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ADM.N - Q4 2020 Archer-Daniels-Midland Co Earnings Call

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OVERVIEW:

Co. reported 4Q20 adjusted EPS of $1.21.

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PRESENTATION

Operator

Good morning, and welcome to the ADM Fourth Quarter 2020 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, Victoria de la Huerga, Vice President, Investor Relations for ADM. Ms. de la Huerga, you may begin.

Victoria de la Huerga - *Archer-Daniels-Midland Company - VP of IR & ADM Ventures*

Thank you, Shelby. Good morning, and welcome to ADM's fourth quarter earnings webcast. Starting tomorrow, a replay of today's webcast will be available at adm.com.

For those following the presentation, please turn to Slide 2, the company's safe harbor statement, which says that some of our comments and materials 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 and materials are based on many assumptions and factors that are subject to risks and uncertainties. ADM has provided additional information in its reports on file with the SEC concerning assumptions and factors that could cause actual results to differ materially from those in this presentation, and you should carefully review the assumptions and factors in our SEC report. To the extent permitted under applicable law, ADM assumes no obligation to update any forward-looking statement as a result of new information or future event.

On today's webcast, our Chairman and Chief Executive Officer, Juan Luciano, will provide an overview of the quarter and the year and highlight some of our accomplishments from 2020. Our Chief Financial Officer, Ray Young, will review financial highlights and corporate results as well as the drivers of our performance. Then Juan will make some final comments, after which they will take your questions.

Please turn to Slide 3. I will now turn the call over to Juan.

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

Thank you, Victoria. This morning, we reported fourth quarter adjusted earnings per share of $1.21, up 49% year-over-year if we exclude the prior year impact of the retroactive biodiesel tax credit. Adjusted segment operating profit was $1.115 billion, 12% higher than the fourth quarter of 2019.

For the full year, we delivered record adjusted EPS of $3.59; $3.4 billion in adjusted segment operating profit, 12% higher than 2019; 4 straight quarters of year-over-year segment operating profit growth; and trailing fourth quarter adjusted ROIC of 7.7%, almost 200 basis points above our weighted cost of capital. We maintained our strong balance sheet and generated strong cash flows.

The team managed a wide variety of risks superbly, and we achieved our strategic initiatives, exceeding our $500 million to $600 million guidance and driving our ability to deliver a steady, sustainable earnings growth. I'd like to thank our team for this tremendous performance and highlight for you some of our many achievements in 2020.

In our optimize pillar, around the globe, amid lockdowns, rapidly shifting demand patterns and extreme weather events, our colleagues fulfilled our purpose by adapting and innovating to keep our work environment safe from COVID-19, maintaining our operations to support the global food value chain and delivering for our customers to provide nutrition around the world. Beyond that, for the year, our Ag Services and Oilseeds team delivered more than $300 million in capital reduction initiatives, and we are focusing on new ways to enhance the return structure of that business from digital technologies, like our Grainbridge joint venture, to differentiated products and services that add share value for growers, customers and ADM.

In our drive pillar, our new organizational structures and business processes, like our centers of excellence and our 1ADM business transformation project, are helping drive better decision-making and operational excellence. We continued our work to support our planet and its natural resources. We achieved our 15x20 environmental goals ahead of schedule and launched Strive 35, an even more ambitious plan to reduce greenhouse gas emissions, energy, water and waste by 2035. And we're partnering with farmers in their efforts to -- for better outcomes, supported by the 6.5 million acres we had in sustainable farming programs over recent years.

In our growth pillar, our Nutrition team exceeded our Neovia synergy targets and delivered them ahead of schedule. We expanded our plant-based protein capabilities, including the launch of our PlantPlus Foods joint venture. And amid an incredibly dynamic demand environment, we utilize new innovative technologies and continued launching new products to ensure we were meeting our customers' needs.

