THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ADM - Q2 2014 Archer Daniels Midland Company Earnings Conference Call

EVENT DATE/TIME: AUGUST 05, 2014 / 1:00PM GMT

OVERVIEW:

Co. reported net earnings of $533m and reported EPS of $0.81.

THOMSON REUTERS

CORPORATE PARTICIPANTS

Case McGee *Archer Daniels Midland Company - VP IR*

Pat Woertz *Archer Daniels Midland Company - Chairman, CEO*

Ray Young *Archer Daniels Midland Company - SVP, CFO*

Juan Luciano *Archer Daniels Midland Company - President, COO*

CONFERENCE CALL PARTICIPANTS

Christine Healy *Scotiabank - Analyst*

David Driscoll *Citigroup - Analyst*

Farha Aslam *Stephens Inc. - Analyst*

Ann Duignan *JPMorgan - Analyst*

Robert Moskow *Credit Suisse - Analyst*

Adam Samuelson *Goldman Sachs - Analyst*

Vincent Andrews *Morgan Stanley - Analyst*

Tim Tiberio *Miller Tabak - Analyst*

Kenneth Zaslow *BMO Capital Markets - Analyst*

PRESENTATION

Operator

Good morning and welcome to the Archer Daniels Midland Company second-quarter 2014 earnings conference call. (Operator Instructions) As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's call, Mr. Case McGee, Vice President Investor Relations for Archer Daniels Midland Company. Mr. McGee, you may begin.

Case McGee *- Archer Daniels Midland Company - VP IR*

Thank you, Melissa. Good morning and welcome to ADM's second-quarter earnings conference call. Starting tomorrow, a replay of today's call will be available at our website, ADM.com.

For those following the presentation today, please turn to slide 2, the Company's Safe Harbor statement, which says that some of our comments constitute forward-looking statements that reflect management's current views and estimates of future economic circumstances, industry conditions, Company performance, and financial results. These statements are based on many assumptions and factors that are subject to risk and uncertainties. ADM has provided additional information in its report on file with the SEC concerning assumptions and factors that could cause actual results to differ materially from those in this presentation. You should carefully review the assumptions and factors in our SEC reports.

To the extent permitted under applicable law, ADM assumes no obligation to update any forward-looking statements as a result of new information or future events.

On today's call, our Chairman and Chief Executive Officer, Pat Woertz, will provide an overview of the quarter. Our Chief Financial Officer, Ray Young, will review financial highlights and corporate results. And our President and Chief Operating Officer, Juan Luciano, will review the drivers of our operations performance in the quarter, provide an update on actions that are improving returns, and discuss the outlook going forward. Then the team will take your questions.

Please now turn to slide 3. I will turn the call over to Pat.

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

Well, thank you, Case, and welcome, everyone, to our second-quarter conference call. This morning we reported adjusted earnings per share of $0.77 and adjustment segment operating profit of $819 million. Our net earnings were $533 million or $0.81 per share, and segment operating profit was $888 million.

In the second quarter, the ADM team continued to execute very well and delivered strong results. We capitalized on robust ethanol demand, a recovery of US grain export volume, and continuing strong demand for oilseeds products.

I am very proud of the work that the team has done recently, not just in running the day-to-day business, but also strengthening the enterprise with aggressive cost and cash management and positioning our Company for future growth. This work continues to drive improved returns, with this quarter's ROIC showing a 200 basis point improvement over last year.

Since our last quarterly call, we have announced the construction of a sweetener and soluble fiber manufacturing complex in the Chinese port city of Tianjin; we have announced the completion of the Toepfer deal and the start of integration there; and we have announced an agreement to acquire WILD Flavors, a global leader in natural flavors and flavor systems, to complement ADM's existing texture, nutrition, and functional solutions.

It is through these and other actions that we are improving returns. These are efforts that in a minute Juan will discuss a little bit further.

Now looking at the second half of 2015, the crops in North America and Europe are developing very nicely, and we are preparing for what could be very large harvests. Now I will turn the call over to Ray.

Ray Young - *Archer Daniels Midland Company - SVP, CFO*

Thanks, Pat. Slide 4 provides some financial highlights for the quarter. Adjusted EPS for the quarter was $0.77, compared to $0.46 last year. Excluding specified items and also excluding net timing effects, adjusted segment operating profit was $819 million, up $198 million or nearly 32% from last year.

The effective tax rate for the second quarter was 28% compared to 29% in the second quarter of the prior year. Our trailing four-quarter average adjusted ROIC of 7.7% improved from the 6.9% at the end of the first quarter, and also significantly improved by 200 basis points from the 5.7% at the end of the second quarter last year.

As we indicated during our first-quarter call, we have introduced the annual WACC concept for calendar year planning that is reflective of a single-A capital structure and the interest rate environment at the beginning of the year. For 2014 our annual WACC is 6.4%.

Our long-term WACC is 8.0% and is reflected in the graph on slide 19 in the Appendix. Our objective remains to earn 200 basis points over our WACC.

In addition, we have added the concept of economic value-added to our key metrics. In the second quarter, our trailing four-quarter average EVA was $345 million based upon adjusted earnings and the annual WACC.

On chart 18 in the Appendix, you can see the reconciliation of our reported quarterly earnings of $0.81 per share to the adjusted earnings of $0.77 per share. For this quarter, LIFO represented a $73 million pretax credit as commodity prices decreased through the quarter. Additionally, we recognized $31 million in pretax costs related to the upcoming global headquarter relocation and restructurings and integration underway at Toepfer and at Alliance Nutrition.

