ADM

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Ben Theurer: Thank you very much. Welcome to the conference this afternoon, last session in this room. Pleased to have onstage ADM, global leader in human-animal nutrition, premier agricultural origination processing company. So today we have with us Juan Luciano, Chairman of the Board, President, and CEO at ADM. Prior to his current role when he joined ADM back in 2011, he was Executive Vice President and Chief Operating Officer, so a long tenure with the firm here. And then we're joined and very pleased to have with us as well Monish Patolawala, who recently joined ADM as EVP and CFO. Prior to joining ADM in August, he served as President and CFO of the 3M Company.

So maybe to kick it off, Juan, I know you wanted to share some opening remarks. The floor is all yours.

Juan Luciano: Thank you, Ben. Thank you for the invitation, and it's great to be here in another conference again this year. Through the first 6 months of the year, we're pretty excited about the way the team navigated difficult conditions this year, especially for the commodity markets. And as we look at the future, we look at the future with excitement for the next 5 to 10 years for ADM. So let me articulate a little bit on that.

So when you think about commodity markets and the global environment for grains and processing, certainly the environment was significantly different in the last 2 years, as we have seen ample supplies from South America and a contraction of commodity prices. And that basically affected margins and profits for AG services in oilseeds. Of course, we anticipated some of that may happen at one point in time; we didn't know exactly when. And we started a couple of years ago an aggressive program of productivity and innovation to try to offset some of the decline in this part of the cycle.

Excited to report that the short-term manifestation on that, which we call Drive for Execution Excellence, has provided increased volumes and lower cost that we have already seen in what it is of 2024. So not completely to offset the commodity prices decline, but we're very excited about the progress in how that program is accelerating.

We're also very proud about the improvements that we have done in our Nutrition division. After having a very difficult 2023, our Nutrition has shown a sequential

improvement in Q1 versus Q4, Q2 versus Q1, and we continue to see the potential to have significant sequential improvements over the next two quarters. When you combine the cost programs with the nutrition improvements and some improvement in crush margins that we're going to see in the second half, especially in Q4, and ethanol margins that are better, we're excited about ending 2024 with a strong Q4 and a good second half.

So if you think about capital allocation during the year, we have continued to maintain strong cash flows through this profit decline, if you will, and we have kept a very healthy balance sheet that allows us a lot of flexibility. So of course, we are funding a plan that we have going forward with a lot of opportunities for ADM and opportunities provided by the three trends that we have invested on, which is food security, health and well-being, and sustainability. And again, we'll retain a lot of optionality given the strength of our cash flows. We have repurchased share this year, we have increased the dividend. And again, we are finding several opportunities--opportunities in terms of automation of our manufacturing footprint, opportunities in terms of the decarbonization options being available to our Carb Solutions business, and certainly the restoration of growth in Nutrition.

So all in all, I've never been more excited about the next 5 to 10 years of opportunities that present to ADM, and I am excited to have Monish having joined us as a team, because we have a lot of decisions to make in terms of how to wisely navigate the options available for us. So maybe I stop my remarks over here.

Ben Theurer: Perfect. We'll dig into that in a little more detail. Monish, you just joined us, I think, a few weeks ago. So maybe initial thoughts: what drew you to the opportunity at ADM, and what are your early priorities as you joined the role?

Monish Patolawala: Sure. Thanks for having me, first, Ben. It's great to be at my first consumer staples conference. It's awesome. Before I answer your question, I just want to take a moment also to thank all the ADM employees--very, very warm welcome. They've been very generous with their time. I've got a chance to visit a few of the facilities. Last week I went to Decatur. I got a chance to see the facility there and then was in Erlanger to see the facility there and meet the functional teams.

In general to answer your question now, so when you think about my career and what I've brought to the table, I've always believed there are two great ways to create shareholder value. One is you drive operating rigor, and secondly is to do smart capital allocation.

When you think about operating rigor, I'm a big believer in data democracy. You visualize the data and then you use lean principles, which is good root cause analysis. You do problem-solving by finding out what the true root cause is, and then you get teams together to create solutions that have sustained value creation.

