush margins have also been running roughly half of that of United States. What's interesting in Argentina is, as you know, there's going to be a change in administration going on in Argentina. And I think the Argentine farmers have been holding back some of their soybeans because they're concerned about where the currency is going to head. And so therefore, they're holding back their soybeans, which means that Argentine crushers are paying up in order to try to get soybeans. And hence, that's impacted Argentine crush margins.

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In the case of Brazil, there's really 2 markets for crushers, right? Domestic market for crushing Brazilian beans, their crush margins are okay. I mean they're running probably $10 to $20 per metric ton whereas the export margins are a little bit more challenged for the Brazilian crusher right now. Part of the reason why the domestic crusher is actually having better crush margins is because China is pulling hard in terms of animal protein out of Brazil. So that's -- it's constructive for the domestic crush industry there. And then lastly, what's interesting in China, I mean, a lot of people assume that in China, crush margins must be bad because of African swine fever. What's interesting is while pork production is down in China because of ASF, they've -- actually, a lot of the smaller farms, they shifted towards poultry production. And so the reduction in soybean meal demand in China is not as dramatic as what people had thought. And so that's been supportive of -- frankly, for the crushers that are running in China has actually been supportive for their crush margins. And so they're running actually closer to $30 a metric ton. So ironically, China, at least at this moment in time, probably has some of the world's healthiest crush margins. And that's frankly being reflected in terms of some of the results. One of our partners, Wilmar International, which we own 24.9%, they recently just announced their earnings. And they had good results, in part is the crush margin environment in China has been very, very healthy.

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

And then looking forward, how do you think the next 3, 6 months play out as best you can tell?

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

Again, with ASF, my commentary on ASF in terms of how it's going to impact the animal protein market around the world, I do have a constructive view in terms of how crush margins will evolve outside of China. I do believe there will be strong animal pull, animal protein pull out of the big export nations, out of Brazil, out of Europe, out of the United States. So I'm actually quite constructive that crush margins should fundamentally improve as we move through 2020. I do believe that you get towards a Phase 1 type of resolution of a trade deal, then I think the aberrations that we've seen in the market in United States, those should dampen, also down in South America, frankly speaking, because you'll get more clarity in terms of what China will be buying in terms of soybeans out of the United States and out of the South America. So that clarity will help in terms of probably allowing premiums to be more based on fundamentals as opposed to being based on speculation or rumors.

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

And what about current crushing capacity globally, what's on the horizon? And for example, you guys have a joint venture in Egypt with Cargill. Do you think there's a possibility of more collaborations across the industry? How healthy do you think the supply-demand balance is globally on soy crush?

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

Generally, the crushing industry around the world is a well-balanced industry. I take a look at United States, then supply-demand in terms of crush, generally pretty well balanced. We've seen continued growth in terms of soybean meal demand around the world because frankly, I mean, there's more animal protein being consumed by the world population. So soybean meal demand continues to grow outside of China, again exclude the ASF impact, growing 2% to 3% a year, right, in certain years, growing even faster than that. Again, I think next year could be even a more constructive year for soybean meal demand. So capacity utilization rates, as you know, they're kind of seasonal in nature in some respects. But generally, they're running reasonably well in North America. In South America, the domestic industry is running well, export, probably a little bit less.

The European crushing supply and demand dynamics, a lot of it is a function of how aggressively Argentina exports into Europe. And then in the case of Argentina, again it varies in terms of their utilization rates based upon kind of how cheaply they can procure the beans. And then in China, as I indicated, right now it's running actually fairly well for those who are running because again soybean meal demand reductions in China have not been as dramatic as what people have thought. So both are running actually -- are running actually reasonably well right now. So I actually do have a -- again, I have a constructive view in terms of where crush margins can move in 2020. And I believe utilization rates will continue to be

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relatively balanced. But again, there's going to be incremental capacity added in order to support the general trend demand of growth for soybean meal demand.

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

What about collaborations across the industry, joint ventures, things like that?

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

So we have a collaboration with Cargill in Egypt. It's been a very successful collaboration in terms of soybean crush in Egypt. So it's what we call a destination marketing crush plan, whereby you send soybeans to that crush plant in Egypt, 50-50 joint venture. They crush, supply meal into the Egyptian market, a great collaboration. Egypt is a very important market for both companies. And we felt that this made sense for us to be more efficient in terms of utilization of invested capital. And so it's a smart collaboration here.

I can see more of these types of smart collaborations occurring in the industry in the future here. Because when you think about all of us are looking to improve returns, right? And so when you're looking to improve returns, managing the denominator becomes very important, which means being very smart in terms of how you invest your capital. So I think in general, the industry is -- has a good returns focus. And I can see more collaborations occurring in the future.

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

Great. Maybe we'll see if there are questions in the audience before we keep moving forward with our questions.

Unidentified Analyst

Regarding the trade deal, you talk about Phase 1 as creating a very (inaudible) U.S. market as opposed to what we've witnessed in the last 12, 18 months. But agricultural products seem to be in the forefront of all trade negotiations globally. So outside of the nutritional segment, what can ADM do for the capital allocation policy to reduce some of the exposure that they have to trade overall?

