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EDITED TRANSCRIPT

ADM.N - Archer-Daniels-Midland Co at Bank of America Agriculture & Materials Conference (Virtual)

EVENT DATE/TIME: MARCH 03, 2021 / 7:00PM GMT

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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Luke Emerson Washer *BofA Securities, Research Division - Research Analyst*

PRESENTATION

Luke Emerson Washer - *BofA Securities, Research Division - Research Analyst*

Hi, everyone. Good afternoon, and thanks for joining us today. My name is Luke Washer, and I'm an analyst on the U.S. Chemicals team with Steve Byrne here at Bank of America. And today, it's my pleasure to host Ray Young, CFO of ADM, one of the world's largest grain and oilseeds processors in the world and a leading ingredient provider for animal and human health products.

Before we get started, Ray will provide some opening remarks, and then we'll jump right into Q&A. (Operator Instructions) So with that, Ray, thanks for joining us today, and the floor is yours.

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

Yes. Thanks, Luke, and thanks to BofA for having me again this year. This always is one of my favorite conferences to attend, given the warm Florida weather in location as the Midwest winter winds down. I know this year, we're going to do this virtually. So I'll be brief on my opening remarks.

First, I hope all of you attending today are well, safe and healthy. I vividly remember 1 year ago when the COVID-19 outbreak was starting to spread in the United States, that was my last business trip before the country went into lockdown in mid-March. It is incredible that it's been a full year that we've adapted to this pandemic environment.

For ADM, 2020 was an important year. Not only did we fulfill our purpose of unlocking nature to enrich the lives of people around the world, and we did this by keeping the global food supply chain flowing without disruptions in the pandemic. But in 2020, we were able to fulfill this purpose and also provide strong financial performance and returns for our shareholders.

Record adjusted earnings per share of $3.59; adjusted segment operating profit is 12% higher than 2019; adjusted ROIC, almost 200 basis points above our annual weighted average cost of capital. And we are very, very proud of what our ADM colleagues achieved in 2020 and doing it in a safe manner.

Now as I look ahead to 2021, it's hard to believe that we've already got 2 months behind us already. I am confident in the momentum from 2020 continuing this year and beyond. We do expect strong growth in operating profit, another record year in earnings per share. Sustainability is playing front and center in our strategy and our growth plans. The foundation has been built for sustainable earnings and returns growth in the years to come. And most importantly, we're going to continue to fulfill our purpose of unlocking nature and enriching life. With that, let's start out our chat, Luke. Thank you.

QUESTIONS AND ANSWERS

Luke Emerson Washer - *BofA Securities, Research Division - Research Analyst*

Great. Thanks, Ray. So maybe just to level set with our audience. Since you and Juan have been managing the company for the past 5, 10 years, ADM has undergone quite the transformation. You've made purchase -- a large purchase in 2014 of WILD Flavors. You've divested some businesses,

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acquired other smaller businesses, done quite a bit of capital reduction initiatives and other things like that. So can you talk about, while you've been at ADM, how have the priorities changed during that time? And kind of what are your key priorities now?

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

Well, Luke, let me talk a little bit about really the evolution and the transformation from 3 different perspectives: the first from the company purpose perspective; secondly, from the business portfolio perspective; and thirdly, just from a financial targets perspective.

So first, on purpose. Companies do evolve over time. And for ADM, for those who are old enough like me who may remember the tagline, supermarket to the world, well, that was the purpose many years ago. Today, we still have a noble purpose related to feeding the world. But our purpose has further evolved to meet the 3 important global trends that we've identified: number one, global food security; two, health and well-being of people; and third, sustainability. That's why our new purpose reveal last year is unlocking nature enriching lives. And we've been evolving to meet these trends over the past 6 years under Juan's leadership.

Second, on business portfolio. You can see that we've adjusted our business portfolio to meet these 3 evolving trends. On global food security, you've seen how our global trade business in ag services have fortified their supply chain purposes and focused on businesses such as destination marketing in order to feed to different parts of the world. We make sure risk management is around our important asset base. And we pruned our asset base using precision EVA to make sure that the assets that we have retained deliver on returns to our business.

On health and well-being, you've seen the development of our Nutrition business over the years, with the acquisition of WILD Flavors back in 2014, a series of bolt-ons, organic growth investments, expansion of R&D and innovation, including the area of probiotics and the gut microbiome, and then the recent acquisition of Neovia in the animal nutrition space. We are now one of the largest nutrition companies in the world.

And on sustainability, you can see that we've moved into products that are better for the environment, whether it be alternative proteins or starches for recyclable packaging or partnerships with companies that are creating new materials to replace petroleum-based products or being an important feedstock supplier for renewable green diesel.