Similarly at the same time, when you think about capital allocation, just like you look on the rigor side, there's tremendous opportunities all large companies have to invest and grow the business or grow the profitability. But the key, and the teams who are very successful, invest their capital very smartly. They look at their opportunity, they pace themselves, they look at risk, and then they decide this is the path they're going to go.

And using lean again, you start saying, "I'll fail, but I'll fail fast, or I'll pivot if I need to." And I have followed that over my career.

And so when I got approached for the ADM role, I felt these skill sets will be extremely helpful, and I' m very confident that I can partner well with Juan and the entire leadership team of ADM as they go through their priorities that he just talked about, which was you navigate through the cycle, you think about some of the carbon solutions that are available out there, you get the nutrition business back to where it should be, but at the same time making sure you're continuing to return value to shareholders.

So that's what drew me to ADM. You said it: I'm very early in my cycle. I've been here 4 weeks, the new person, so I'm taking the advantage of asking as many questions as I can, fresh eye, and trying to come up with my own opinion on where I see the opportunities exist, whether it's cost, cash, capital allocation. And as I get to know more, I'll definitely share more.

At the same time, it's very important that we continue the journey of strong governance, controllership, compliance. We have a material weakness that's out there. That is one of my priorities that I'm going to help with the team to understand the root cause of what it was and then help remediate that. But overall, extremely thrilled to be here. It's a great, great iconic company, and I look forward to partnering with the ADM team.

Ben Theurer: Fantastic. We'll look forward to have you on multiple occasions afterwards as well. Now coming back to the business, and you reported results a little over a month ago, second half guidance, you suggested the fourth quarter is potentially stronger compared to results in the second half and the third quarter. Just maybe, Juan, walk us through what the current market landscape looks like as what to that split, what drove that decision. So maybe that's a good starting point of things are coming together.

Juan Luciano: Sure. As I said before, when you have strong supplies from South American crops, North America got, if you will, the low quarters in Quarter 2 and Quarter 3. So when you look at the results on Quarter 2, Quarter 3 shouldn't be materially different for Ag Services and Oilseeds. If I go through the pieces, Ag Services probably is Q3, about the same than Q2. When you look at RPO, so refinery and products is about the same. When you look at crush, crush has improved a little bit in Q3. We are probably realizing margins that are probably $10 better than maybe where we having in Q2. But of course, we went into Q3 with partially a book on, so it's not that we take advantage of the full Q3. Ethanol margins have improved, and Nutrition will have sequential improvement. So that's kind of the constitute to Q3.

When you go into Q4, Q4, of course, is traditionally that's when we get with people to the North American crop. The North American crop gives us more opportunity for our internal elevators, our internal assets in the country. And also as a producer, it gives us more abundant and cheaper raw material. So traditionally, we see crush margins in Q4 being higher than in Q3, so we see that elevation.

What gives us the confidence is that when you look at demand for crush, which is meal and oil, we see that soybean meal has become relatively cheap to other feedstocks, and we see their inclusion rates coming up. So if we've seen inclusion rates in the past of

about 16% to 17%, we see now at about 18%. That's about 0.5 million tons of extra demand for soybean meal. And then when you think about the partner, which is the oil part of the soybean oil, we see about 950 million gallons of renewable diesel capacity coming onstream in the second half that will also strengthen the crush.

So when you take all combined, we expect a strong fourth quarter and a strong end of the year for ADM. I don't know if you want to touch--

Monish Patolawala: I just, what I thought of that, Ben, is a couple of large fires that have happened in Decatur. And the company had said before that they will try to go after insurance proceeds. So I just thought I'll give an update on that, too. In the third quarter you will see our captive, which is reported in the Other segment, provide insurance support to the three BUs. It's approximately $100 million. It's a left pocket/right pocket between Other and the BUs, so the total company doesn't change. 50% of that $100 million, give or take, will show up in the Carb Sol segment, and the balance will show up between the other two segments.

