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EDITED TRANSCRIPT

ADM.N - Archer-Daniels-Midland Co at JPMorgan U.S. All Stars Conference

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OVERVIEW:

Company Summary

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CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

Thomas Hinsdale Palmer *JPMorgan Chase & Co, Research Division - Analyst*

PRESENTATION

Thomas Hinsdale Palmer *- JPMorgan Chase & Co, Research Division - Analyst*

Thanks for joining us today. I'm Tom Palmer, equity analyst at JPMorgan covering the broader food space, including agricultural products. Pleased to have with us today, Juan Luciano, the CEO of Archer-Daniels-Midland. ADM is one of the largest processors and distributors of agricultural commodities in the world. It sources products like corn, soybeans and wheat, and both distributes them around the world and processes them into a variety of products, including soybean oil, soybean meal, sweeteners, starches, ethanol and flour. Key end markets include food, animal feed and biofuels. It also has a growing Nutrition business with products that include flavors and colors from beverages, ingredients for plant-based meal and a range of pro and prebiotics.

QUESTIONS AND ANSWERS

Thomas Hinsdale Palmer *- JPMorgan Chase & Co, Research Division - Analyst*

So with that, welcome, Juan. Perhaps you can start us off today with some broader comments framing ADM's positioning and strategy.

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

Yes. Thank you, Tom, and good afternoon, everybody. Great to be here. Maybe because before I do that, I would like to recognize, last week, we had an incident in our plant in Decatur. So as you can imagine, the safety and well-being of our employees and the communities where we operate is our paramount important for us. So we're focusing right now on the health of those colleagues is still being treated and I want to take a second to thank all of our colleagues at ADM that are working tirelessly to not only help them but also bring some of the affected areas back to safe operations.

So I wanted to say that before we started. So if I provide some broad overview of ADM, I'm not sure how familiar are you with what we've been doing, but I would say the transformation of ADM that we have been doing over the last maybe decade, we try to base it in 2 fundamental pillars.

One is about financial discipline as we invest. And the second is the agility of our execution. So execution agility. I think that, that has had a compounding effect as we try to transform and perform. And I think that if you look at from a financial perspective over the last 3 years that arguably have been the worst or the most difficult for our company or maybe any sectors -- for our sector and maybe any sectors given that we have to deal with the pandemic, a war and certainly very severe weather around the world.

We have been able not only to expand our earnings' power, but also to increase ROIC well beyond the forecast that we have given for a long-term perspective, even as recently as a couple of years ago. As I said, I think these are -- these financial results are the culmination of, if you will, of this compounding effect of enhancing the structural changes of our company while maintaining a culture of good execution. This year has not been an exception to that. We had a very, very strong first half of the year, and we are looking at finishing 2023 strong as well.

If I give you some perspective about what informs our forecast for the industry, if you will, there is no doubt that the supply-demand balances of the commodity in the food space is getting to a more balanced position, if you will. I think ADM has been able to leverage our origination footprint

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and our export capabilities as well as some of the recent investments we have made in port infrastructure as well as new capacities to expand margins across our value chain.

Also, I think biofuels in general, has been a very good backdrop for our strategy and for our company as the demand stay and remains very robust there. We have seen very strong margins in biodiesel. We have seen very strong domestic and export demand for ethanol and we have seen an increasingly uptake of soybean oil as more renewable green diesel plants come into operations. Actually coincidentally today is a very important milestone. We are receiving for the first time, soybeans in our Spiritwood, North Dakota new crushing plant that starts the start-up process, if you will, for us.

So we will be crushing the first beans probably in the first week of October. That is adding about 1.5 million tons of crushing capacity to our footprint, allowing more production of low-carbon intensity feedstocks. We also continue to put -- to make progress in our decarbonization effort. You have heard us before talking about carbon capture and sequestration expansions and pipelines. We have just signed an agreement with Warwick Carbon Solutions in terms of providing low carbon emissions' power to our plant.