Thirdly and lastly, from a financial objectives purpose, we've been very, very clear. We want to increase the returns in our business to our capital providers with a 10% ROIC objective. We want to grow broadly in increasing EVA with a more predictable and sustainable earnings stream regardless of the industry cycle in Ag. And we want to continue to be great stewards of capital for our shareholders, with a balanced capital allocation that includes a very important dividend component.

So that's how I kind of summarize the transformation that we've been going on for the past couple of years, Luke.

Luke Emerson Washer - *BofA Securities, Research Division - Research Analyst*

That's helpful. And maybe when you look 5 to 10 years out, how do you see ADM transforming itself in the next 5 to 10 years? I know you've focused a lot on Nutrition and optimizing your core assets. But what does ADM look like to you in that 5, 10 years?

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

Well, I think we're going to basically build upon what we've done over the past couple of years. And I do think, again, that the 3 trends that I identified: food security, health and wellness, sustainability, these are going to be critical components in terms of how we're going to be driving our strategy, executing and, frankly, growing our company here. So therefore, you should continue to see us being very, very consistent in terms of, first of all, driving things that are under our control. But frankly, again, leveraging the trends that we're seeing in terms of growing our business further into the future here.

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Luke Emerson Washer - *BofA Securities, Research Division - Research Analyst*

Got it. So let's turn to the market conditions. Clearly, we're in a different operating environment than we've seen over the last 5 years. You've seen agricultural commodity prices rise significantly, soybean, corn, canola, even sunflower seeds are hitting highs that we haven't seen in several years here. Ending stocks in important countries are low, demand for soybean meal, oil seem to be increasing. So when we look at the ag environment right now, what are the key elements in your mind driving this change that we've seen? And how sustainable is that in your view? And how does that impact your business, do you think, over the next -- either this year or next year? And how do we go from here?

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

Well, first, Luke, we expect a very strong 2021, as we stated in our last quarterly earnings call, with continued strong execution of our strategic initiatives and improving marketing conditions as the year progresses. And we expect to build on a record 2020 with strong growth in operating profits, another record year of earnings per share. So when we think about the fundamental backdrop of global demand, we're seeing this continue, right? We're seeing this continue. We expect, again, with the recovery from post COVID-19, a return of many elements of demand that, frankly, were pretty weak last year in 2020. So when I take a look at the segments, as an example, Ag Services and Oilseeds, I expect robust demand from China to continue, which we believe is really a medium-term phenomenon. This is not a 1-year phenomenon because as an example, hog herd continues to rebuild in China.

And with the professionalization of the hog herd and the feed, the inclusion rates of feed, whether it be from soybean or from corn, is going to continue to increase. So we see strong, continued strong demand coming from China.

With respect to soybean meal or other types of meals, we expect the global demand to continue to follow the 2% to 3% trend rate that we've talked about in the past.

And lastly, this new element of vegetable oil demand. We expect strong demand for oils, vegetable oils because of, really, the new renewable green diesel element that we've seen recently occurring here in the United States and around the world.

In Carbohydrate Solutions, which, again, this is a segment probably most negatively impacted by COVID-19 in 2020. We're expecting that the recovery, as the country returns to more of a normality in terms of demand, driving miles to foodservice sector, we expect the market condition to vastly improve for Carbohydrate Solutions in the second half of this year.

And then with respect to Nutrition, which probably was less impacted by a lot of the factors that impacted the world last year, we expect Nutrition to continue to drive their growth rate in terms of both revenue and profitability, and we've publicly talked about the $1 billion operating profit objective in 2024. And so we think that we're going to be on a trajectory towards that in 2021.

And so just to conclude on this subject, we actually expect that the environment I've described here is not just a 1-year environment. We think this is a multiyear environment that's unfolding in front of us for ADM.

Luke Emerson Washer - *BofA Securities, Research Division - Research Analyst*

Got it. So looking at that opportunity, particularly China, because I think that is something that people are asking themselves is how sustainable are Chinese imports because they've imported quite a bit of corn, which we haven't seen them do. And they're obviously importing very strong levels of soybeans. Is your view that -- and you mentioned this a little bit earlier, is your view that right now, they're importing what they can consume? Or do you think that there is some of kind of putting it into inventory to save -- because China has made a focus to preserve their self-sufficiency? But do you think that they can't really do that all in 1 year, it's going to be a multiyear phenomenon?