We are also, as a part of the captive, we have the right to get reinsurance proceeds as we go out and reinsure, and the company is continuing to work on that. Our hope is we should get a piece of that in Q4. The size of that will get determined as we go through it. It will show up in Other first, and then we'll decide how much goes to each of the BUs. But I just thought I'd give you that update as you're updating your models for Q3, as well as by the time we get to earnings, hopefully we'll have a better update on the reinsurance, and we'll give you an update on that, too. But I thought it was important you all know that.

Ben Theurer: Okay, perfect. Thanks for that. Another thing you've talked about during the last call was just around cost reductions and everything you've been doing and just like 2024 already, pretty good run rate already achieved. And I remember it was one of the focuses you've put out to really make the company leaner. It resonates with what Monish talked about, to make this a more agile, rigorous approach. So where do you see additional upside potential? So where are you right now on that journey of identifying cost-saving opportunities, and where do you think you can take this to?

Juan Luciano: Every time we launch, we launch one of these programs, and we've done that in the past, there are two aspects on it. One is, of course, cost savings and improvements in operations. But another one is culturally making sure we remind everybody of the importance of execution and executing with excellence in whatever they do.

So the exciting thing about the program is that it has an external number of about $500 million in cost savings in 2 years. And as you said, the first half of the year, we have delivered $125 million in savings, so it's already in line with the forecast. But it's a program that we launched late last year, so it's accelerating. So as we look at the progress on the pipeline, we have visibility into hitting those $500 million way ahead of our target of 2 years. And of course, the program is not going to sunset whenever we hit the $500 million; it will continue.

It's a well balanced program in terms of the distribution between geographies and the different businesses, probably with Carb Solutions coming out of the gate a little bit

stronger than Nutrition, mostly from the perspective that Carb Solutions has the biggest assets. So when you act on those assets and you make an improvement, the improvement is multiplied. And then also Nutrition, because they were restoring the profitability, so they were already heavy at work on that. But it has a good balance of geographies, and I would say when we think about long term, besides these improvements in how do we operate better, there are big investments that we're making in terms of automation.

Our plants are very big. We've been operating them for a long time. But there is a limit to what humans can get to in terms of optimization, and we are already good enough of that. So the next layer, I think, will require more digitization and more automation of the operations.

So of course, we are going with a very sequential approach to this because we have about 400 operating facilities around the world. So you're not going to launch automation on 400 facilities, so we targeted 70. We've seen in the Carb Solutions one that we started at first, we've seen double-digit returns. And it's very encouraging, not only on reducing the cost of poor quality, improving reliability of the plants, lowering our cost, and certainly giving us more capacity for the same capital. So excited about it. I think that there is more to give on that, and it's a multiyear program. So that's probably what we have in terms of cost.

Then every business have differentiation positions in which there is incremental margin to be had in the different businesses, but maybe too complex to go by each of the businesses. But there is a full agenda of both productivity and innovation across the company--corporate-wise but also in the business side.

Ben Theurer: Okay. Good. As we look through the different segments, and you've flagged a few things already in terms of just the seasonality in the outlook. But as we maybe start with Ag Services and Oilseeds, it's been very high over the last couple of years. The profitability environment has come down, obviously, a little bit. You've talked about how the supply out of South America, particularly Argentina, still somewhat kind of hold back, so not out there yet. As you think about ADM positioned within the global trade play and the global Ag Services and Oilseeds market, where do you see the market going? Where do you see the opportunities? And predominantly, if at some point the product comes out of Argentina, how would that impact you?

Juan Luciano: So the Argentina product eventually will come to market. I always say if I'm a farmer in Argentina, I haven't sold my last two crops, but eventually I will sell it. At this point in time, it's not convenient to sell. There is a big difference between the two exchange rates, so it's going to be reluctant farmers selling for a while.

But I would say more important across the world is with high inflation and people downgrading their purchases, chicken is the cheapest protein and is the one that has the biggest demand. And soybean meal right now is the most convenient feed for that. That's why you see an improvement in durations.

But people around the world continue to increase their protein consumption. If you think about the US, we consume about 280 pounds of protein per year. China is about 180 pounds. The rest of the world is 80. So the opportunity to increase protein consumption is

enormous, and that's going to happen with chicken and with pork. And that's going to happen with soybean meal. So there is a strong fundamental for that.