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

So the question is, how can ADM reduce its exposure to trade risks generally, generally speaking? Well, a couple of comments here, right? We are one of the largest originators in the world, right? So therefore, for us, one of our core businesses is moving crops around the world, right? So therefore, I mean, we'll always going to be involved in that business here. How do we manage the risks related to trade? I mean when you think about even this year, we're managing the risk. I mean does it have a slight negative impact to us? Yes. But we have a large origination footprint out of South America as well, right? We have a large origination footprint out of the Black Sea region. And so therefore, we do adjust kind of our trade lanes based upon kind of what's happening in terms of global trade politics.

I think that, again I do believe we'll get towards a Phase 1 type of transaction. I do believe that China will buy agricultural products from the United States. At ADM, we have a large origination footprint from the United States, we should benefit from that. But all I'm saying is we have to remain agile in terms of how we adjust kind of our trade footprint. I remember in 2018 when the trade war began, right, in the middle of the year, I remember when China stopped buying from United States and they pulled hard from South America, from Brazil. So we export from Brazil. But what was interesting is China was buying most of the soybeans out of Brazil that the traditional customers that were buying from Brazil soybeans, they couldn't get from Brazil at an attractive price. So what did ADM do? We backfilled, right? So we backfilled that supply need. And so I always say that's important for ADM as being a global originator that we be agile, we anticipate what's going to happen and then we manage our supply chain appropriately in order to meet the needs of the world here.

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

Maybe transitioning to ethanol, hasn't been a fun year for ethanol. But there has been a more favorable response from the EPA, still some grappling around the treatment of small refinery exemptions. I'd just be curious to get your thought about the latest iteration of RFS and SREs as well and how you think that potentially evolves moving forward, if at all?

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

Well, the ethanol industry is actually a very important industry for United States. Like when you think about like 30 -- in any given year, 30% to 35% of the corn crop actually gets converted towards ethanol. So when you think about supporting the U.S. agricultural industry, right, oftentimes we talk about soybeans, right? Corn is actually very important, right, as a product for the U.S. agricultural industry. And I always like to remind people, there's no such thing as a soybean farmer or a corn farmer. They're both, right, because they rotate their crops in any given year, right? So supporting the corn industry, which means supporting the ethanol industry, is actually very, very important. So we've done a lot of education to the administration regarding the importance of corn and importance of ethanol for our agricultural industry.

And I think there's a recognition from the administration that it is an important industry. So we've been working through the special refinery exemptions that have been granted over the past years, right? And so these exemptions actually added up to roughly 1.3 billion gallons of exemptions from ethanol, right? So when you think about a 15 billion gallon RVO requirement, so with the exemptions, you take 15 billion minus 1.3 billion, and that's kind of how -- where the limit is right now. So we've been educating the administration on the importance of how these special refinery exemptions kind of hurt the ethanol industry and hurt the corn farmer, right? And they've listened. And so they've been trying to come up with offsets like adjustments to the RFS in order to compensate for that. And so we're still working through exactly to formulate calculation and just some more discussions to go on that. But they understand and we're making some progress on that here.

The other important issue on the ethanol industry, frankly speaking, is just simply the exports to China, right? Because China at its peak imported about 200 million gallons of U.S. ethanol. And with the trade war, they've bought basically 0. The incremental demand pull from China for ethanol helps. It clearly helps in terms of the supply-demand dynamics of the ethanol industry. And as you think about down the road, China has announced that they do want to move towards an E10 type of blend nationally within the country. They're not going to get there in 2020, right? But I mean as they kind of focus on the environment, they are moving towards an E10 type of blend nationally, which is what we have here in the United States. And frankly, that's a win-win for U.S.-China trade because, I mean, we want to export U.S. agricultural products to China, which means exporting ethanol is exporting corn. We want to do that. And China doesn't have sufficient ethanol capacity in order to kind of meet their E10 national objectives. So this is a clear win-win, right? And so that's why we've been frankly also educating our negotiators regarding the importance of ethanol as part of any type of agreement as a win-win for frankly both countries here. And that would significantly tighten up the supply-demand dynamics of ethanol in our industry and improve our industry ethanol margin environment.

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

And you've expressed an interest in pursuing strategic alternatives for ethanol assets. You started to move down the road towards separating the businesses. But could you just give us updated thought on that and kind of the road map?

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

Yes. Again, as I started out in the -- my initial commentary, I'm a big believer that the ethanol industry is important to the United States. It's important for our U.S. corn farmers. It's important for U.S. agriculture. From an ADM perspective, it's more of a strategic portfolio decision. So I'm optimistic about where ethanol industry is going. From a portfolio perspective, from a capital allocation perspective, we've made the decision that we're going to reduce our exposure to ethanol because strategically we're continuing to allocate capital towards the Nutrition business. And so we are in the process. We've gone out with confidential information memorandums to interested parties. We have received a lot of interest in terms of

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our dry mill ethanol assets. And so we're going to continue to work through this process in terms of the strategic alternatives. And I'm encouraged that we'll get to something at some juncture here.