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

I think the main reason why China is as aggressive buying agricultural products from around the world, is just fundamental demand. I mean that's the primary driver as to why China has been aggressive importing last year. And we expect them to continue to be aggressive importing this year. When you think about China, they recovered from COVID-19 very rapidly in the -- particularly in the second half of the year. And you saw strong domestic growth in their economies there.

The other important phenomenon that's occurring in China is the rebuilding of the hog herd after the African swine fever issues that they had several years ago. I know there's been talk about a resurgence of ASF in China recently, particularly in the northern provinces and a little bit of the central provinces. But we think that this is going to be contained. I think the Chinese government will be very focused on containing this outbreak. I think the sanitary conditions and a lot of these newer farms, these larger farms are much better than what they had several years ago. And they've also shifted a lot of the hog raising away from smaller farmers or what I call the backyard farms into the professional hog raising operations, whereby the conditions, the sanitary conditions are far better, and they can actually control the disease. So the rebuilding of the hog herd, which will result in beating more professional feed, and hence, higher inclusion rates is going to drive continued strong demand for feed.

And so as an example, we talked about 100 million metric tons of soybean imports into China in 2021. I think we feel very comfortable with that number, maybe even going to tick up a little bit higher than that. And then the big delta in 2021 will be corn. We've talked about China importing 25 million metric tons of corn in 2021. And that's much higher than, traditionally, that they will buy maybe 5 million metric tons from around the world. And this is just an example of the fact that their corn reserves have come down dramatically in China.

They've had some corn crop issues last year is due to the typhoon. But again, it gets back to more professional rations and higher inclusion rates of soybean meal and corn meal in terms of their feed. So this is fundamental demand, Luke, which is driving what China is doing in terms of importation of agricultural products from around the world.

Luke Emerson Washer - *BofA Securities, Research Division - Research Analyst*

And maybe one more on China. Earlier this year, they made a fairly substantial purchase of ethanol. And I think there are questions over whether that was more of an opportunistic purchase or it could be the start of a larger buying program. They said in the past, they've talked about doing E10 policy. Do you have any views there on what could develop there? Or is your view that this is more opportunistic or has more potential?

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

I think there's more potential, Luke. I think we indicated in the last call that we felt that China has already made commitments to about 200 million gallons of ethanol imports from the United States in the first 6 months of the year. They're actually doing that right now. So we feel good about that. We'll have to see what they're going to do in the back half of the year. But don't forget, the recovery of the Chinese economy, which means more driving miles, more gasoline demand. And there are provinces within China that already have a 10% blend rate in terms of ethanol, right?

So you don't need to expand the mandate of that 10% blend in order to actually require more ethanol in the country. Natural recovery of the economies, particularly in these provinces, is going to drive more ethanol demand. And again, with higher corn prices in China and, frankly, a little bit of a shortage of corn, I suspect some of the ethanol plants within the country are a little bit challenged in terms of producing ethanol. And hence, I think the importation decision is based upon the need for additional ethanol in order to kind of fuel the requirements in the country.

It will be interesting as to whether China then eventually starts moving towards a national E10 mandate, or a national E10 blending requirement. That's something we're going to keep our eyes on and ears on to see whether they're going to move in that direction or not.

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Luke Emerson Washer - *BofA Securities, Research Division - Research Analyst*

Great. And looking at more recent events, just a week -- maybe a few weeks ago, our U.S. Appeals Court made a ruling that is expected to significantly tighten small refinery waivers, which is something that has played to the ethanol industry, particularly under the Trump administration since a lot of those were given during his time. So it looks like this could be a tailwind for you for those in the ethanol industry.

Maybe looking more broadly, are there any other opportunities you see for further policy tailwinds under the new Biden administration, whether it be an expansion of the renewable fuel standard or even an expansion, maybe a national mandate for the Low Carbon Fuel Standard that we see in California?

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

Well, we are encouraged in terms of the Tenth Circuit court decision, which basically ruled that some of the waivers that were granted in the past for small refineries were invalid. And it was also very encouraging that, recently, the EPA actually issued a statement as well, indicating they supported the Tenth Circuit court decision that disallow some of these exemptions that were granted.

As you know, this case is now going to the U.S. Supreme Court, and we'll have to determine how the U.S. Supreme Court rules. I think this will probably be towards the end of the second quarter when they'll make a ruling, and then we'll find out what the decision is. But what's very important is that even in the absence of that particular decision, how the small refinery exemption is going to work in the future is going to be different than the past.

So the EPA has already determined that if they're going to grant, in the future, small refinery exemptions or SRES, they're going to make the appropriate adjustments in terms of the required blending, the so-called 15 billion gallon mandate. They'll make the appropriate adjustments in order to do that.