And again, this is in our continuous effort to provide more sustainable products to the food, feed, fuel, industrial and consumer products area. So all those plans continue to progress. In parallel to all this, we continue to build capacity, to bring new businesses, to bring innovation capabilities into the company. We are very reassured as we look down the food value chain on the fact that food demand has become very -- has stayed very resilient. We have seen strong vegetable oil demand. We have seen a strong milling demand, flour and other products. We have seen a very stable -- sweeteners business has stabilized.

I would say where we have seen some pockets of destocking, particularly has been in the pet industry. And we have seen a little bit of a slowdown on the demand uptake in things like animal and plant-based proteins. This, in part, has been responsible for maybe our Nutrition growth to come a little bit slower than we had previously anticipated. But we've taken a lot of measures, and we are still taking in aggressively in Nutrition, and we see already the fruits of some of that, which is -- giving us a good indication of a healthy rebound that could come next year. So we feel excited about that.

On the financial side and to conclude, our balance sheet has never been healthier. We need about 30% to 40% of our cash flows to fund our plan -- of our organic plan, and we continue to give priority to that in terms of capital allocation. So the first priority is to invest in automation and digitization of our operations in the decarbonization of, again, of our major operations and in providing new capabilities for customers to have been able to innovate even faster with us.

60% to 70%, again, of our free cash flow is free to return to shareholders or to -- available for strategic acquisitions. So that gives us a lot of optionality. We've been, as you know, growing -- paying dividends for 90 years, and we've been growing dividends for 50 consecutive years. We plan to continue to do the same. And this year, you have seen we've done $1 billion of buybacks in the first half, which is a strong indication of how we feel about our intrinsic value, the intrinsic value of our company.

So at this point in time, I think that we are very confident that we are very well positioned for a strong 2023 and we expect to walk into 2024 with a very strong momentum. So maybe I'll pause with that with my commentary and then let you or the audience can field any questions you have.

Thomas Hinsdale Palmer - *JPMorgan Chase & Co, Research Division - Analyst*

Yes, great overview. Thank you. Maybe just start off on the Ag Services and Oilseeds side. You made mention of some of the investments that you've made in the business, but maybe we could dive into that a bit more. You've got Spiritwood opening here. You've expanded your origination footprint. What's still to come? What are the investments as we think about the next couple of years that will start rolling out and contributing on top of those?

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

Yes. I would say in Ag Services, in the grain area, there is a lot of activity in terms of helping to transform agriculture from current practices or historical practice into more regenerative practices. So we have a plan to grow the number of acres that we work with farmers to transform that. It's been a very in line with an exercise because you take all the farmers with all practices, but with a lot of willingness to become part of the solution to how to build a more sustainable agriculture system and also the pool from the customer side, and we find ourselves in the middle in a very good position to be able to articulate that.

So that takes maybe not that much capital, but a lot of people in terms of the conversion of these contracts, all the way from the way we contract with the farmer, so all the way to legal from financial considerations and measurements and all that. So that's an important piece.

That's an important piece that not only allows the industry to be better, but it tightens our relationship with the customers and bring new characteristics to our products. For the first time probably in 20, 30 years, the industry is not necessarily a price-taker in grains, but the discussions have changed more from what is your price from the product or how this product has been raised or created and how much do you have available and then it becomes the pricing. So when you see some of the margin structures that we have now in Ag Services and the performance, a lot of that is on this growing trend.

And as we get more acres brought into production that way, that becomes increasingly a part of our differentiated bushel or differentiated ton, if you will. So that's an important consideration. As you said, the biofuels is important, bringing some crush capacity. ADM is one of the first ones to bring this 1.5 million tons in partnership with Marathon, in this case for Spiritwood, North Dakota. I think you're going to see that with other partners across the value chain that we're going to have.

And for every processing unit that we have, we're always going to be looking at, again, the automation and digitization of that. To bring more technology into that to being able to squeeze a little bit more yield out of the grain of soybean or the grain of corn. So that continues to be. And then all these products for every customer out there, every account out there that you own or you see that has a decarbonization pledge for 2050 or 2030, everybody is part of their footprint or their blueprint is a plant-based material.