Our Carbohydrate Solutions colleagues moved quickly to meet changing customer needs for retail flour, industrial starches for cardboard and USP-grade alcohol for hand sanitizers. And the ADM team show its innovative spirit by partnering and supporting companies that are making food out of air, spider silk out of corn and animal feed out of insects.

Finally, I'm proud to say we surpassed by about 10% our stretch goal of $1.3 billion in Readiness run rate benefits by the end of the year. Readiness is driving our strategic initiatives, enabling us to be more efficient and powering our growth. Perhaps most importantly, today, we can say that Readiness is truly embedded in our culture. It's how we work.

Thanks to these impressive achievements, I'm pleased to announce a quarterly dividend increase of 2.8% to $0.37 per quarter. This dividend will be our 357th consecutive quarterly payment and an uninterrupted record of 89 years. It's been a remarkable year with achievements and results that truly demonstrate the strategic work we've been doing over the years to optimize, drive and grow. Even more important is how we are building for the future. We've created and are now strengthening the strategic foundation to deliver steady, sustained earnings growth for years to come.

I'll be talking about that shortly. But first, let me turn the call over to Ray to take us through our business performance. Ray?

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

Yes. Thanks, Juan, and good morning, everyone. Please turn to Slide #4. As Juan mentioned, adjusted EPS for the quarter was $1.21, down from the $1.42 in the prior year quarter. As a reminder, the fourth quarter of last year was positively impacted by the recognition of about $0.61 per share for the retroactive biodiesel tax credits. Absent this, earnings would have grown by about 49%.

Our trailing 4-quarter average adjusted ROIC was 7.7%, almost 200 basis points higher than our 2020 annual WACC. And our trailing 4-quarter adjusted EBITDA was about $3.7 billion. The effective tax rate for the fourth quarter of 2020 was approximately 8% compared to a benefit of 1% in the prior year. The calendar year 2020 effective tax rate was approximately 5%, down from the approximately 13% in 2019.

The decrease in the effective tax rate for the calendar year was due primarily to changes in the geographic mix of earnings and the impact of U.S. tax credits, mainly the railroad tax credits, which have an offsetting expense in the cost of products sold. Absent the effect of EPS adjusting items, the effective tax rate for the fourth quarter was approximately 11% and for the calendar year 2020 was approximately 9%. Looking ahead, we're expecting full year 2021 effective tax rate to be in the range of 14% to 16%.

We generate about $3.1 billion of cash from operations before working capital for the year, significantly higher than 2019. Return of capital for the year was $942 million, including more than $800 million from dividends. We finished the quarter with a net debt to total capital ratio of about 32%, up from the 29% a year ago due to higher working capital needs due to rising commodity prices.

Capital spending for the year was about $820 million, in line with our guidance and well below our depreciation and amortization rate of about $1 billion. For 2021, we expect capital spending to be in the range of $900 million to $1 billion.

Slide 5, please. Other Business results were substantially lower than the prior year quarter. ADM Investor Services earnings were impacted by drastically lower short-term interest rates. Captive insurance results were negatively impacted by $15 million more in net intracompany settlements compared to the prior year quarter. For 2021, we expect Other Business results to be in line with 2020.

In the Corporate lines, unallocated corporate costs of $278 million, were higher year-over-year due primarily to increased variable performance-related compensation expense accruals, increased IT and project-related expenses and centralization of certain costs, including from Neovia. Other charges decreased due to lower railroad maintenance expenses partially offset by the absence of prior year investment gains. For 2021, Corporate unallocated should be overall similar to 2020.

Net interest expense for the quarter was lower than at last year due to lower short-term interest rates and liability management actions taken in 2020. For 2021, we expect net interest expense for the calendar year to be similar to or slightly lower than 2020.

Slide 6, please. The Ag Services and Oilseeds team capped off an outstanding year with record adjusted operating profit in the fourth quarter. Ag Services results were significantly higher year-over-year. In North America, the team executed extremely well, capitalizing on strong global demand, particularly from China, to deliver higher export volumes and margins.