So the way we talk about internally is, in the future, a 15 billion gallon renewable fuel standard requirement means 15 billion gallons, whereas in the past, with the SRES, 15 billion gallons meant to say 13.5 billion gallons. And so this is very important, right? This is important, very important in terms of what's going to happen in the ethanol industry going forward because it's going to require people to comply with the 15 billion gallons as opposed to seek waivers. And if they can't blend, they're going to have to basically buy RINs in order to meet their obligation.

And you've seen what has happened recently in terms of RINs prices. They've start trading above $1 a gallon. So the market's already anticipating all this. So our sense in terms of what's going to happen this year in terms of the ethanol industry is that we should actually start seeing a better supply and demand balance in terms of ethanol stocks. We're actually very encouraged that ethanol stocks have actually started coming down right now, a lot of it driven by the cold weather shutdowns that occurred in the month of February in the industry, right?

We do think that a combination of how SRE is going to be treated going forward, in combination with, frankly, a recovery of driving miles in the United States, particularly as vaccines get rolled out and people start returning back to a little bit of a normal life and people start driving again. I think that's going to be a positive for S&Ds in terms of ethanol.

Now with respect to your question on the Biden administration, clearly, they're going to be very supportive of favorable environmental policies. And so we'll have to see how they're going to evolve the renewable fuel standards when it comes up for reassessment in a couple of years from now. But clearly, I think the movement, for example, California, Low Carbon Fuel Standards. And I suspect that many other states in the United States will move in that direction in order to, frankly, to support a healthier environment for the country.

Luke Emerson Washer - *BofA Securities, Research Division - Research Analyst*

Got it. And maybe looking at the Low Carbon Fuel Standard. Something that's been talked about quite a bit recently, that I'm sure you've heard ton about, is renewable diesel. So when you look at ADM's participation in this market, clearly, this could be just simply a use for your soybean and

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corn oil, eventually. So do you view this as largely a demand driver for those oils, soybean oil, particularly? Or do you think that ADM could move further down the value chain, do a JV? Or should that market develop more?

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

Well, look, I don't see ADM becoming a refiner of renewable green diesel. I don't think from a capital allocation perspective, we want to go down that particular route. But I do believe that ADM will be an important feedstock supplier to the renewable green diesel industry. When you take a look at the supply demand balances and the growth of renewable green diesel, people have talked about 3 billion gallons of new renewable green diesel capacity over the next 3 or 4 years.

And let's assume that even 2/3 of that materialize, you're talking about 2 billion gallons, right? And that will require about 15 billion pounds of feedstock. That's a lot of feedstock. When you have -- to give you a perspective what 15 billion pounds means, last year, we probably -- U.S. industry probably produced about 24 billion pounds of soybean oil, right? And so in order to meet this incremental demand, clearly, unused cooking oil, with the recovery of the food service sector, there's going to be more unused cooking oil available to go towards renewable green diesel operations. I think that you're probably going to see some diversion of exports of soybean oil from the export markets into the domestic market. You're probably going to see some shift between biodiesel and the renewable green diesel.

But regardless how you kind of do the arithmetic, it's going to be an environment whereby soybean oil is going to be very, very valued by the industry as an important feedstock to support the growth of renewable green diesel. So we think this is going to be a very favorable multi-year phenomenon for the North American soy crush industry.

And so from our perspective, what are we doing? Well, first of all, we're looking to debottleneck our plants in order to make sure that we can actually provide incremental supply. Well, we look at expansion, well, we always look at low-cost expansions, or what I call brownfield opportunities that can actually add incremental capacity. But I do think this is a favorable environment, frankly, a very favorable environment for vegetable oil demand over the next 5 years, as an example because I think -- people always ask me, what about the electrification of trucks, right? The electrification of heavy-duty trucks is probably on the horizon far longer than, let's say, passenger cars. And so I do believe renewable green diesel is going to be an important transportation fuel for the trucking industry over the medium term.

Luke Emerson Washer - *BofA Securities, Research Division - Research Analyst*

Makes sense. Maybe just one last one about more recent events, and then we can dig into your business segments a little bit more. We've been hearing a lot about shipping tightness around the world. There was an article that came out recently about China not being able to get containers to import products. There's a traffic jam that's going on in Brazil, with a lot of soybeans as cargo. And then in the U.S., trucking rates have been up significantly.

Now I know you have a pretty sophisticated operation. You own a lot of assets, barges and trucks and whatnot. So could you maybe talk about how this could impact ADM, or maybe the industry more broadly?