So our ability to generate low-carbon intensity feedstocks as we decarbonize our units, we will become more an enabler of some of these products. Some of these products will go to food and feed. Some of these products will go to fuel, for industrial products or consumer products. So that's a very fertile area for ADM as we go forward.

Thomas Hinsdale Palmer - *JPMorgan Chase & Co, Research Division - Analyst*

Great. Thanks for that overview. Maybe sticking with AS&O for one more. We've seen a broader market environment that's been quite strong over the past couple of years. And you noted that we're heading towards, at least from a supply-demand standpoint, more balanced than we've seen. So is this kind of a more normalized environment we're seeing now as strong as it is? And how do you think about that evolving over the next couple of years, just given that there is some capacity coming in crush? It doesn't necessarily mean in the world, there's more meal and oil, but there's more at least in North America. And we could see some pretreatment capacity, maybe on the refined side. So how do you think about kind of those moving pieces? And what really has been a great backdrop?

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

Yes. So first of all, on the normalization of crops, of course, after a couple of years, especially with the war and La Niña, if you will, in fact, that you have higher prices to a certain degree, exacerbated also by government intervention. So if this is my advertisement into, please let the market be the market, that will be easier for everybody. I would say the farmer reacted to that planting more.

And so we see the correction. And after we said it before, this is going to take 2 or 3 years, and we see that correction. I think the issue that we need to be aware is a lot of the important dynamics are at the micro level. So although on a high perspective, you might see some normalization, there

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are always regional dislocations. If Brazil have offset the decline in Argentina from a soybean perspective, well, there is still an issue when Argentina needs to produce and those customers are still short.

But there is also an issue of Brazil being able to export the crop with the same logistical system that they used to do for a smaller footprint. So there is still the issue of weather and very severe weather, and we need to manage through that. There is still the issue of Ukraine. I think the Ukraine concept at times was, in my view, misunderstood. I was more concerned last year, it was -- I was less concerned in the initial year because the crop was there.

It was stored in Ukraine, and it was more a matter of accessibility of the crop, but not availability. There were 40 million tons of grain. Now after a couple of years in the war, when you have less people available because they've been drafted or you have more field damage or you have more insecurity about who's going to hold that grain eventually, then it becomes more an issue on availability. Is the farmer in Russia planting as much as before? It's the planting in Ukraine happening as much as before?

So I'm more worried today, if you will, even if prices are lower, than maybe it was a couple of years ago. So my point is we always have to go through this. And that's where companies like ADM and what I said, the agility of execution make a difference. And that's why you look at those investments that make sense to do for the long term or not.

Thomas Hinsdale Palmer - *JPMorgan Chase & Co, Research Division - Analyst*

Maybe switching over to Carb Solutions. You laid out profit expectations in December 2021 and really have outperformed those over the past couple of years in the segment. What's driven this upside and how enduring do you think it is when we look at that, especially on the wet mill side?

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

So truly, the outperformance, a couple of reasons. One is, I think that sweeteners, as I said, have stabilized. Maybe from a long-term perspective, we think about more secular trend of sweeteners. But I think that the demand of Sweetener has gotten to a defensible core. And I think that we've seen that stable. I think also, we have grown some of our optionality that if we were making about 22 products from a grain of corn that provides optionality.

Now all of a sudden with biosolutions as a business that, for us, is growing 15% per year, it brings new uses to that. So that allows us to leverage that capacity, if you will, that fight for the grind of corn better among different things. So we have better incremental margins across the whole chain.

I think there have been a lot of effort. The Corn business in ADM, the Carb Solutions is the biggest from an energy perspective, the biggest plant. So when we think about operational improvements, that's where all the manufacturing cost in ADM resides.

So if you have yield improvements, if you have energy improvement, energy hedging, that's where all this. So part of that risk management also and automation comes into play, and we implemented projects like in Marshall and all that, that are double-digit improvements, and we will continue to introduce those products. So -- and then we have all this decarbonization. Again, we talked a lot about decarbonization, but ADM sometimes and my predecessors, so I don't take a lot of credit on this. We're pioneers in some of these things. We introduced the veggie burger in 1982.