South American origination was lower year-over-year after significantly accelerated farmer selling in the first half of 2020. Global Trade continued to do a great job, contributing to higher results by utilizing its global reach and managing risk well to meet customer demand. Approximately $80 million of prior timing effects reversed in the quarter as expected.

Crushing also delivered substantially higher results versus the prior year period. The business did a great job to capture higher margins in a continued environment of tight soybean supply and strong global demand for both meal and vegetable oils. There was approximately $125 million in net negative timing in the quarter, driven by basis impacts and improved softseed margins.

Refined Products and Other results were higher year-over-year, absent the recognition of the retroactive biodiesel tax credit in the fourth quarter of last year, with good results, driven primarily by solid South American margins. Wilmar's strong performance drove our equity earnings higher versus the prior year despite our slightly lower ownership stake.

For the full year, Ag Services and Oilseeds delivered exceptional results of $2.1 billion, 9% higher than 2019. Its team achieved multiple records, including an all-time-high global crush volumes. In addition, we're proud of the team that brought our reserve export facility back online safely and ahead of schedule despite dealing with multiple severe weather events this year. Looking ahead, we expect the first quarter of 2021 results for Ag Services and Oilseeds to be significantly higher than the prior year first quarter, driven by extremely strong North American export demand and continued healthy crush margins.

Slide 7, please. The Carbohydrate Solutions team again delivered substantially higher year-over-year results despite the impacts of lockdowns in key market segments. The Starches and Sweeteners subsegment achieved significantly higher results, driven by lower net corn costs and intracompany insurance settlements. Earnings were partially offset by low results from corn oil and wet mill ethanol margins.

Vantage Corn Processors results were also better versus the prior year, though they continue to reflect the challenging ethanol industry environment. The team delivered higher year-over-year margins as they met increased demand for USP-grade alcohol, partially offset by fixed costs from the 2 temporarily idled dry mills.

Considering the impact of lockdowns in both driving miles and the food service sector, we're extremely proud of our Carbohydrate Solutions team for delivering full year results of $717 million, 11% higher than 2019. The team achieved record-high operating profits from starches in the year. They acted decisively by temporary idling production at our 2 VCP dry mill plants, helping address industry supply and demand balances. And the wheat milling business's modernization and optimization plan, including a new state-of-the-art mill in Mendota, Illinois, helped power a significant improvement over full year 2019 for that business.

Looking ahead, we expect Carbohydrate Solutions results in the first quarter to be significantly higher than last year's first quarter, which was negatively impacted by corn oil mark-to-market impacts, but below the fourth quarter 2020 levels due to the challenged industry ethanol margins.

Slide 8, please. The Nutrition team delivered 24% year-over-year growth in the quarter. In Human Nutrition, flavors delivered a strong quarter driven by good sales and product mix in North America, and EMEAI. Continued strength in plant proteins drove higher results in Specialty Ingredients. Health & Wellness delivered higher sales in probiotics, in natural health and nutrition. Prior year results included revenue and income related to the launch of the strategic Spiber relationship. Human Nutrition results for the quarter also included an intracompany insurance settlement.

Animal Nutrition results were significantly higher year-over-year, driven by strong performances in Asia and EMEAI, and improvements in amino acid results, partially offset by currency effects in Latin America. We're continuing to make improvements in our amino acid business, including our announcement last month that we're discontinuing dry lysine production and transitioning to our liquid and encapsulated products in the first half of this year.

For the full year, Nutrition results were $574 million, 37% higher than 2019. The Nutrition team grew revenue 5% on a constant currency basis and continue to expand EBITDA margins. We exceeded our Neovia synergy targets and delivered them ahead of schedule. We are truly seeing the benefits of our investments in Nutrition.

Looking ahead, we expect Nutrition to solidly grow operating profits in 2021 calendar year. But the first quarter should be similar to the prior year period due to the timing of certain expenses over the year, including investments in projects to drive organic growth.

With that, let me turn it over to Juan to conclude. Juan?