We also note in the Appendix the net timing effects for the quarter, primarily related to ethanol. In total, the net timing effects for this second quarter were about $0.07 per share positive. In the absence of these net timing effects, the adjusted EPS for this second quarter would have been $0.70.

Slide 5 provides an operating profit summary and the components of our corporate line. I would like to highlight some unique or specified items in the operating results. Juan's discussion of operating results will exclude the specified items and net timing effects so that you can understand the underlying trends in the business.

In the Oilseeds segment, mark-to-market timing effects in cocoa were negligible for the quarter, versus a gain of about $11 million or $0.01 per share in the same quarter last year. In the Corn segment, we again separated out our net timing effects. In the second quarter, we benefit from the mark-to-market losses on ethanol hedges recorded in the first quarter that were related to second-quarter sales of ethanol.

In addition, we had some corn hedge effectiveness losses. The net impact was $70 million in positive timing effects, or $0.07 per share.

Included in Ag Services segment results was a gain related to the recovery of about $17 million of a $22 million loss provision originally established in the second quarter of last year.

Let me also touch on a few items of significance in the corporate line. In the second quarter, interest expense was lower due to lower borrowings. Unallocated corporate expenses were higher, in part due to some reclassifications of costs into corporate and the lack of some one-time favorable items recorded in last year's results, but also due to higher project costs related to the startup of our ERP program, some higher costs relating to truing up some credit loss provisions, and some increased R&D expenditures within the quarter.

As we discussed earlier, we had $31 million of charges related to the global headquarter relocation cost accruals and restructuring and integration costs at Toepfer and Alliance Nutrition. But these charges are down significantly from last year, when we recorded an initial FCPA provision and also had some losses on FX hedges related to GrainCorp.

Turning to the cash flow statement on slide 6, we present here the cash flow statement for the 6 months ended June 30, 2014, compared to the same period the prior year. We generated just over $1 billion from operations before working capital changes in the first 6 months of 2014, compared to $0.7 billion last year.

Working capital changes were basically flat so far this year compared to a source of $1.6 billion last year. Total capital spending for the first half was about $400 million, which is slightly lower than our 2013 spend of $458 million, including small acquisitions.

We indicated in early July, with the announcement of the WILD transaction, that we will be reducing the capital spending in 2014 to about $900 million before the ERP program expenditures, down from our original $1.4 billion plan. After changes in working capital and investments, our free cash flow for the first half was about $585 million.

In February, our $1.15 billion convertible debt matured, and we paid down this debt, contributing to our overall debt reduction. In the first half of this year we spent about $500 million to repurchase 11.5 million shares, and we paid out more than $300 million in common dividends.

So far in the first 6 months we have returned more than $800 million to shareholders. And even with the WILD acquisition, we are on track to return the $1.4 billion that we indicated in our 2014 capital plan.

We finished out the quarter with an average of 659 million shares outstanding on a fully diluted basis. But at the end of June, we had 655 million diluted shares outstanding. We have approximately 6.5 million more shares to repurchase this calendar year to complete our 18 million share repurchase target.

Slide 7 highlights our balance sheet as of June 30 for both 2014 and 2013. Cash on hand was approximately $2 billion, similar to last year.

Our operating working capital of $11 billion was down $1 billion from the year-ago period. This decrease was comprised of about $700 million related to lower inventory prices and about $500 million related to lower inventory quantities, offset by a net increase of about $200 million in other working capital items.

Total debt was about $5.6 billion, resulting in a net debt balance -- that is, debt less cash -- of $3.6 billion, down significantly from the 2013 level of $5.5 billion. Our shareholders equity of $20.2 billion is slightly over $1 billion higher than the level last year. And our ratio of net debt to total capital, excluding cash from gross debt, is 15% -- much lower than the June 30, 2013, level of 22%.

We had $7.9 billion in available global credit capacity at the end of June. If you add the available cash, we had access to almost $10 billion of liquidity. Clearly we have a lot of financial flexibility related to our balance sheet, and we will be able to easily finance the WILD acquisition.

Next, Juan will take us through an operational review of the quarter. Juan?

Juan Luciano *- Archer Daniels Midland Company - President, COO*

Thank you, Ray. Thank you all for joining us this morning. Please turn to slide 8. I'll start with segment operating profit and then move on to discuss the three major segments.

In the second quarter, our underlying segment operating profit was up sequentially. An improvement in all three major segments drove an overall improvement of 32% year-over-year. I'll walk through those results now.

Starting on slide 9, the Oilseeds team delivered a solid quarter, with very good crush margins around the globe. North America had a very strong performance as the team earned good margins in both soybean and canola crush.

In South America, good domestic demand supported high capacity utilization and good margins in soybean crushing, refining, and packaging. Slower farmer selling limited South American origination results.

In Europe, we saw good crush margins for softseeds, with good meal and oil demand. The US biodiesel industry ran at lower rates, while demand for biodiesel in South America and Europe was good.

Our lecithin and protein specialties businesses both delivered their best quarters ever. In cocoa, the margin environment remained good. Our results from Asia reflect the lower first quarter by Wilmar.

Please turn to slide 10. The Corn Processing team delivered yet another strong quarter. Ethanol saw great margins and volumes, with good domestic demand driven by gasoline consumption and blending economics.

Once again, ADM's scale and logistics expertise allowed us to ensure a steady supply to the blenders despite a challenging logistics environment. US ethanol's competitive price in the global market led to continued strong export demand.