We've been doing carbon capture and sequestration, the only on-purpose carbon capture and sequestration unit in the United States since 2011. So we have very good knowledge about that. We have very good data about that. We have injected already 3.5 million tons underground. So we know how much it will cost, how long it takes to be developed, how do we keep the staff there safe. So all these things is getting benefits to ADM because either we get the credits and we get tax credits or we get the carbon credits, if you will, and we can assign that to several products.

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So if we decarbonize a piece of that, we have one well that we have done that with, we're going to have 7. But we have one at this point in time. We can assign those credits, for example, to the milling industry. So we said we are the only carbon-neutral milling industry in the U.S. So if you bring carbon-neutral wheat, we can have -- we can process there. You can have carbon-neutral flour, if you will. So we have that ability that help us with margin here and there because sometimes we have product that were regenerated ag practices on top or we get our decarbonization practice into that.

So that helps the margin. That helps the stickiness of relationships that helps the margin. So that's where you see the outperformance. And hopefully, you're going to see that outperformance having to be explained in further quarters. I don't mind the challenge.

Thomas Hinsdale Palmer - *JPMorgan Chase & Co, Research Division - Analyst*

So let's stick with that for a minute on the carbon capture side. I think one thing you've discussed a bit over the past couple of years is the potential to pivot your ethanol footprint towards feedstock for sustainable aviation fuel. And I think this is kind of a 2-step process, right? One is look to really the carbon captured all of your facilities and then two, explore how you want to kind of enter that sustainable aviation fuel side, be it through partnership or other means.

So maybe we could talk on both of those pieces. What's kind of the time line and opportunity in terms of lowering ethanol? And then secondarily, how do you look to then take that and kind of pivot it towards the SAF side?

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

Yes. So you're correct. So if you think about sustainable aviation fuels, it's just as one of the key markets that doesn't have a quick solution to decarbonize and to get there. Today, if you make jet fuel, you make a carbon intensity of about 80 to 90, give or take. With our decarbonization in Decatur, we can get there to provide an ethanol for that, that can make a SAF carbon intensity of about something between -- depending on the measurement between 25 and 35 or something like that. So about half of what you need to achieve decarbonization.

So that could open that market for that. How do we do that? You hear us making announcements -- individual announcements. So first announcement we did in March, we agreed with the city of Decatur to expand our carbon capture and sequestration wells from 1 well or 2 wells that we have to like 7 wells. So that increases our capacity to put everything in the reservoir. Then you hear us making announcements about pipelines, whether it's Tallgrass or Wolf Carbon Solutions, building pipelines from our other ethanol plants. When you talk about decarbonization, one of the benefits that we have in ADM is that we are in the ethanol business.

When you take carbon from any smoke stack out there, CO2, you get CO2 with a bunch of cats and dogs. And it's very difficult to eliminate those, it takes a lot of capital. It takes OpEx to eliminate the other cats and dogs before you can pump the CO2 underground. When you make ethanol, you get what you call biogenic CO2 which is like 99% -- 97%-plus ethanol. So that allows our ethanol can goes directly. You bring it in a pipeline, you can go underground and you get an immediate credit.

So that's an advantage. So we're taking that first and that is providing us the credit, if you will, and the low-carbon intensity score in Decatur to be able to offer that to others whether we're going to make bio products with that or whether we're going to assign those credits or those attributes to our food products or feed products or SAF, it will be a value choice for us. We are not planning to make all those products.

So I'm not going to build 100% owned SAF plant. I'm not going to build the plastic plant. We're going to make low-carbon intensity feedstocks, liquids available to partners, somebody may make polyethylene with that. Somebody may make SAF from that. And we, at that point in time, we will decide what percentage of those things we own. The recently announced joint venture with LG Chem, for example. So LG Chem is a typical company. They have a net-zero pledge by 2040. In order to be ready in 2040, they need to do 2 things, decarbonize and these are public information and do recycling.