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

Thank you, Ray. Slide 9, please. I'd like to congratulate the team once more on delivering great results in 2020. I'm proud of what we achieved, and I'm excited to see our work empowering us to reach even greater heights.

In 2020, Ag Services and Oilseeds capitalized its unparalleled and flexible global footprint to meet strong demand. In 2021, we expect Ag Services and Oilseeds' strong execution; diverse and flexible crush capabilities, including an extensive softseed footprint; and important strategic work to continue to drive results.

In addition, we expect the global demand environment for Ag Services and Oilseeds to remain strong. China should continue to be a significant buyer we see continued strong global growth in meal demand, and we expect increased demand for vegetable oil due to recovery in cooking oils for food service and growth in demand for biofuels, including renewable green diesel. That is why we are confident in another outstanding performance from Ag Services and Oilseeds in 2021.

Carbohydrate Solutions is showing how we have embedded great execution into our operational structure and culture. The team is doing a great job strengthening their business by optimizing their plants and product mix. And their ability to adjust production in 2020 to quickly meet changes in demand showed how those strategic efforts are paying off. Now they are well positioned to use those same tools as the effect of lockdowns on the food service and transportation fuel sectors dissipates throughout 2021. We expect solid profit growth for the year for Carbohydrate Solutions.

Nutrition continued to harvest investments, leading consumer growth trends areas and partner with customers to bring innovative, new products and solutions to market in 2020. Based on our current organic growth plans, we expect the Nutrition team to deliver solid revenue expansion and enter a period of an average 15% per annum operating profit growth, consistent with our strategic plan.

Across ADM, we are fulfilling our purpose and building on a foundation for steady, sustainable earnings growth. We are growing and leading in key trend areas, including food security, health and wellness and sustainability. Our continued advancements of readiness is benefiting the entire enterprise, and we're making investments in exciting growth innovation platforms, which we'll be talking more about in the future.

In 2021, we will remain focused on the drivers under our control, adding incremental returns as we focus on organic growth, advancing operational excellence initiatives to maximize returns from every business and every asset and continuing to generate benefits from Readiness. With a strong execution of these strategic initiatives and improving market conditions as the year progresses, we expect to build on a record 2020 with a strong growth in segment operating profit, and another record year of EPS in 2021.

With that, Shelby, please open the line for questions.

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Your first question is from Michael Piken of Cleveland Research.

Michael Leith Piken - *Cleveland Research Company - Equity Analyst*

Just wanted to dig a little bit more into your thoughts on how U.S. Crushing is going to play out throughout the year. I understand 1Q is going to be really strong. But are you worried about tightness and availability of soybeans as we move into the spring and summer? And how are you sort of positioning your Crushing business in case the market gets a little bit tighter?

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

Yes, Michael. Thank you for the question. Listen, we expect 2021 to be a very, very strong year for Oilseeds and Ag Services, maybe with a different mix of earnings that we have in this year. If you think about 2021, we're starting with the tailwinds from 2020. So we're starting from a different position. And we're starting the year with improved global crush margins in Q1 versus Q1 last year.

So we see a year in which we flex a little bit more our capabilities. We see a strong still soybean crush, but an exceptionally strong and recover after many years of softness in softseed crush. And I'll remind you that we have about 25% of our capacity in softseed, and we have about 15% of our capacity that is shifting. So that's a competitive advantage for ADM.

We see a strong demand for meal, and we see also the vegetable story playing out with good global demand and prices that are today are about 20% higher than the same time last year. And not only coming from food demand but also from fuel. A new renewable green diesel capacity is having an impact in bean oil demand and margins. And we think that, that could be something about 0.5 billion pounds per year this year of extra demand. So all in all, we see tight balances, and we see a strong margin environment for the rest of the year.

Michael Leith Piken - *Cleveland Research Company - Equity Analyst*

Great. And then just as a follow-up. In your slide deck, you talked about -- on Slide 13, having $295 million of cumulative crush deferred timing gains. Is that all showing up in oilseed crush? Or is that across the whole portfolio? And if you could give us any sort of help in terms of the cadence of when we might see that realized? Is it going to be primarily in 1Q or more spread evenly spread throughout the first half?