This quarter also benefited from some very favorable pricing we booked during the first quarter. The sweeteners and starches team optimized their product mix and leveraged lower net corn costs to maximize volumes and margins despite lower average selling prices. In the quarter, we saw good demand from sweetener and starch customers in both the forward and the spot markets, and we ran our plants at high utilization rates.

Slide 11, please. In the second quarter, Ag Services results improved overall. In the year-ago period, low crop supplies limited US exports. This year, good crop availability and competitive prices supported significant increases in exports.

In the second quarter, we also saw higher export volumes sustained longer than normal, following logistics challenges in the first quarter. Toward the end of the second quarter, we saw the beginning of the seasonal decline in US volumes that typically runs until the harvest.

International merchandising continued to improve, and we began work to fully integrate the Toepfer business into ADM as we completed the acquisition of the remaining stake in early June. In transportation, the strong US exports also supported southbound barge freight rates and utilization. We also had good northbound demand.

Now on slide 12, we wanted to briefly update you on our actions that are driving improved returns. We focused those efforts in a few areas: strengthening the business, managing our portfolio, and growing the business.

In the area of strengthening the business, after meeting our goal of $200 million in ongoing cost savings by end of 2014, we determined to double that goal. We are on track to achieve a total of $400 million in ongoing cost savings by the end of the year.

In the area of managing our portfolio, we are advancing regulatory approvals for our acquisition of WILD Flavors, which we expect to have completed during the fourth quarter. At the same time, we are working with the WILD team to prepare for the launch of the WILD Flavors and specialty ingredients business unit. That segment will include the WILD business as well as ADM businesses that are already operating with a customer intimacy strategy.

Toepfer integration is progressing smoothly as we are merging our operations globally and working to eliminate overlaps.

In May, we announced an agreement with Synthetic Genomics to commercialize omega-3 DHA for the food supplement and animal nutrition markets, a partnership that may create another use for our Clinton, Iowa, fermentation assets. We have completed a successful laboratory trial and are moving ahead with a pilot ramp in the plant.

The sale of our South American fertilizer to Mosaic is on track to close by the end of 2014. We expect to have signed agreement by the end of the third quarter to sell our global chocolate business.

Our efforts to improve returns also involve investing to grow the business. Pat mentioned our sweetener and fiber plant in Tianjin that is on track to begin sweetener production early next year. In Brazil, we began construction of our specialty protein complex, and at our port in northern Brazil we have received all permits and approvals. We have begun receiving trucks, and this week we are loading the first vessel.

So we are making good progress to strengthen the business, and we are seeing that reflected in our returns today. Please turn to slide 13.

We are looking forward to a busy second half. We see strong demand for our products, with favorable ethanol economics, sustained global protein consumption, and continued demand for specialty ingredients. Plentiful crops will rebuild inventories, making our products even more competitive versus substitutes.

We are monitoring geopolitical events in Argentina and Ukraine. So far, we have seen little, if any, operational impact from those situations. And we expect US export volumes to rise significantly in the later months of the year.

We are optimistic as we prepare our global operations for the coming quarters. We have the assets, the network, and the team to deliver a strong second half. Pat?

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

Thank you, Juan. In summary, the team again executed well; another great quarter from Corn, very good results in Oilseeds, a strong recovery in Ag Services. We are looking forward to our close of the WILD Flavors acquisition, and we are preparing for what could be a very large harvest in northern hemisphere.

We have made great progress on improving returns, and we continue to take more actions to drive further improvement. So with that, Melissa, would you please open the line for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Christine Healy, Scotiabank.

Christine Healy - *Scotiabank - Analyst*

Good morning. The first question is just on the US crop, the large one expected this fall. Can you talk about what you guys are doing on your end to prepare for it and prevent some of the logistical issues that happened last year?

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Sure, Christine, yes. Obviously, we have been watching this crop grow with very favorable weather. So we have been doing maintenance to all our operations to make sure they are all ready; and the same thing with all the transportation network.

You know that there have been issues with transportation in the past. I think that we assessed them last year in Brazil, and we saw the improvements this year what we did in Brazil. We are doing the same thing here in North America, talking to the railcars, aligning our trucking transportation, our barges.

And as you can see in our transportation results, we think that is a competitive advantage of ADM and provides [normally] opportunities to us. So we are looking to this harvest and to the second half of the year with a lot of optimism.

Christine Healy - *Scotiabank - Analyst*

Okay, great. Then on Wilmar, I think it's been a while since you guys give us an update. Just, I know you guys had planned on setting up I think several joint ventures with them on oilseeds and fertilizer, ocean freight. Can you give us an update on how that has been going?

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Yes, sure. Wilmar we continue to work very closely. Not only we created Olenex fats and oil joint venture in Europe, we have advanced things like joint procurement for certain items that allow us to leverage our combined scale, work on two or three other projects that include potential projects in North America and in Asia. So all in all, a very good relationship with Wilmar.

The results that you are seeing here are they are results of the first quarter; we report it with one quarter delay, and we previewed those results in the last calls with analysts.

Christine Healy - *Scotiabank - Analyst*

Okay. Thanks, Juan. Just one last one, just the new port terminal in northern Brazil, can you remind us what the annual capacity of that is?

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Yes, at the moment it is 1 million tonnes, and we have an expansion plan to get it to 6 million tonnes. So we are very proud that we have received all the approvals; he is receiving trucks this year. We loaded a vessel this week, and we are going to be receiving barges by Q2 2015.

Christine Healy - *Scotiabank - Analyst*

Great. Thanks so much.

Operator

David Driscoll, Citi Research.