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

Yes. I know transportation is something that also go through certain cycles, too. I mean we've been looking at ocean freight rates as an example, and there's been some volatility in terms of ocean freight rates. I mean some of the rates are pretty high in the near term -- in the nearby, and maybe there's a big inverse there. I think my comment here is the market mechanism does work, right? And so therefore, high prices solve high prices. And so I do think that in the case of shipping, for example, the high prices that we're seeing on some of the larger ships, I think it's probably going to come down as we move through the course of the year.

In the case of domestic transportation, fortunately, when you think about the barge system we have in the Mississippi River, one of the things that we've been giving a close eye on is the weather events that we've seen in the Midwest and whether that's going to impact river transportation as

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we go through the spring because we're always concerned about high water conditions, right, that may negatively impact us. I think it's fair to say the thaw is proceeding at an orderly pace right now, at least from what we're seeing right now. And so at least in the near term, we're not necessarily seeing any risk of high water conditions along the Mississippi.

During the month of February, with the deep freeze and a lot of snow, there were disruptions in terms of the transportation network, no doubt about it. Whether it be truck transportation, air transportation, rail transportation, we managed through that, right? So I think the worst is behind us with respect to some of the domestic transportation bottlenecks that we saw as a result of the cold weather and the winter storms in the month of February.

Luke Emerson Washer - *BofA Securities, Research Division - Research Analyst*

Great. Now let's turn to your nutrition business. This is clearly a very exciting area for you guys. You entered it with your acquisition of WILD Flavors in 2014. You expect, I think, it is a 15% CAGR in operating profit over the next few years. You've invested heavily in microbiomes. I think you've expanded your capacity in Spain by about 5x or something like that. You've done partnerships with Marfrig on the plant protein side, InnovaFeed. So I guess when you look at that 15% target that you have, where are the big opportunities in the kind of health industry that you see for ADM? And how much of that 15% will be driven by organic growth through your system in R&D versus maybe some more small bolt-on?

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

Well, the Nutrition business is something that we're proud of, right? When you think about prior to the WILD Flavors acquisition, when we talk about nutrition, and from an investor perspective, with respect to ADM, even though we had nutrition businesses throughout our major operations. But I think the WILD Flavors acquisition allowed us, really, to consolidate all the different nutrition businesses and actually create a business unit and provide a lot more focus, both internally and externally.

So becoming a global nutrition player has been actually a very important core pillar of our strategy going forward. And again, it builds upon the 3 themes I talked about at the beginning of the call. No other company, in my opinion, is positioned to meet demands of the market like ADM because of the breadth of our portfolio. When you think about it, we have an unmatched pantry of ingredients, which satisfy functional requirements, texture requirements, taste requirements and nutritional requirements, right? There's no other company out there like us.

And so from our perspective, driving growth, driving profitability, a critical part of our strategy, fulfilling our mission to provide nutrition to the world, as you pointed out, we grew profit significantly last year, 37%. And from our perspective, we've announced that our targets get towards $1 billion of operating profit by 2024. So how are we going to do that? Clearly, we made a lot of investments already in terms of the acquisitions, whether it be WILD or Neovia. We're going to continue to harvest those investments. Frankly, in Neovia, what we're proud that we've delivered the EUR 50 million synergy, the run rate synergy targets ahead of time, and we're well in excess of it. There's still more opportunities to get more out of Neovia in terms of expansion of margins and some additional cost reductions there. So from our perspective, harvesting investments continue to be an opportunity for us to continue to add towards profitability and nutrition business. And then there's organic growth. We are expanding capacity in China. So we've got a project in Pinghu, a new flavors plant in China.

We've announced the new probiotics plant in Southern Spain, just outside of Valencia, that will add to our probiotics capacity that will support our health and wellness business. And you can see our Enderlin pea protein plant continues to ramp up, and we've done expansions also in Heidelberg and in Erlanger. So a lot of organic growth opportunities here for us to continue to grow the business.

In addition, we're also working on our go-to-market strategy. So it's not just simply adding capacity. It's also how we go to market, how we talk to the customers, how we develop solutions for our customers because one of our greatest assets of ADM is we can -- we are a systems and solutions provider. So we can put together a bunch of ingredients, come up with a solution, help customers solve the problem. We're just scratching the surface on this, Luke. And so therefore, the opportunity for us to take greater participation in the market is in front of us as we continue to refine our go-to-market strategy and refine our R&D and innovation capabilities within the company here.

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Lastly, you talked about M&A. Well, we're always going to look for smart bolt-on M&As. And we've been very successful doing that over the years, whether it be the vanilla acquisition Rodelle. We just recently had a review of that within our Executive Committee, so we did a look-back analysis to see how these things are going. Extremely pleased in terms of how that vanilla acquisitions worked out to us.