On the other side, on the oil side, of course when we just split the bean, you get meal and you get oil, it has always been a more difficult product to place. But of course, with population growth, you see domestic consumption of oil for cooking oil growing. But also you have all these mandates of renewables, and soybean oil is playing a role into that. So if you think about the mandates around the world, whether it's Indonesia with 45% biodiesel, or Brazil that grows 1% every year, 1% every year is about 0.5 million tons of stuff every year that you need to bring to the equation. And then you have RGD in the US. So we see Brazil crush and US crush as the most attractive and advantageous crush places. That's where we are investing because they are the two places where you have a domestic market for oil.

So you could think that eventually, Argentina not having that ability, their meal will become a little bit less competitive to US meal or to Brazilian meal. So we plan Argentina in the long term will be more exporter of grain, maybe more exporter of soybean, than the soybean products, if you will. So we are the largest exporter of grains in Argentina for a reason we don't have crush in Argentina because we have this view of the world. That has been reflected today by crush margins. If you look at crush margins in North America, like $55 per ton, crush margins in Brazil could be between $20 and $50 per ton, in Argentina, where they are $10 to $15 per ton. So you can see those dynamics playing.

So that is a very strong business with two strong legs that continues to bring differentiation to the market, whether it is destination marketing, whether it is where EUDR offers for sustainable and traceable products into Europe. And we have an industry-leading regen ag program where we're leveraging the relationship we have to 200,000 farmers that help we offset scope 3 emissions. We're customers to offset scope 3 emissions and creating all these opportunities for a differentiated grain, if you will, in the industry. So we feel very good about that business. It's a strong business getting stronger.

Ben Theurer: Okay. Just quickly on the renewable diesel, there's a change in early '25 on how the credits work. Do you think this is going to impact you in some way or the other? What's the latest that you can potentially update us on, those changes to the RGD?

Juan Luciano: For sure, it's going to impact us. Everything impacts us. I always tell my wife, "Whatever you watch on CNN is impacting us." So I think there is a lot of lack of clarity at the moment on how we're going to do the transition between blender's credit and producer's credit, which is unfortunate, because the market needs clarity right now to do price discovery and to do these transitions. I think it's going to bring volatility because of the uncertainty. It's going to bring volatility towards the end of the year. Maybe we have a rush of buying because before the tax credit expires or shifts to producer's credit. So we're going to have that volatility.

I think that the long-term mandates are increasing. Long term, you need more row crops that are sustainable and traceable to be able to supply the renewable industry and the energy transition. So I think that row crops will be a part of the solution. I think ADM has

positioned itself to be a big supplier of those differentiated products. But I think you're going to see short-term volatility, especially early 2025, I'm pretty sure.

Ben Theurer: Okay. Switching gears, going over to Carb Solutions but along the lines, still, during the Capital Markets Day a few years ago, you alluded to the idea of turning ethanol into sustainable aviation fuel as one of the avenues which had low-carbon feedstock going into sustainable aviation fuel. Clearly in Europe there's been a lot of push. Airlines, every time you fly, wherever you go, you see how corporates, before the security measures, you see how they all want to push for SAF. So it seems there's an intrinsic demand for that from the airline industry as well. Where do you see ADM in that game playing overall? What role are you going to play here?

Juan Luciano: So I think you're touching. Carb Solutions has been outperforming our own expectations in terms of the amount of profit. It's a business that we thought it was going to make $1 billion to $1.1 billion per year. It's making $1.3 billion for the last 2 or 3 years, and I think in big part because of our strategy to not only grow earnings, but improve the quality of the earnings.

If you think less than a decade ago, about half of the profits from Carb Solutions were coming from ethanol. Last year it was less than 10%. So we still, our intent is to reduce the exposure to vehicle ethanol, vehicle fuel ethanol. In order to do that, we have created more demand for the corn that we process. So today we have a Biosolutions segment that is growing volume 7%. It's going to places like, to large markets like fermentation, sustainable packaging, mining, paper, so a significant market. So all that helps that we can actually have better uses, better places to put our products at higher margins than send it to ethanol.