David Driscoll - *Citigroup - Analyst*

Thank you and good morning. Want to talk about ethanol for a moment. In the quarter, the margins excluding the hedge effects were something like $0.31 a gallon, according to my calculations; spot was about $0.70.

So, Juan, can you talk a little bit about the performance of the business versus spot margins? Then specifically, what I am just trying to understand is how this might evolve going forward in the next couple of quarters.

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Sure, David, yes. I would characterize the performance of the team very, very good this quarter. The way I tend to think about it, David, in terms of the math for calculating cents per gallon, you take the $141 million of profitability of the bioproducts segment; and you need to add the $70 million of mark-to-market that was related to hedges of sales for the second quarter. So there were ethanol sales for the second quarter.

That takes you to about $220 million. We have a capacity of 1.7 billion gallons per year. So that is kind of the way we think about it.

In terms of what did we hedge or not hedge going forward, going into this second quarter we were about 50%. Going into Q3 we have about something like that, and very little for Q4 at the moment.

David Driscoll - *Citigroup - Analyst*

So just to make sure I understand this, the reason that you want to add back that change in the hedge timing is because you are saying that truly economically that $70 million really belonged in the second quarter. So add that back to the $141 million number to get ethanol profits that is close to about $0.50 a gallon.

And then, since we continue to see pretty high spot margins, is that level somewhat sustainable, at least given your 50% hedge comment in Q3?

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Yes, first of all, on the first part of the question, that is the correct way to think about it. Those were second-quarter hedges, so the true economic requires that you add those things to see the performance of the business.

The second is yes, we see sustained margins for the rest of the year. So we are very optimistic about the second half.

David Driscoll - *Citigroup - Analyst*

Okay, final question for me is just simply ethanol exports. Can you guys give us an update on your logic? Maybe we have seen a little bit of weakness here in exports here in the third quarter; but curious what your full-year forecast is and how you might see 2015 ethanol exports industrywide.

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Yes, we continue to see a very good level of exports, actually. So far we are in that range of about 850 million gallons to 1 billion gallons per year.

We see -- this is a time of the year, David, that you should see Brazil being much more aggressive here. And actually we continue to see us exporting -- even exporting a little bit to Brazil.

You probably have heard that Brazil has increased -- or has a proposal to increase the blending rate, part to try to import less gasoline, part to try to help the sector. So we continue to see opening opportunities and opening markets for us.

So we are bullish for our export forecast for 2014, as I said, about 1 billion and also for 2015.

David Driscoll - *Citigroup - Analyst*

Thank you for the comments.

Operator

Farha Aslam, Stephens.

Farha Aslam - *Stephens Inc. - Analyst*

Hi, good morning. Pat and Juan, you both mentioned the large US harvest. And we have gotten several questions from investors on how we should think about ADM's earnings opportunity, particularly in Ag Services, between the benefit of a large harvest versus maybe less dislocation of grain needs around the world.

Could you just compare and contrast the opportunities and earnings power for ADM in that environment?

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Yes, I think we have a very good footprint in the US that is not only about elevators, river terminals, export terminals, and certainly all our transportation footprint. You only get the power of all that asset footprint when you have a large crop. So we believe that this crop will give us the opportunity to collect income, if you will, from several parts in our value chain.

I think that you are correct in the sense that there are good crops around the world, so there are less opportunity -- weather has been very, very favorable for growing crops around the world, which is a good thing. We're going to have plentiful crops around the world to be moved.

There's going to be discontinuities, though. You have the issues of quality in wheat, for example, that will present opportunities for our people to blend and to take advantage of opportunities. You have the issues with freight that provide opportunity for freight arbitrages.

So we see this with very good eyes. Crops look fantastic; our assets are in very good shape and very well located. So it should be -- it should have Ag Services hitting in the high side of the range, certainly.

Farha Aslam - *Stephens Inc. - Analyst*

Okay. So net, a large harvest is better for ADM because you get to utilize your assets just much more fully?

Juan Luciano - *Archer Daniels Midland Company - President, COO*

I would say so, yes.

Farha Aslam - *Stephens Inc. - Analyst*

Okay, great. Then just circling back on ethanol, could you just update us in terms of what you think production is running at, and if you think there is any additional capacity build coming online in the US, and how you just think about that supply/demand balance for this year and into next year?

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Yes, we think that this year, total production will be around 14.3 billion gallons, something in that range. Probably recently it has been running a little bit higher than that, because this is a high driving season.

I think EIA estimates for this year about 134 billion, 135 billion gallons of gasoline; so 13.5 billion. You take the billion gallons of exports, and you are there pretty tight.

So certainly this is an industry that is running as hard as they can at about 14.7 billion. You can argue whether that is sustainable on an average for the year.

In terms of new capacity, we don't believe there is going to be any new capacity. If anything, that you would see people are already maxed out and hitting their permit levels or their baselines in terms of that.

So if you add more capacity to that, you're just creating ethanol for export markets. And that will be fine, since that doesn't affect the local balance. So we are very optimistic about ethanol margins being sustained at very good levels.

Farha Aslam - *Stephens Inc. - Analyst*

My final question relates to the RFS. There is news that potentially the RFS is going to the President's desk. Any thoughts on what blend levels will likely be, relating to the RFS, and any outlook for 2015 RFS levels?

Juan Luciano - *Archer Daniels Midland Company - President, COO*

No, Farha, we won't speculate on that. I just can tell you that given these economics and with lower corn prices, ethanol is so advantaged that we will continue to have a way in the fuel market. So export will continue to be the driving force behind margins here.

Farha Aslam - *Stephens Inc. - Analyst*

Great. Thank you very much.