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

Yes, Michael. It's Ray here. Yes. So this is in the crush part of the Ag Services and Oilseeds. As you pointed out, we increased by $125 million in the quarter. So now we have a balance about $295 million in timing effects. We expect that roughly half will get reversed in the first quarter based upon the book that we have right now, and then the other half will be reversed over the second and third quarters. So as we -- and naturally, we'll see how prices move, but this is our current expectations in terms of how we expect this to play out over the course of '21.

Operator

Your next question is from Adam Samuelson of Goldman Sachs.

Adam L. Samuelson - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

So I guess, my first question was going to be around the Carbohydrate Solutions business. And I know you talked about kind of seeing a pathway for growth there. Understanding kind of, especially in the first half of the year, there's some pretty easy comps in terms of capacity utilization and with weak volumes on the HFCS side.

But help us think through some of the different pieces there. Ethanol in the first half of this year looks to be in a bit of a tougher spot. Obviously, corn prices have moved up pretty notably. Just trying to think about some of the different moving pieces and help us how we get to growth in that business in 2021.

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

Sure, Adam. Let me start here. So just -- it's useful to kind of refer to also how they managed 2020, right? Because 2020, when you think about businesses that have been most negatively impacted by COVID-19, the carb sol segment was the one most negatively impacted. Yet, in 2020, they grew earnings, right?

So what they did was they really manage projects -- product mix extremely well, driving starches, driving industrial alcohol. They managed the ethanol production well and, frankly, had a positive impact on industry margins through the idling actions it took.

But what a lot of people forget is we have an international business that's growing, right? So we're expanding capacity over in Europe, and the European operations almost doubled in profitability in 2020 compared to 2019, a big contributor there. And then the North America milling operations, their footprint optimization really paying off with 20% growth in profitability in '20 versus '19.

So when you think about 2021, this playbook continues, right? So number one, we do expect stabilizations in the North American Starches and Sweetener business as the beginnings of recovery and demand for certain products occur with the dissipation of lockdowns. And secondly, they're continuing to drive great product portfolio mix. And so particularly in the area of liquid dextrose and maltodextrin and citric acid. Those are actually, from a product mix perspective, very beneficial.

Thirdly, continued international growth. And so think about where sugar prices are around the world right now. Our European operations, whereby we've added capacity, continues to drive growth. They're going to be another contributor. And then lastly, we expect continued growth in terms of our milling operations and very pleased in terms of how their optimization plan is really playing out.

Now getting back to some of the comments on the year-over-year comparison, we start off the year with weaker margins in ethanol. But if you recall, in last year, margins actually hit a low of negative $0.45 in March. We don't see that, right? So when you think about year-over-year comparisons, we're going to start off on a challenged basis.

But we do expect that the industry supply-demand balances in the ethanol industry get better balance as we move through the year for several reasons: Number one, China actually has been buying U.S. ethanol. That's something that they have not been doing over the past couple of years. And we believe that they have already made commitments already in the first half of the year for U.S. ethanol equal to the previous all-time high for the calendar year, roughly 200 million gallons. And so we'll have to see where China ends up in the calendar year in terms of imports of U.S. ethanol.

Secondly, there has been announced reconfiguration of ethanol capacity by various competitors in the industry as they kind of focus their production away from transportation fuel ethanol towards other products. So that's going to have an impact in the industry supply and demand.

Thirdly, the industry itself, there is about 10% to 15% of capacity that remained idle. And from our perspective, we're going to remain very disciplined in terms of when we actually restart the dry mills, because we'll want to see sustainable margins before we restart. And hopefully, sometime in the first half, we're going to see that.