Having said that, there is an opportunity for differentiating ethanol by having low carbon intensity ethanol. So what we are doing, our role is if we have a carbon intensity, let's say, of 90 in Decatur as we make ethanol, we're trying to use things like our regen ag, ultra-low emission power or carbon capture and sequestration to reduce that carbon intensity to maybe a level of 40, and then being able to sell low carbon intensity and monetize that.

We can do it in many ways. We can assign those credits to some of our products so we can make low carbon intensity flour, for example. So then you can make carbon-neutral cookies, if you will. Or if the market is not willing to pay for that, we can have low carbon intensity ethanol to make SAF, or you can monetize your credits as CO2 credits, selling to industries that need to offset credits.

But in the meantime, the process is for us to decarbonize. In order for us to decarbonize, we need to bring some pipelines from some of the locations that we have where there's no carbon capture and sequestration, and we need to increase our carbon capture and sequestration production from 1 million tons to 7 million tons by drilling another six wells. So we are in the process of doing that, but the optionality that that opens for Carb Solutions to increase profits, not only the amount but the quality of profit, is significant.

Ben Theurer: Got it. Now coming to Nutrition, and you've touched on it earlier in your opening remarks of the sequential improvement that you saw in 4Q to 1Q and then from 1Q to 2Q

it also got better, an you said you expect this to continue into 3Q and 4Q. Maybe help us just differentiate a little bit the Human Nutrition versus the Animal Nutrition piece, and particularly what within the Animal Nutrition maybe is a little more commoditized versus value-added such that we understand where the improvements are coming from. And then I have a quick follow-up on Decatur as well related to that..

Juan Luciano: Yes. So the Nutrition piece is a business that all the way to 2022 was growing at very high rates, and we had a very bad 2023, a combination of destocking and some things that we did to ourselves, basically. So the business is trying to recover from that. I have not personally lost my aspirations for what the Nutrition business can achieve. And let me walk you through the original hypothesis in the different segments and how that has played out.

We are encouraged by the progress that Human Nutrition has done in the first part of the year. We are growing profits about 10%, and mostly on Human Nutrition and mostly on flavors. Flavors is a business that has been very successful for us, mostly in beverages. Beverages is the category that in the food industry that has the most vitality. If you go to your snack room, you'll see the number of different beverages there are, whether they are energy drinks or all kinds of flavored waters or all kinds of seltzers--hard seltzer, soft seltzer--low-carb beers or low alcoholic drinks. So we continue to innovate there, and we see that business has been successful and is going very strong at the moment.

Another part of Human Nutrition, but this one that hasn't gone that well is what we call Specialty Ingredients, which is all the plant-based proteins part. I think that the industry went too much into the equivalent to burger replacement. And candidly, I think that we missed the point in terms of healthiness, taste, and sometimes the price point of those applications. So that application has a lot of headwinds in terms of demand.

We have pivoted that. We have a Protein Solutions Center in Decatur. We use that to pivot our targets towards going to market in things like specialized nutrition for people with sarcopenia or with pre-workout drinks or post-workout drinks. There's a lot of specificity around that at the moment and a lot of daily replacement. So we are repositioning our portfolio to that. It will take time. But that application, I would say, versus the original estimate that it was going to grow at around double digits, we're probably going to grow at around 5%. That's probably the biggest change.

On the other hand, probiotics or biotics in general has been the biggest surprise. We were very excited about that application when we started with that technology, I think that in 2015 or '16. And it has proven to be even better than expected. There is not only a lot of demand in terms of humans. And sometimes it will go a little slower than I would like to go because we do clinical trials. We do science-based applications. So unless we can prove that improves the condition, we don't promote those benefits. So at any point in time, we might have like 10 to 12 clinical trials being run. And when we finish the clinical trials, we present a dossier to the customers for them to launch the products. So that is very successful.