Operator

Ann Duignan, JPMorgan.

Ann Duignan - *JPMorgan - Analyst*

Hi, good morning. Not to beat a dead horse, but ethanol again. I am just curious if there is any reason why you wouldn't be hedged into fourth quarter. We are watching oil prices decline, and ethanol prices more likely to trade with oil prices going forward.

I am just curious. Is there a reason why you wouldn't be hedged further out?

Juan Luciano - *Archer Daniels Midland Company - President, COO*

No, Ann. Normally when we start we see the liquidity of that, so it was not that much liquidity. We normally, at this time of the year, we probably are -- at this time of the quarter, at about 50% for this quarter, and maybe 20% for the Q4. And as more liquidity gets and we see the margins, we may put a little bit more in there.

Ann Duignan - *JPMorgan - Analyst*

Okay, thank you. So it is related more to the liquidity issue.

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Yes.

Ann Duignan - *JPMorgan - Analyst*

Then separate question, on the corporate charges or costs. Can you just walk through each of those and give us some more color?

You talked about reclassification of costs. Could you just explain what those are, update on where you are on the ERP implementation, and then the credit loss provision? If you could just give us some kind of a waterfall, that would be great, or as much color as you can.

Ray Young - *Archer Daniels Midland Company - SVP, CFO*

Yes, Ann, we were up about $38 million year over year on unallocated corporate. Of that $38 million, over $20 million of it is really related to these, let's say, one-timers and reclassification of costs.

One-timers from last year of people; one-timers from last year that we don't have this year; and then reclassification of costs. Some of this reclass really relates to certain costs that originally were in, let's say, the operating segments that we took into corporate in order to make it simpler to manage.

So case in point, some of the maintenance agreements for software and IT contracts, we basically centralized into corporate. So that is just an example.

So, the majority of that delta that is really related to these issues. We have started launching the ERP project, so there is some additional cost there; on the year-over-year, roughly $5 million. So it is not a lot, but it adds up.

We had some additional R&D expenditures. We are truing up some credit provisions. All these are small amounts which add up to cover the rest.

Just for calendar-year planning, it is useful for you in terms of your estimations going forward in Q3 and Q4 to assume roughly a $100 million run rate on that particular line item in your models. So that is probably a fair assumption for you to use.

Ann Duignan - *JPMorgan - Analyst*

Okay. That's very helpful; and that's what was going to be my follow-up. Just a real quick one on railcars. You own about 50% of your railcars; you lease about 50%.

I am just curious if that's similar in the US, or if you own disproportionately more. And what are you seeing out there with the rail companies in terms of contracts for railcar costs going into the fall?

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Yes, we own what you describe. We have about half the ownership of all the total railcars that we use.

We certainly have a very close relationship as we are a very big user. And we feel, as I described before, that all our transportation, Ann, is an advantage. And it is not only the moving units, but also the pipelines, the way we are set up.

So we think that as the situation gets tight -- and I think that the rail is a little bit of an overflow, not only of the issue of oil transportation in the United States, but also the issue of tracking and the difficulty to find drivers and all that, that is pushing a little bit of freight over to rail. So we see that situation probably continues, as we are going to have a lot of oil production and a very strong harvest.

But our guys continue to make good money out of that and continue to have the customers very well served. So we let them operate. They do a very nice job of that.

Ann Duignan - *JPMorgan - Analyst*

So more of an opportunity, not a risk, you think, going into a big crop?

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Absolutely.

Ann Duignan - *JPMorgan - Analyst*

Okay. Thank you. I appreciate it.

Operator

Robert Moskow, Credit Suisse.

THOMSON REUTERS

Robert Moskow - *Credit Suisse - Analyst*

Hi, thank you. I found the progress on ROIC very encouraging at 7.7%. But I was just wondering, Pat and Juan, how will the Board and management treat the inclusion -- I guess the dilutive effect of the WILD acquisition as they are determining the ROIC run rate?

As I recall, in the 3-year LTI plan you need to have at least one year where you're 200 basis points above your WACC. Will the acquisition be included in this year? Will it be included in next year? How do you think you're going to treat the dilutive effect?

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

Yes, Rob; first of all, interesting question. I will not be able to speak for the Board, but I can tell you that in the past and in all of the deliberations of the Board on this subject, they take everything into consideration. So I think our calculation as we think forward, say for just sake of argument we closed at the end of October: the effect of that last 2 months of ownership and not having the earnings associated with the higher capital employed would probably be about 20 basis points effect.

So, yes, I think the Board will definitely take into consideration, as they normally would. I will comment that returns are very important and focusing priority for this Board, for this management. I think we are very aligned about that. And that is, I think, the key to your question.

Robert Moskow - *Credit Suisse - Analyst*

Yes, it is. I appreciate all the disclosure and the increased scrutiny on it. I think it is the right thing to do. Just wanted to see if -- how the acquisitions would be treated.

Then maybe just a broader question about the outlook for this year. Obviously, the tone is very bullish for the back half.

Maybe you could help us on forecasting. Just how do you think about weighting seasonality in the business first-half versus second-half? You have the strong North American crop really driving things; maybe that is fourth-quarter loaded. Juan, maybe you can give us a little bit of help in that regard.

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Yes. So, obviously from an Ag Services perspective, Q3 is a lower volume type of quarter, because you are getting at the end of the crop year. And then we get all the bump of September, October, November, December, and into 2015; so that is where they are going to be producing the higher profits.