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So in the decarbonization is like replacing oil-based materials. PLA is a big plastic for them. We're going to make lactic acid for them, low-carbon intensity like the gas is a plastic plant-based. That lactic acid for us, that joint venture is give or take about 50-50 with them because we will make that, and we want the sponsor in account. The PLA, the plastic joint venture is a 10-90 joint venture. Because I just want to be there to make sure that the connections are fine, the transfer pricing are fine, but I don't need to own a plastic manufacturing. The same model could be thought for biofuel or other plastics. I want you to see ADM as we're going to leverage what we have and we're going to make carbon intensity feedstocks available to others. So we will be an enabler of decarbonization.

Thomas Hinsdale Palmer - *JPMorgan Chase & Co, Research Division - Analyst*

Maybe switch over to Nutrition side. One thing that's come up a good bit in the meeting this morning was the opportunity on the Health & Wellness side and how much you're investing there and see the potential for growth. So maybe give kind of the overview you've been providing, which I think has been helpful in terms of that probiotic.

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

So we aligned -- you heard me saying before, hopefully, that we aligned the company with 3 fundamental trends. So in food security and sustainability, which I spoke a little bit and then Health & Wellbeing. And the Health & Wellbeing is more on your beliefs of Nutrition can be a part of changing health for the people. And also that for the first time in history over the next 5 years, the population over 65 in the world will be bigger than the population under 5. So we're all getting older. We're all living longer. That puts a burden on the health care systems of everywhere in the world. So there is this view in the nutritional industry is like, can you start bridging that gap between food and pharmaceuticals, if you will, and go into more functional foods.

So one area of that is you eat healthier, you replace more fat and sugar for more protein and fiber in your diets and you're doing that, and we are doing that also as we introduce formulations as part of the Nutrition. But another part is the linkage between your microbiome gut health and your overall health. So we do a lot of clinical trials looking at the effect of some of these microorganisms in your gut and the impact. And we know that the two of us may take the same medicine and one has more potent effect in you than me. We can take the same food, you can gain weight and I may lose weight.

It's all about how our microbiome is populated. So we do a lot of clinical trials, and we bring that. And that is good for humans, but it's also increasingly good for pets or animals in general. So we have probiotics that help with the methane generation in cows and not only the methane generation, but also the milk production. So you can sell it to the farmer even if you don't care about sustainability. You can sell it as a productivity. Your cow, if it takes this supplement will produce more milk. And by the way, the 30% less methane creation into this.

So you're going to see it in pet, you're going to see in animals. Remember that animals are trying to eliminate antibiotics, but you still need to keep the animals healthy. So a lot of that is how do you prevent things from happening. So there is a very fertile ground. We entered that industry not that long ago, is very synergistic with the rest because we put all that into a lot of formulations. And one of the big -- why I'm excited of the size of this?

Think about it. If you think about vitamins penetration in houses, in homes, if you take the U.S., about 70% to 80% of the homes consume some kind of vitamins in house. The penetration of probiotics is about 10%. And there is much more clinical trials and documented evidence of functionality in a probiotic than in vitamin. Sometimes you take the vitamin, but you don't know exactly what it does, but you feel a little bit of a cold and you're hyper -- add vitamin C to your body, I mean do you know how many of you need to take? No, but you take. Well, I mean, I think that there are more and more people knowing that you should take twice your probiotic when you travel, when you're going to be poorly sleeping. But now we can have with precision, things like we knew it, this is good for atopic dermatitis. This is good for obesity. This is good for male sterility. This is good for insomnia. This is good for migraine.

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And these are things that sometimes the overall pharmaceutical industry doesn't align with precision. So I think that the other thing that gives idea of the potential of this, originally, the probiotic is a microorganism that it needs to be alive to provide the functionality. That's why you only see probiotics deliver in 2 ways, in a yogurt that you keep refrigerated or in a pill that you have surrounded by aluminum and all that as a supplement.

We have introduced and we have now postbiotics which is an organism that preserves the functionality even dead. So now you can put it in food that you can put it in the oven. That you can microwave it because even at 400 degrees before you couldn't do it because you kill the organism. Now the organism is already dead by the time you get. So you can extrude the product. So you can put it in solid product. You can do noodles with that.