And then about half the business, to my surprise, go into animals. When you think about production animals and the desire to reduce antibiotics, so you need to do something to still fight infections, the fact that we can reduce the methane generation in the stomach of

a cow at the same time that we increase the milk production through probiotics and the fact that we can use it for pets to improve their digestive system or some skin conditions. So many, many applications. That has been very good. So that's Human.

If you think about Animal, as you said, there are pieces of Animal that are more commoditized, like the amino acids and all that. The reason we have it in Nutrition and not in any of the other more commodity business is that at the beginning, we wanted to have that as an open door for our innovation system to innovate in premixes, in additives and ingredients that we would want to target. Now we have done that. Now we have built a pipeline of about $1 billion in specialties in Animal Nutrition. So we could think about what is the best place to put the commodity parts, and we need to work through that.

I didn't want to throw another thing at Nutrition in terms of restructuring in a year that they needed to improve and restore growth. So we're leaving them alone, but that's probably a chapter for us and the management of Nutrition to think about what's the best place to run in ADM.

And then we have pet. The pet has been a good story from a demand perspective. Industry structure, depending on where you are around the world, is different. So industry structure, maybe we get great results in one area and so on and so in another area. So there it's not about the category being wrong. It's about we find in our right geographic participation, if you will, and the segment participation to maximize value. So that's in review right now. And I think that you will see 2025 and onwards higher growth rates for the pet business than we have seen in the past.

Ben Theurer: Okay. The Decatur, I mean we've talked about the insurance math, et cetera. When is that likely to be like kind of back in service? Is it a 4Q thing? Is it more a 2025 thing? How should we think about it? Where is the timeline right now?

Juan Luciano: The plant should come onstream this year, but late in the year to the extent that it will not have any significant material impact in Q4 earnings, if you will. So from an economic perspective, it will be a 2025 event, even if the plant comes onstream probably in November or December of this year.

Ben Theurer: Okay. And then a last question just around CapEx, capital allocation, et cetera. You've been very strong on the share buybacks already. Everything got executed here. Do you have some sort of flexibility to maybe up this earlier on? Or how do you think just about the priorities of buybacks versus dividends versus CapEx?

Monish Patolawala: Yes, sure. So I think you just start with my view and what the company has also done. You think about dividend, share buyback, the company has already done $2.3 billion this year, a good increase in dividend. So I think the company continues to deliver strong return to shareholders.

The question, and Juan already talked about the number of opportunities that exist for ADM, is where do you put the investment in. Because each one of these have a different time horizon, but they all will give you a long-term return. And that's one thing that I'm spending time and I will spend time with the leadership team on a data-based approach, fresh look: where is your market? Where is your right to win? And how do you invest in

that innovation? Because the company has already done a lot in innovation. There's also emerging market growth coming. There's carbon solutions discussion coming and how do you fund all of that. So that's one of the exercises that in the past, I have worked through with management teams on deciding where you put the money. I'll do the same here.

On the other hand, when you think about the other side, which is portfolio management, again, large business, a lot of opportunities. You start talking to yourself and saying, "Where should be the right return and should I prune the portfolio?" The company, again, has done some plays in that. Cocoa, for example, they exited a few years ago where they felt there was someone else who could be a better owner of the business. And I would say we'll continue that journey here, too, in making sure that we are looking at a portfolio with a very independent lens and saying, "Is there a better owner?"

Because on one hand, you want to do the acquisitions, you want to buy. On the other hand, there is a way to fund some of these where there could be a better owner who could take advantage of where all the good work that we have done, and then they create more value. And it could be in the form of a JV; it could be in the form of a sale.

So sitting right now, I would say, and from a leverage ratio, the company has maintained pretty high ratings, and I think they're proud of where they are. So as of right now, I would say look at market, right to win, look at return to capital to shareholders, which is dividend or share repurchase. And then, of course, there's M&A as we start seeing some of these opportunities and where do we put our money. So a lot to do, but exciting time.

Ben Theurer: Perfect. Well, with that, I think it's a good wrap. Juan, Monish, thank you very much for being on stage this afternoon.

Juan Luciano: Thank you, Ben.

Monish Patolawala: Thank you.