From an ethanol perspective, it is probably very optimistic for the second half, but not a huge seasonality in that sense, if you will. Then from a crushing perspective also, we are going to get a good harvest here in the United States. I think that the US will continue to be the most competitive soy meal out there to be exporting.

So that's -- in general, when you look at all our operations, we have seen during second quarter very strong volumes. If anything, we have been surprised by all our volumes.

When you see our volumes of processed, even trying to be careful with margins, we are up like about 4%. When we look at the grains moved, we are north of 40% up. So in general, we see very good demand.

The other thing that we see is plentiful opportunities ahead of us, because the farmers in general are very little sold so far. And our customers, to be honest, are very little bought. So there is a lot of business to be done in front of us.

So we see that with a very -- with a lot of optimism, Rob.

Robert Moskow - *Credit Suisse - Analyst*

Just one more follow-up. I thought one of the issues in the 2013/2014 crop was that US farmers added a lot of on-farm storage. Do you foresee that being an issue for this year's crop as well?

Are they adding more storage? Or do you think that that issue unwinds?

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Yes, we monitor that, Rob, obviously, and we don't believe there is a significant material change in the structure of the industry. We still believe we are going to process and we are going to handle a very large crop.

And the timing in which the farmer is going to sell it anyways, that is the fine-tuning; and our team will take care of that. But overall, we are going to be managing very large crops through our assets.

Robert Moskow - *Credit Suisse - Analyst*

Okay. Thank you very much.

Operator

Adam Samuelson, Goldman Sachs.

Adam Samuelson - *Goldman Sachs - Analyst*

Yes, thanks. Good morning, everyone. I was hoping to go to slide 12 a little bit and talk about some of the actions to improve returns and dig into them in a little bit more detail.

Juan, maybe first on the cost savings that you have talked about, taking the target up to $400 million by the end of the year. Can you talk about where in the P&L we should be thinking about that?

And should we think about the incremental $200 million of cost savings that you are now going after as being potential year-over-year earnings upside in 2015?

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Sure, Rob. Listen, we have a very robust plan internally that goes actually all the way to 2019. The plan is built in like about 10 categories, including water and maintenance and repairs, including energy efficiency, including procurement. So I am not going to bore you with all the details, but yield improvement and all that.

So, when we put together that, we estimated -- obviously, the team was starting to get going, and we estimated that about $200 million run rate by the end of 2014. We are north of that year-to-date, so we certainly -- in the first quarter, we realized we were going to be way ahead of scale, that the team continued to find opportunities.

And now it looks much more like again $400 million by the end of the year. Where do these things go? You have to find it in all the businesses, obviously. They all trickle down to the businesses.

Since they are procurement, sometimes it is in chemicals; so you might find it in oilseeds, but reducing the chemical usage or the chemical prices. Sometimes you find it more in corn where there is energy efficiency. But there are new technologies applies to oilseeds to continue to reduce our cost.

So I will say in general, you are going to find it in all the divisions. Maybe a little bit more in the Processing units than in Ag Services. Ag Services has maybe less of an opportunity since they don't process. But they also have milling inside them that they will see the impact on that.

In terms of how much of that will we see, obviously we do all this and we spend capital and resources to see it in the bottom line. So we expect this to be accretive to next year's and the following year's operating profits.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay. That's helpful. Then maybe continuing on the slide, on the bottom, on the investing to grow: the sweetener and soluble plant, the Brazil specialty, and the northern Brazil port. Can you talk about the investment size in each and the timing of when those should start contributing to earnings?

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Yes. I don't remember exactly which ones we have disclosed or not, but let me talk about the contribution. Sweeteners and sweeteners plant in China in Tianjin will start producing early in 2015. So you should see -- obviously we will -- although we are developing the market with exports from here, there is going to be a period of ramping up to that; so maybe 2016 or late 2015 when you start seeing the earnings impact of that plant.

The protein and specialty complex is going to be later on, because we are just starting. That will take 18 to 24 months to build. So it's more 2016-and-a-half type of situation.

That complex is a $250 million investment in Brazil. And again, it is very aligned with what you heard before, that specialty proteins have had another record in this quarter. We have -- we are selling very, very well, and there is a lot of pull from our customers; so this plant cannot come fast enough.

Then the Brazil northern port, you are going to see the impact start in this harvest. Right now actually we are loading vessels. The full impact is probably more important next year, because we're going to start receiving barges starting with the harvest of Brazil of next year.

Adam Samuelson - *Goldman Sachs - Analyst*

Okay, that's helpful. Maybe one final quick one for me. The sweeteners and starches performance in the quarter was actually quite strong. Maybe you could provide a little bit more color on where -- on what is really driving that. Thank you.

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Yes, I think it is a combination of things. I think that our team is very good at what they do. They have many, many levers to pull, in the sense that we have the ability to flex production, not only into ethanol but also into dextrose or other products.

I think grind is up. Volumes have been tracking consistent with last year -- and a little bit better than projections, to be honest. When we started the year, we thought that the decline in export to Mexico was going to be bigger than what is actually happening.

So Mexico has been strong. I mean, it's down versus last year about, I don't know, 15%. But it's better than we expected.

So we prepare for that. We prepare with some spot businesses. We prepare with business in developing other products to make sure that they offset that. And between the ethanol strength and the strengths of those other products, we have an able to offset the decline in the liquid sweetener.

And with that and corn cost and the continued improvements that we do at the plant, that is where you get the results. So very proud of the team.

Adam Samuelson - *Goldman Sachs - Analyst*

All right. Thanks very much. I will pass it along.

Operator

(Operator Instructions) Vincent Andrews, Morgan Stanley.