You can do a cereal bar. You can put it in baby food. You can put it in pet food. You can put it in all kind of things that you're going to take and you're going to retort, you're going to put into the microwave. So my point is when you see the penetration in homes given the clinical evidence of that, and when you see the ability of postbiotics to include them, the way thing we do deliver that product, I think, is a huge potential. So we're very excited about the future of that.

Thomas Hinsdale Palmer - *JPMorgan Chase & Co, Research Division - Analyst*

Maybe sticking on the Human Nutrition side. There's been a little bit of moving parts this year with maybe plant-based not performing as well as it once looked like it might. The Flavor side seems to be doing well. As we think about the coming year, when do we start seeing more of an inflection in terms of the Human Nutrition business accelerating? Because it does sound like the pipeline is quite robust.

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

Yes. Thank you. So our business model is to speed up innovation, help our customers in the Human Nutrition space to get to market faster. That value proposition continues to resonate, and we continue to win. And we check that, we check the percentage of wins we have every year in terms of our pipeline and also the health of our pipeline, the NPV of that pipeline going forward. So we know that.

Of course, that is on a background of the demand for the application. So flavors, as you said, is doing very, very well. It's driven a lot by the vitality of beverage. The beverage industry reacts faster. It takes faster adjustment to a formulation. So they read the demand a little bit faster. Food takes a little bit longer. So you see the things that go to beverages, like, again, flavors, having better growth rate than maybe things that go to food like plant-based protein. So in plant-based proteins, we are pivoting to applications that have shown more resilience, dairy alternatives, sports nutrition, things like snacks. So we're pivoting into that.

And of course, we have adjusted our growth plans and our CapEx to make sure supply matches demand. I would say, I mentioned, I think, at the onset, I think that Pet has shown some levels of destocking. We have different Pet businesses around the world. We are in Mexico, we are in Brazil, we are in the U.S., we are in Europe we are in Asia. And I think that, as you know, the economies are not going on in lockstep. So the U.S. consumer is still more resilient. Some of the developing economies are doing better on services, but maybe not on products.

China is slow getting out of COVID, maybe Europe is a little bit subdued growth. So we see the same things, I would say, and we've seen some trading down in that category. So it's difficult to know because it has extended a little bit longer than expected. So I think that a lot of the help -- a lot of the improvements that we are seeing right now in Nutrition is more self-help than market-given, maybe market-given start to happen later in 2024, but it's difficult to call out.

Thomas Hinsdale Palmer - *JPMorgan Chase & Co, Research Division - Analyst*

And maybe just switching on to the animal side and you did reference the pet. But I think in that business, maybe more of the focus is on margin right now than as much on topline just given what we're seeing in some end markets and obviously, the amino acid side. So maybe give an overview of some of the actions you're taking to kind of get that margin after some erosion in recent quarters to start inflecting back higher. Because I think that is longer term, you see quite a bit of opportunity there.

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

Yes. So there are 2 pieces, if you will, of the Nutrition business, a piece that is a little bit more commodity and a piece that is a little bit more specialty. So the commodity piece of Nutrition -- of Animal Nutrition benefited during COVID and margins were better. As COVID subsided some of the Chinese producers, especially of amino acid came back to market. And that has an effect on the commodity side of that. The specialty side always take a little bit longer. And again, during COVID, the margin for our protein customers were exceptionally good.

So people were less concerned about developing innovation because they were just -- by being allowed to produce. It was just good enough. So now I think all those things are reversing. So commodity side came down a little bit, and we started to see more traction in the innovation side. So that is good. So what have we done to bridge all that transition? Because sometimes prices come down in commodities on the elevator and innovation goes down a little bit on the escalator on the stairs.

So it takes a little longer. So we have shut down 9 lines around the world. Then we have many lines of 9. Don't be alarmed. We have more than 50 or something. We have to unfortunately let go some employees of about 800 people. We have trimmed our forces. We have aligned some of these products. We have resourced more the specialties because innovation is happening more often, and we have seen that in the pipeline. And we also are experimenting on the some of the commodity businesses have more localized dynamics, business dynamics, if you will.