And then lastly, how the small refinery exemptions will play out in -- over the first part of the year as the Supreme Court rules on it, will have an impact, frankly, in terms of domestic demand for ethanol. And if you take a look at RINs pricing right now, there's an expectation in the U.S. that domestic ethanol demand is going to be strong over the course of this calendar year, given just the recovery in terms of driving miles as we go through the year. And then secondly, how the expectations in terms of how the SREs will play out.

So overall, Adam, we feel good about how we started the year in terms of the carb solutions businesses. But we do see, particularly in the area of ethanol, we see green shoots of recovery in 2021 for this business here.

Adam L. Samuelson - *Goldman Sachs Group, Inc., Research Division - Equity Analyst*

That's a lot of really helpful color, Ray. And if I could just squeeze a second one just on the balance sheet. Just given the move up in commodity prices, the increased cost of inventory, how do we think about kind of the tolerance for more offensive capital deployment in terms of buybacks or M&A over the course of -- over '21? How much dry powder do you think you have as we sit here today?

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

Well, we finished the year, actually from a leverage perspective on the debt-to-EBITDA ratio in reasonable position. Because as you know, inventory financing from a rating agency perspective, you get RMI credit, right? So with the movement in higher commodity prices, which move working capital higher, clearly, we're financing it. And one of the things very different than the last crisis back in 2008, is that we've really diversified our working capital lines. And so I feel good about our ability to finance a higher working capital levels.

So -- but from a leverage perspective with the RMI credits, our leverage, our balance sheet remains strong. And so we believe we've got firepower in order to continue to look at opportunistic M&A, opportunistic share buybacks over the course of the year.

Operator

Your next question is from Vincent Andrews of Morgan Stanley.

Vincent Stephen Andrews - *Morgan Stanley, Research Division - MD*

Ray, just wanted to ask you -- I just wanted to ask you both about the inverse that we see in the corn and soy markets. And how you're going to manage that in the Ag Services business this year? And what challenges or opportunities does that present for you?

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

Yes. Thank you, Vince. Listen, the inverse certainly is indicating the farmers and everybody that -- to bring the product to the market. So we see a little bit of destocking. Of course, nobody wants to run that inverse through -- hold inventory through the inverse.

What we are seeing is that, that inverse is bringing is that it's bringing clear seasons for exports for North America and South America, and we think that that's an advantage for the Ag Services business in which it brings better margins normally for export season. So you're going to see a little bit what happened last year, that Brazil sold everything, ran out of material. Then the tide shifted immediately for the U.S.

The U.S. is starting from an extended window of exports because Brazil started a little bit late, the planting. So we are starting with good margins. We are starting good exports for the first quarter. For the first quarter, Vince, we expect U.S. record volumes for Q1. And then we expect a very strong season at the end of the year with another strong Q4. So we're very, very optimistic about it.

Vincent Stephen Andrews - *Morgan Stanley, Research Division - MD*

Okay. That's very helpful. If I could just follow up on freight rates. They really have run up. Is that something that you benefit from? Because presumably, you have long-term contracts. But those freight rates have to get pushed into sort of the market pricing. And you just maybe get the benefit on the revenue line, but don't experience the cost. Or is there a different dynamic there?

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

No. Yes, I think you are correct in your assessment. And you also have to understand the value of the full value chain that would run in ADM. When I describe, for example, record exports, that means also record loads for ARTCO. So we get a secondary stream of profits from there for the full value chain. We have stevedoring, we have the barges, and we have the export terminal. So the whole -- when you have that kind of volumes, the whole value chain gets enhanced margins, all through the chain.

Operator

Your next question is from Ben Bienvenu of Stephens.

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

I want to ask your outlook for the year for 2021. It -- you made a note in your press release and in your comments that you expect improved market conditions. I suspect in light of the detailed comments that you gave, you're referring to the Carbohydrate Solutions group, particularly. But I'd be curious what you're expecting on the Ag Services and Oilseeds. Is 2020 a number that you think is probable to be eclipsed for EBIT based on the market view that you have right now? Or how should we be thinking about that setup?