Vincent Andrews - *Morgan Stanley - Analyst*

Thank you and good morning, everyone. Just a quick follow-up on the sweeteners question. The run rate in that segment had been plus or minus $100 million for a long time.

I just couldn't tell from your prepared comments and also the answer to the preceding, the previous question whether the performance in this quarter is what we should be thinking about for the third and fourth quarter as well.

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Yes, I think that from a margins perspective, this is what you should be expecting. There is certain seasonality as you go and as you end into the picnic season in the US, or things like that; you see a little bit of change into that.

But yes, from a margins perspective, this is what you should be expecting, Vince.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay. Then could you just talk about -- obviously, it sounds like the US in the second half is going to be better for you with the larger crop and better preparation around logistics. But what, if any, are the challenges in Latin America year-over-year in the second half? Just with what is going on in Argentina and how much -- is that offset by maybe the new plant in Brazil?

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Yes, we certainly -- the situation in Argentina is complex. And looking at the macro scenario, we pull a little bit of risk in Argentina, so we have reduced our participation. We are a very big exporter in Argentina, but we pulled risk a little bit off from the country, and that is why we haven't been impacted significantly.

The team, I think, did a good job of managing the circumstances. You said it well; you should be picked up by Brazil, and that is where we are opening the port in the north and we are very excited about that.

The problem is, circumstantially, the Brazilian farmers are not selling. They are not helping with the prices. They are not helping with the real and the dollar exchange rate.

So that has been dampening a little bit our origination earnings, and that is what you saw in oilseed. We think that obviously they're only like 10% sold for new crop, so we will see commercialization of that later in the year. So part of that will come back to our P&L later in 2014.

Vincent Andrews - *Morgan Stanley - Analyst*

Just as one last follow-up, on the new port -- I called it a plant earlier, but I meant the new port -- you talked about the volume. Is that going to be -- how much of that is going to be incremental to your volume year-over-year? And how much of that is just going to be volume redirected there versus going to Santos?

Juan Luciano - *Archer Daniels Midland Company - President, COO*

No, a lot of that, Vince, will be new volume. One of the reasons we are doing this -- obviously, part of that is to alleviate the constraints of evacuating everything through the port of Santos. But a lot of that is also so we can increase our origination in the northern part of Brazil.

So I will say, call it 70/30: 70% new stuff, 30% redirecting stuff into better logistics.

Vincent Andrews - *Morgan Stanley - Analyst*

Thanks that was all very helpful. I will pass it along.

Operator

Tim Tiberio, Miller Tabak.

Tim Tiberio - *Miller Tabak - Analyst*

Good morning and thanks for taking my question. One, I just have a question on the starch and milling business. I think several of your peers have highlighted very strong starch demand in Asia, and another peer has indicated that milling is an attractive growth area.

I know you have a lot on your hands right now, but do you feel that ADM is sufficiently positioned in these areas? And looking out over the next year or so, are these areas that ADM may look to expand further, based on some of the market dynamics that we are seeing?

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Yes, Tim. Listen, we have been -- I know the Corn team has been looking at other carbohydrate sources, not only corn. Part of that we have been doing with some of our partners in Asia, exploring that.

So there is a very rich pipeline. If anything, in ADM the issue that we are dealing with is keeping the focus and the prioritization as we look for returns, and having a very balanced portfolio to make sure we deliver the improving returns that you have seen.

Certainly, the Tianjin plant is a plant that profits a little bit from the length of starch in the market. We don't produce starch there, because we thought that at this point in time it was more convenient for us, given the length in the starch, to actually procure that starch. But we have plans in the future at the proper time to being able to back-integrate that.

And then we are looking -- we have teams exploring Southeast Asia for other opportunities. As I said, I think the issue has been an issue of prioritization and how do they stack up in terms of returns versus other opportunities we are pursuing right now.

Tim Tiberio - *Miller Tabak - Analyst*

Okay. Your milling results were a little bit flat, based on your press release. Do you see room to expand global capacity there? Or do you feel that you are sufficiently positioned?

Juan Luciano - *Archer Daniels Midland Company - President, COO*

I think the business has a strong position in the US, a strong position in the UK and the Caribbean. Demand has been stable and very solid.

So that has been a business that is very, very good cash flow -- a cash cow, if you will. They have been returning very, very good. It is a team that looks a lot at how to maintain the assets, because milling is kind of an [old] technology.

So I think we had a little bit of a softer quarter. As corn gets cheaper, obviously some of their feed products get a little bit less profitable in that sense. But now we are coming into higher seasonality for that business.

But it has been one of our most predictable businesses and more stable businesses. So we have very good level of comfort in the stability of earnings that they can deliver. So very good team, very good position, not much to worry about that business.

Tim Tiberio - *Miller Tabak - Analyst*

Okay. Just one last question on your comments around wheat dislocations around European wheat quality. Obviously, there has been a lot of focus on the potential for Black Sea basically backfilling for some of the lower-quality wheat conditions in France.

But there has also been talk that some of this wheat could be downgraded to feed quality. With the significant crops coming on in North America, how do you think about the competition from European wheat feed within your global network? Is that a potential risk factor that we are not thinking about in the second half?

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Listen, our team -- I was checking Monday, yesterday, with our team there. They feel very good about the opportunity in the Black Sea and to fully use our assets. The Toepfer team is very excited about it.

I think that in general in wheat in the world, there is adequate supplies. But as you describe and as I mentioned before, there are delta qualities. So sometimes there are lower proteins here and sometimes there are smaller crops where the quality is very good, and our team is very good at equalizing all these around the world.