And so that, to a certain degree, aligns better with the commodity part of our business. So we are running experiments like in Brazil in which we have some of the commodity part of Animal Nutrition being run by Ag Services and Oilseeds and I think that, that seems to be proving that maybe there's something there that we need to learn. So many things going on at the same time, which I think we started to see the impact of that. And as I said, this all self-help, our P&Ls are becoming increasingly better, but not yet from getting any market help at this point.

Thomas Hinsdale Palmer - *JPMorgan Chase & Co, Research Division - Analyst*

Maybe switching over to capital allocation. M&A is a stated strategy. We haven't seen a lot of activity from you in recent years. Maybe get an update on the pipeline areas you see opportunity just from a portfolio standpoint? And what the holdup has been up to this point? Are you starting to see maybe more realistic valuations in your view?

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

So yes, M&A is the stated strategy to the extent that the Nutrition business has more like a bolt-on and -- bolt-on M&A and organic growth. So that has helped to cover our portfolio here and there. I think things became expensive. And I think they still are. If there is moderation on expectations, I haven't seen them to the level that I want at this point in time.

I think the last 10 years were bad for ADM from a M&A perspective because ADM has a strong financial position and balance sheet. And to be honest, money was free over the last 10 years. So that was not a differentiator for ADM so we try to acquire as little as possible. And we think that now it will become more important.

Again, I have 60% to 70% of my cash flow free to do that. But the point is, it needs to -- I mean, we created this financial discipline. We increased ROIC from 5% to 14% and I don't want to dilute that by bad acquisition. So we will be patient. We have a strong organic growth business there that we're going to source.

In Nutrition, I'm going more for niche stuff. So we may need to complete some geographic participation. We're a great nutrition company in North America and Europe, but maybe underrepresented in the emerging markets, and that will be a good place. I think in the commodity side will be small consolidation plays. And I think every large play brings a lot of impurity, things that you like to have, but a lot of stuff that you don't like. We are very happy with our footprint in general, our representation in the world.

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So we don't need to add any massive stuff. If there is something that is an opportunity that realistically makes sense that they have enough technology, enough different way to go to market and enough talent there that we feel attractive by the reasonable valuation, we'll reflect our M&A capability. In the absence of that, we will continue to buy back shares as long as we think that the intrinsic value is not reflected.

Thomas Hinsdale Palmer - *JPMorgan Chase & Co, Research Division - Analyst*

We've got a little over 5 minutes. Maybe I'll open it up and see if anyone wants to ask anything. If not, I've got some additional ones.

Unidentified Analyst

Could you give a sense of where do you see this in terms of scale, in terms of how big would this be within the business, if you look 3, 5 years out? And it's relatively small if we look at the operating profit line.

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

Yes. So when we created the Nutrition business very simplistically, I always thought when I joined the company, we had about $500 million of ethanol business and about $400 million of a trading business that I didn't understand very well the predictability of it. So I set myself the goal that I said, I need to replace $1 billion of OP with profit because that may go away at one point in time, and I cannot trust on the volatility of that.

So to a certain degree, I put that arbitrarily go to myself. The business is something in the range of 60%, 65% on the way there, if you will. But I never gave them a target. If I give a target of percentage of our earnings going into Nutrition, I could achieve that by destroying Ag Services and Oilseeds that it doesn't make a lot of sense. So at this point in time, the percentage of Nutrition, the overall company is lower because the commodity business, they all found their growth rates. So I'm excited about it. So I'm not concerned. I didn't tell them also $1 billion. I wanted to be there a goal because I didn't have to force them to go there by spending money wrongly, if you will.

And I wanted our financial discipline to continue. So I gave them 2 targets. What? You need to grow faster than the industry. And every quarter, we check them in flavors, in proteins, in texturants and everything, how they're running versus their competitor, their pure-play competitors. And then the EBITDA margin on sales shouldn't be used to buy that growing faster than the industry. So as long as you go faster than the industry and you have EBITDA margin on sales that is stable or growing, they're going to get their bonuses, if you will.

So that's the measure we have. How big can it get? It will be chunky. It will be like at times, we're going to have acquisitions. At times, we're going to penetrate the new geography. At times, we're going to deal with things like today, environments in which not everything is hitting on all cylinders. And so this is a business that customers are telling us that we're going in the right direction. So as long as the pipeline continues to look for growth, and we will continue to fund that. It's a business that requires much more imagination and OpEx than CapEx. So it's a business I don't worry that much and our ability to fund it.