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

Great. I want to ask about the sweeteners and starches business as well. And I won't ask about contracting season because I know you guys are in the midst of that now. But I'm sure we'll get an update perhaps on the next quarter on that. But I do want to ask about just current capacity utilization in the U.S. Where do you think the supply-demand balance is there? Is there any sort of reconfiguration that you think needs to happen going forward to make the industry healthier than it is?

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

Well, the U.S. sweetener business, the high fructose corn syrup business, is a fairly well consolidated industry here in the United States, right? There's 4 large players who account for a significant part of the production here in the United States. What we've seen over time is while high fructose corn syrup demand or just generally sugar demand has kind of come down, particularly for carbonated soft drinks, the industry has adjusted by taking out inefficient capacity, right, over the years, right? And so each of us announced capacity reductions over the last 10 years. Most recently, we announced that our Marshall, Minnesota facility, we're going to repurpose that facility in 2020 to produce more starches, food-grade starches, industrial starches versus high fructose corn syrup.

So we -- all of us are continuing to manage supply-demand wisely. And so as a result, I think margins in our industry remain good. Industry capacity utilization remains tight, right? And so I expect that we'll continue to manage it on that basis. We're in contracting season right now. We'll provide more commentary in the fourth quarter earnings call. But I expect that, our objective is to maintain kind of like the margins that we currently have in our business right now.

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

I think maybe in closing, last question for me, before we see if there's any last questions from the audience, just around Project Readiness. You mentioned it earlier, it's really important element of your overall kind of rigor around controlling costs and improving returns. So just help us think through the structure of that, where we are in the process of harvesting savings from Project Readiness and just your broader thoughts on the impact of reorganization across the business, too, and the implication that has.

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

So I'll start and I'll ask Vince afterwards to comment on Readiness from a Nutrition perspective. Because it's also good to get a business perspective on Readiness. But from a corporate perspective on Readiness, what we're trying to do is make ADM better. So the cost savings are important, don't get me wrong. As a CFO, of course, I love cost savings, right? But the real purpose of Readiness is to make ADM better for the long term, right? And so a lot of the actions that we're taking include simplifying the company, right, so simplification of the structure of the company. That was part of the reason why we combined ag services and oilseeds to simplify how we operate within the company there, right? And that gives some cost savings, but probably more importantly, allows us to be even more agile in terms of decision-making. We've done a lot of work right now also in terms of just processes within the company. So one of the great things about ADM is we have great people, very quick, who make decisions, agile.

We don't necessarily have the best processes for a Fortune 50 company. And that's just a reflection of our history here, right? And so we are using Readiness as an opportunity to invest in improving our business processes. So people are surprised that we're probably one of the few Fortune 50 companies that don't have an ERP system, right? And so one part of Readiness is we are putting in an ERP system in order to allow us to manage data, collect data, manage data more efficiently and make better business decisions here, right? So that's part of our Readiness initiative here as well. But we've also done a lot of what I call bottoms-up planning, whereby our organization is coming up with a lot of ideas in terms of how we can streamline the company, how we improve our processes. And that's the basis upon the $250 million to $300 million of savings that we said

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that we're going to generate in Readiness in 2019. And these are true savings. I mean we monitor this stuff very, very carefully. And we'll end up doing about $1.2 billion of savings on a run rate basis by the end of 2020, but -- so that's a corporate perspective. Now I'll ask Vince to talk from a business -- a specific business unit perspective kind of what Readiness means to the business.

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

Thanks, Ray. I think it's important when you think about Readiness, maybe before I get into Nutrition specifics, think about Readiness not necessarily as a project that has a short-term lifespan. Readiness is how we're going to run the company on a go-forward basis and really optimize the performance of the company. As it relates to Nutrition, a couple of aspects I'd like to highlight. Ray referenced the ERP system as part of Readiness and what we call One ADM. The Nutrition business, with the global complexity of our business and the numerous companies and footprints that we are bringing together, we're going to -- it's going to be a huge, huge opportunity for us. And we're actually on the front end of implementation. We're going to be the first business to move forward from an implementation perspective. I think other areas that are really important on the Nutrition business, we talk a lot about investments. It's a way to synergize our investments, house -- our investments and our plans from a plant expansion perspective and realizing efficiencies, driving integration, all is housed in Readiness and our wave tool.

Think on the commercial side, we have a statement of work in Readiness associated with pricing and how we price products. We talk a lot about margins and driving margins across our business and our approach on a worldwide basis. That's part of Readiness. And I think one more area I'd certainly like to comment on is key account management. We talk at great length about being a customer-facing business built on customer intimacy and innovation. How we approach our customers and how we perform key account management from an enterprise-wide perspective, from a global account perspective, regional accounts and local heroes, it's a way of life on how we approach our customer base. And it's all housed as part of Readiness.

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

Great. Ray, Vince, thanks so much for being here.

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

Thank you.

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

Thank you.

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