Same thing on citrus. We did a couple of citrus acquisitions, one in Florida, one in Germany, extremely pleased in terms of how these acquisitions have worked out. So these bolt-on acquisitions are actually a very important component for us to continue to build the scale of our company. And they allow us to fill geographic portfolios or geographic holes or certain product holes or certain capability holes that we have in the portfolio here.

So in summary, you asked how we're going to have the 15% CAGR rate. It's a combination of harvesting investments, organic growth and M&A, as well as improving our approach towards go-to-market strategies and developing new products for our customers.

Luke Emerson Washer - *BofA Securities, Research Division - Research Analyst*

Got it. Maybe just turning over to Carb Solutions, I want to make sure I get through all your business segments here. Clearly, as you mentioned in your earlier comments, the Carb Solutions business segment has struggled a little bit more, with ethanol margins being the way they are and dry mill -- well, miles driven being down the way they are. But that has also been offset a little bit by industrial demand, cornstarch and cardboard and sanitizers. So as you look at how this normalizes throughout the course of this year, you're starting to see vaccines pick up and things starting to become more normal. How do you see your earnings to kind of progress? Do you think that your margins will improve? Is this kind of a more normal volume trend? And do you have any expectations for ethanol margins as we start to see miles driven being -- coming back?

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

First of all, you're right, Carb Solutions was the business unit most negatively impacted by COVID-19 in 2020. A combination of the foodservice sector being impacted, as well as driving miles being impacted. The nice thing is when you see a post COVID-19 recovery, like as the world gets back to more of our normality, we should see Carb Solutions be the business unit that most benefits from the recovery. And that's how we see it right now, Luke. When I kind of look at Carb Solutions this year, we do -- our underlying assumption is that the U.S. and looking here in U.S., particularly, the second half of the year should be a 6-month period whereby the foodservice sector really starts recovering. We won't be back to normal yet, but it will be a significant recovery in the second half of the year in the foodservice sector, whether it be restaurants, where it be sporting events, whether it be entertainment events, the schools, right? The universities, the schools. I mean, all that should be returning more of a normality, and hence, the demand for things such as corn sweeteners should actually have a strong recovery in the back half of the year.

Same thing on driving miles, like we expect driving miles to have a solid recovery. In fact, you kind of see anecdotal evidence. I mean I saw -- I'm here in Chicago, and my condo is down in the South Loop, and I overlook the Lake Shore Drive. And just the amount of traffic that you're seeing right now on Lake Shore Drive, compared to even a couple of months ago, is incredible right now.

So there seems to be a return towards more of a normality right now, which will drive driving miles, hence, gasoline demand, and hence ethanol demand. And so when I think about -- like ethanol, as you've asked a question on ethanol, ethanol recovery. I mentioned to you that inventory levels have started coming down on ethanol because of the cold snap that we had in February. I look at inventory levels, which are down to about 22 million barrels right now on an EIA counted basis. That's compared to 25 million barrels last year, right? And I look at the Bloomberg ethanol margin index, right, and I've seen the ethanol margins move from a negative $0.05 at the middle of December to today, well, plus $0.19, right?

And so quite a dramatic move. And then I compare that versus last year at this time was minus $0.15. So clearly, the margin environment for ethanol is moving in the right direction, and we're not even in the spring driving season yet. So I'm somewhat encouraged that things are moving in the right direction right now for ethanol margins this year.

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Luke Emerson Washer - *BofA Securities, Research Division - Research Analyst*

With that recovery incoming, I was wondering if you'd be able to provide any update on the strategic review of your dry mills. I know you had been -- I think you had stated that you were making progress with that prior to COVID, but COVID certainly threw the wrench probably in plans. So any update you could provide there on the way you look at these dry mills?

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

Well, our 2 dry mills, 2 big dry mills, remain idled right now. But we did indicate in our earnings call that we expect to return them to production some time in the first half of this year based upon analysis of the demand factors that I've just talked about just previously. And so that's the same situation. So nothing has changed there. We're still working out these demand factors, whether it be domestic demand, export demand, levels of inventory, spot margins, et cetera, et cetera. So we're all -- we're digesting all of that information in trying to assess when do we actually bring these things back online again. And so we're doing all that analysis right now.

Again, I'm encouraged that the ethanol stocks are coming down right now in terms of inventory levels. So I'm very encouraged about that. And once we get the dry mills operational again, then we can actually start engaging with the interested parties, right? Because at that juncture, then these things start cash flowing again, and then we can actually re-engage and have that discussion with the parties that we've already talked to previously, and they remain very interested in our assets as from a transportation ethanol perspective.