So we see mostly as an opportunity, to be honest, not only for equalization of that, or arbitrage, but also to provide the right blends to our customers. And that is what our milling teams do very, very well, with the combination of having a grain business associated to a milling business. So that is a very strong competitive advantage.

Tim Tiberio - *Miller Tabak - Analyst*

Great. Thanks for your time.

THOMSON REUTERS

Operator

Kenneth Zaslow, BMO Capital Markets.

Kenneth Zaslow - *BMO Capital Markets - Analyst*

Hey, good morning, everyone. Just a big-picture question. As you get through the harvest, how do you see -- like, when do you think that investors will get a peek into the true earnings power of ADM? Do you think it will be the fourth quarter or the first half of 2015? How do you progress to seeing what you guys -- all your work has done?

And with the crop coming in and normal conditions, when do you think we will actually be able to see some milestones from a performance point of view? Holistically.

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

Yes, Ken, I think we are quite confident in our ability to continue to grow the earnings power. The last couple fiscal years obviously have been challenging due to the lingering effects of the drought.

We have talked about $3.00 a share, breaking through that. We have talked about targeting certainly our long-term objectives to be 10% ROIC -- because, of course, our long-term WACC is 8%.

We have done all these efforts to drive results related to -- whether it is cost or cash or portfolio management. So I think your question is a good one.

Can I pinpoint the exact quarter? Probably not. But as you look through the latter part of this year and into next year, and we hope to close on the WILD acquisition, again late 3Q, by Q4, that's another $0.10 to $0.15 a share. I think you should see these accretive actions in a sustained level definitely by the turn of the year, as we look for that.

Kenneth Zaslow - *BMO Capital Markets - Analyst*

Okay, perfect. Then my other question is on the crushing outlook. This current quarter that we are in is usually a high maintenance quarter, or obviously slow churn.

Is there -- should we expect a seasonal pullback this quarter, then come back in the fourth quarter? Or how do you think about that just from a seasonality point of view?

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Yes, I think we see the normal seasonality, Ken. I think that this quarter happens as per historical averages, in which the capacity will slow down in the US, and we shifted that, very good crush margins in Brazil. We have a solid situation in Europe.

So I think nothing very unusual, I would say.

Kenneth Zaslow - *BMO Capital Markets - Analyst*

Okay. After the harvest, again, it's a futures market so we don't know if it is going to stick. But the crush margins look to be in the $0.90 range, relative to historical averages of $0.50 to $0.60.

Do you think those are real margins? Do you think -- is there a point in time that you could actually start hedging those margins? How do you think about that? Because that seems pretty extraordinary.

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Yes, I think it is reflecting a little bit what I described before in which we feel like our customers are really uncovered in that sense. I think that there is a lot of potential demand out there. And with the expectation of very low prices from a beans perspective, you get to some of that margin.

Obviously, our team is all over that, and I am very excited about the future. Fundamentally, what you need to think about is that we have seen demand very, very solid. And that is what I think, when you see the need for soybean meal around the world, the US will be the most competitive soybean meal exporter from October to whatever, February or March or something like that.

So that presents a very good opportunity. Because when you get export is when you tip the balance in the local capacity utilization. That is when you get margin expansion.

Kenneth Zaslow - *BMO Capital Markets - Analyst*

Great. I really appreciate it. Thanks.

Operator

David Driscoll, Citi Research.

David Driscoll - *Citigroup - Analyst*

Thank you for taking the question. I just wanted to follow up on merchandising and transport. In the quarter, the $115 million in merchandising; and I think transport $27 million; $142 million.

Ray, Juan, Pat, maybe you guys could just comment on what you really expect out of this division. I know we've had this conversation on a number of calls.

But as I was going back and just looking at history in this business before wheat milling was contributing to the segment, there were plenty of periods where this thing was $200 million, $300 million in profitability. Is there any real reason not to think that you can't get back to those kinds of quarterly profit contributions from merchant transport? After we get this new harvest in to, quote-unquote, recharge the system -- I think is the phrase you guys were using in the past.

Juan Luciano - *Archer Daniels Midland Company - President, COO*

Yes, David, this is Juan. Listen, we are very optimistic about the ability. The team has put together a wonderful plan to take care of the harvest.

If you see even with relatively low volumes when compared to the potential of Q4, they have performed already in the $200 million range, still there are some things that we need to get there. The wheat carries that we used to have, today are a little bit lower in magnitude versus the peak, maybe in the range of 60%; and the volumes available are a little bit lower than that.

But when you think about having carries back in the market and being able to take advantage of this very significant crop, we have not reduced our footprint. So when you have a bigger crop and our footprint has expanded a little bit, we think that we have the potential to go back to previous earnings in which -- that you described.

So we have no reason to believe that we cannot get back to those levels. We just haven't seen it in the last 2 years. That is why we are cautious with our forecast. But we think this business should operate in the higher side of the range.

David Driscoll - *Citigroup - Analyst*

Well, that is terrific color and thank you for that comment. And thanks for taking the follow-up.

Operator

There are no further questions in queue at this time. I turn the call back over to Patricia Woertz for any closing comments.

Pat Woertz - *Archer Daniels Midland Company - Chairman, CEO*

Great. Well, thank you, everyone, for joining us today. You may note on slide 15 we have our upcoming investor event, which does include an investor day in Chicago on December 3, so we hope to see many of you there.

As always, please follow up with Case if you have any other questions. And thanks very much for your time and interest in ADM. Bye now.

Operator

Ladies and gentlemen, this concludes today's conference call. You may now disconnect.