It's more our ability to deliver to our customers and bring the products that they're going to need tomorrow. So that's why sometimes we go into bolt-on because sometimes they're like, okay, you have a great fiber, but you don't have every fiber and maybe the world is going into that fiber. So it's a little bit more niche and more boutique in that sense. But we leverage a lot. We will not be a big player in texturants who we will not be in corn. We will not be having a big fiber portfolio having not been for the corn business.

We will not be in proteins, and they not being for the Oilseed business. And then more and more, now the fact that regen ag brings attributes to our products across the chain. Originally, we were like the only one that have all these proteins, then it became like we are the only one that can formulate these proteins, and we have protein plus flavors, then it became like, okay, people have that, well, we're the only one that can formulate systems. Now we can add probiotic to those systems. Now I can add regen ag accreditation to those products. So more and more, my point is I want to continue to drive the competitive standard and make things more difficult for people to follow ADM.

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So if you were ever a plant-based protein and you said, okay, I match ADM because I buy now a flavor company. Okay, good luck buying a grain company now to provide regen agriculture credentials to your product or whatever. So my point is I will always try to increase the standard to make more difficult ADM to be followed.

Thomas Hinsdale Palmer - *JPMorgan Chase & Co, Research Division - Analyst*

Well, I don't know if this is a 2-minute question, but I'll try.

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

There are 2 things that they ask me all the time, my financial adviser, when will I die, when will I retire? I haven't been able to answer either. So hopefully, this is a different one.

Thomas Hinsdale Palmer - *JPMorgan Chase & Co, Research Division - Analyst*

No. So I wanted to ask on kind of the near-term environment as we look out. I mean, we've seen very strong crush margins in the U.S. Obviously, origination in South America has been quite favorable. Maybe crush margins in some other parts of the world have been a bit more mixed. I mean, what is really driving that North America strength relative to other parts of the world? And how do you see that evolving in the coming year?

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

Good question. So when we started the year, we started the year with high crush margins. And then by the second quarter, everybody started to worry about because crush margins softened a little bit. And it was a little bit expected because that's where in Brazil and Argentina, even Argentina with a small crop start producing, and they sell soybean meal to the world. So that's their time to export. So you crush margins in the U.S. I say gross margins we are bigger crusher in the U.S. than other companies. So for me, U.S. is bigger.

So it went down a little bit. And then at that point in time, we said, don't worry because it will come back up in the third quarter. Also, at that point in time, I think that we got a little bit of a delay in some of the plants for renewable green diesel. So the offtake of oil became a little bit lower. Now we're going into third quarter and crush margins are stratospheric again, which is what we said they were going to go higher. And it's basically not happening with synchronicity around the world.

So as you said, maybe Europe is still, for example, crush margins in Europe are not great for soybean because there is a lot of soybean meal exported from Brazil to Europe, but it is great in rapeseed. So we have shifted all our capacity, switch capacity to rape. In Brazil, for example, the still domestic market crush is probably $40 per ton, while the U.S. is $100. But export markets is more like $10. And you say, okay, why the U.S. is so much better. Because the U.S., to a certain degree, became a little bit of an eye line. Maybe tropical oils are a little bit softer around the world.

But in the U.S., we have the domestic demand for RGD and we have also the export demand, not only domestically for soybean meal but also we export because we need to replace Argentina that is already running out of meal. So Argentina is going to be running crush capacity at 30% soon and maybe 10% by December. So all of a sudden in the U.S. becomes the only game in town. So we're going to see that dynamic but I think we need to get used to that. The U.S. will have these 2 supported legs. We will continue to do soybean meal domestically and big play for export, and we will have this pool on soybean oil. So that will be the reality for quite a while.

Thomas Hinsdale Palmer - *JPMorgan Chase & Co, Research Division - Analyst*

Well, thank you for coming and joining us today and all your insights.

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

Thank you very much. Thank you, Tom.

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