What's interesting, Luke, is as over the past year, you're probably seeing a tremendous interest also in the area of sustainable materials, whether it be sustainable plastics or sustainable fuel, such as aviation fuel. So we're starting to also get interest from other parties in terms of alternative uses of these assets. And so we're going to go through all this analysis. We're going to talk to the different parties. We're going to assess what makes sense from an ADM perspective in terms of the best use of these assets and who's the best partner for us to actually work with in terms of monetization of these assets.

Luke Emerson Washer - *BofA Securities, Research Division - Research Analyst*

Okay. Helpful. Let's turn to your Ag Services and Oilseeds segment. You had a great quarter in the fourth quarter, and I think you also had negative timing effects that will support the first half of this year as well.

There are 2 things that really helped you, I think, from what I can tell, which is, certainly, the operating environment was pretty good. You had origination margins that were strong, elevation margins that were strong. But you also had, I believe, about $300 million in these capital reduction initiatives that you implemented over the course of 2021.

So as you look at maybe your results, and then as you look forward, how much of that do you think is driven by a more favorable operating environment for you versus things that maybe are even more structural with these capital reduction initiatives that you've implemented?

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

One of the key aspects of our business model right now, Luke, is we recognize that the market clearly has a major factor in terms of how the industry margins operate. But we also believe that we, ADM, we can control our destiny also. And there are a lot of things within ADM that we can influence, that we can control to drive results. So even Ag Service and Oilseeds, as an example, as you pointed out, there are a lot of things that we can do there, right?

So what we've done, as an example, is destination marketing, which is a business that is far more stable in terms of earnings. We focused on that. And we've grown that business.

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We've invested in that business, and it's provided us a very stable earnings stream, regardless kind of what market conditions may be, over time. We've done a lot in terms of pruning our asset portfolio. So therefore, where there are elevators or storage assets, which frankly don't earn a return and, whereby, potentially, we don't have a competitive advantage, we sold those assets as part of the precision EVA program. And that allowed us to, then, redeploy capital into other areas whereby we have a competitive advantage. And a great example is the Algar acquisition down in Brazil. So we redeployed capital to buy 2 Brazilian crush plants down in Brazil, and it's turned out to be one of our greatest acquisitions from a returns perspective. And so we've really benefited from that particular acquisition there.

So these are things that we can control. Set that aside, I think the operating environment, which we talked about earlier, is a very, very variable environment, especially driven by renewable green diesel.

And so I think that you should see Ag Services and Oilseeds continue to drive performance, drive results based on the actions that we're taking. But then again, we're entering a period and operating environment, which is also, in my mind, quite favorable for Ag Services and Oilseeds. So we will benefit from both as we move forward over the next few years.

Luke Emerson Washer - *BofA Securities, Research Division - Research Analyst*

That's great. So you mentioned a lot of those things that you have done to really make this core business very strong in terms of pruning assets and redeploying capital. Where are you in that journey? Have you largely done a lot of the things that you set out to do? Or there are still assets, you think? In terms of your footprint, are there things that you still feel like you can change? Or right now, you're focused on kind of growing and that sort of thing?

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

I would say that, Luke, the heavy lifting has been done in terms of major divestitures. We've done a lot, as you probably heard, South American fertilizer, to cocoa business, to chocolate business, some of the equity investments made in the past, some of the legacy ones. We've done a lot of work in terms of cleaning up the portfolio. As I mentioned, the dry mills, the VCP remained an important asset that we need to make some strategic decisions and monetize. But there's always going to be some pruning that's going to go on. So I think the Ag Service and Oilseeds team has done a great job in terms of continuing to prune the asset base.

But really, as you kind of think about where we're heading, it's now focusing on growth, right, and focusing on growth. And so we're -- a lot of focus in terms of nutrition growth, right, as we redeploy capital in terms of organic growth as well as M&A. But even Ag Services, I think there's tremendous growth opportunities in the Ag Services and Oilseeds, particularly as we think about sustainability in the context of the global supply chain, sustainable sourcing, right?

And so I think from the Ag Services and Oilseeds side, we're someone doing a little bit of a pivot, whereby we're going to continue to prune. But now we're also looking at growth opportunities and how we can actually fit the Ag Services and Oilseeds purpose in terms of supporting really a more sustainable world in the future. And that will invest, potentially, in some investments there, maybe some digital investments, some partnerships. But in my mind, it's going to be a pretty exciting time in terms of where Ag Services and Oilseeds will be heading over the next few years.

Luke Emerson Washer - *BofA Securities, Research Division - Research Analyst*

Got it. And you mentioned the Algar acquisition in Brazil. I'm curious, what is your view on kind of soybean crush in specific regions that you feel like are good investments? And then again, generally, just your outlook for soybean crush, maybe in the various regions.

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

Well, I think it is -- in general, soybean crush is entering the favorable environment right now around the world. And a lot is driven by what I talked about, just a vegetable oil comp, the pricing moving up. So that's going to support the crush margins as we move through the next couple of years.

We always like North America. I mean North America is the most consolidated region in the world in terms of crush and healthy demand, right? There's healthy demand, healthy sustainable demand for the products in North America. Brazil is an important market. We have crushing operations in Brazil. The Algar acquisition was a great footprint addition. But as you think about Brazil as being an important source of meat for around the world, the crushing -- domestic crush industry is going to be -- is going to have a favorable environment, a favorable demand environment in that part of the world. So -- but we like kind of our footprint in Brazil.

Argentina is challenged in terms of the crushing industry because of the Argentine farmers being reluctant sellers of soybeans. But we don't have a large -- we don't have a crushing footprint in Argentina. And so from our perspective, it's more monitoring what's happening in that market versus us managing the operations there.

And the European crush environment has been very favorable. The oil part of the crush has been very attractive. European biodiesel demand is actually doing okay. And the fact that there's less Argentine meal showing up in the European markets has been very supportive of the European crush industry.

So overall, we're very pleased with our footprint. And the other thing just to note in our footprint is sometimes people focus a lot on soybean crush, but we've got a pretty large softseed crush footprint, right?

So about -- from our perspective, about 9 million metric tons, or about 25% of our global crush footprint is in softseeds, and we can flex that to a higher number. We can flex that 9 million metric tons to 12 million to 13 million metric tons. And as you know, canola crush margins are actually extremely healthy right now, relative to even the healthy soybean crush margins that we're seeing around the world.

Luke Emerson Washer - *BofA Securities, Research Division - Research Analyst*

Got it. Maybe just talking about -- sorry, Ray, I think are you...

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

I'm still here. I'm still here. Can you hear me?

Luke Emerson Washer - *BofA Securities, Research Division - Research Analyst*

Yes. Yes, sorry. Maybe just on your balance sheet. You have a great balance sheet. You ended the quarter in a great position. 2021 looks to be a great year as we've kind of talked about here, so you're going to generate quite a bit of cash flow. And we talked about those bolt-on M&A opportunities. So I guess when you look to redeploy cash, do you think that this will be focused more on for these bolt-on M&As in the nutrition space? Do you see it kind of across the board? And would you be open to the idea of maybe doing a WILD Flavors type acquisition in the future, if you get to that point? Or for the time being, do you plan to stick with bolt-ons?

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

Well, you're right. First of all, you're right. I appreciate you acknowledging our balance sheet. And I'm very proud. As CFO, I'm very proud of our balance sheet, right, a very strong balance sheet, strong liquidity position. But we've been very clear on our capital allocation approach with our investors, with our shareholders and the use of cash. We're going to keep capital spending very tight because, frankly, we're going to be very

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sensitive in terms of adding new capacity to, let's say, more mature businesses because we don't want to input that imbalance to supply demand balances that we have around the world.

So CapEx is going to keep pretty tight below depreciation and amortization. From an M&A perspective, we're going to continue to be disciplined there. And so we will look at bolt-on acquisitions in Nutrition. I mean that's -- as you talked about growth opportunities, but if there's consolidation opportunities, regional consolidation opportunities in Ag Services and Oilseeds, we're going to look at that as well. So -- and like Algar.

But also from a return on capital perspective, the dividend is important. We -- every year, we've increased the dividend and provided a good return to our shareholders, and then we're going to be opportunistic on share repurchases. So I think, in summary, Luke, we're going to remain great stewards of capital for our shareholders.

Luke Emerson Washer - *BofA Securities, Research Division - Research Analyst*

Well, great. Well, perfect timing, Ray, we've just hit our limit here. It's been a pleasure. This has been a great conversation. We will dive more into your Nutrition business with Vince Macciocchi in our nutrition panel later this -- or tomorrow, rather. So for viewers listening in, you can see that tomorrow. But Ray, thanks again for being here. And for everybody else, please enjoy the conference.

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

Thank you, Luke, and wishing everyone well and safe. Thank you.

Luke Emerson Washer - *BofA Securities, Research Division - Research Analyst*

Thank you.

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