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

Yes. Ben, when I think about the 3 businesses for 2021 and when we think about a strong 2021, the Ag Services and Oilseeds business will be a very, very strong year. As I said before, maybe with a different mix of earnings with -- maybe we're not going to get to the same levels in RPO business or maybe South American oil, but we're going to have a better canola and softseed margins in general for the business.

We still expect exports from Ag Services to be very strong. We have an exceptionally strong year for Global Trade in 2020, which I think we're going to have a strong year. We don't know exactly we're going to get to the same level. So we plan another outstanding year for Ag Services and Oilseeds in 2021.

Carb solutions, I think that, that's the business, as Ray explained it before, that has been the biggest impact -- impacted by COVID-19. And we think that last year, it was a very tough year in which the team did an outstanding job of growing earnings 11% in that environment. And we think that conditions for this year, especially when you think about the pent-up demand, the improvements in conditions with more prevalent vaccination in the second half and all that. And with some exports to China in ethanol, we expect there are many elements there to build a more constructive scenario in 2021 than in 2020.

And the Nutrition business will continue to grow. We are investing in that business. And it's a business that have a strong organic growth program, and we see in that range, as I mentioned before. And then when we look at the strategic plan for Nutrition, as we grow Nutrition to the billion-dollar OP during our plan, we'll look for a 15% CAGR to get there, and that's what we're expecting for this year. So that's how I think about 2021.

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

Okay. That's great. And if I could, as it relates to 1Q, in particular for Carbohydrate Solutions, you noted you expect results to be significantly higher than 1Q '20, but lower than 4Q '20. That's a pretty big range.

Is there any more granularity you could provide there? Should we be thinking about something north of $100 million based on the current market view? Or is that too high? Maybe just any more specificity, if you're willing to give it, on that segment in particular in 1Q. And then I'll leave it there.

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

Yes. I mean a lot of it is going to be a function of kind of where ethanol moves over the course of the year. I mean we expect it to be over $100 million if -- we expect it to be over $100 million. And where we land, a lot of it would be where ethanol kind of moves over the next couple of months here. But again, if you recall last year, we had about [$50 million] (corrected by company after the call) of negative corn oil mark-to-market that won't get repeated. So that's going to be a benefit in our first quarter results this year.

Operator

Your next question is from Robert Moskow of Crédit Suisse.

Robert Bain Moskow - *Crédit Suisse AG, Research Division - Research Analyst*

Congratulations on a great year. I wanted to know if you have any color for us on the impact of rising corn costs. There's some comparison, I guess, benefits compared to where -- benefits compared to last year, where you had corn oil was out of sync.

But is rising corn cost going to be a problem for Carbohydrate Solutions at any point? And maybe you could talk more specifically about high fructose corn syrup negotiations? And were you able to increase your prices to offset the higher corn costs?

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

Yes. Rob, it's Ray here. A couple of things to note. First of all, the team did an outstanding job on risk management. So without disclosing everything that they do, but it's fair to say that we had a lot of our requirements for 2021 hedged before the significant run-up in terms of corn costs. So I think that the team did some great work in terms of anticipating how S&D's would actually work over the course of 2021.

With respect to the contracts, just a reminder, not every contract gets negotiated in the contract cycle. We have multiyear contracts. And so certain amount of contracts got negotiated. And the outcome of the negotiations is the fact that we expect to be able to maintain our margins as we go into -- go through 2021 relative to 2020 through the combination contract negotiations as well as the efforts that we're doing in terms of managing the mix and also managing our costs there.

The other comment in terms of rising corn costs and also given really a strong demand environment for feed is you've seen whole product values go up. That's a benefit for our businesses as well. So I think in the fourth quarter, we made the comment that part of the strong results is that we had very favorable net corn costs. We expect that the team is also going to be able to manage through '21 with good net corn costs as well. So I think the team, the carb sol team did -- they've done an outstanding job on the risk management side and managing through the higher corn cost environment here.

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

Rob, if I may add. I think something that gives us confidence because, of course, the team is very good at doing this, is that in very tight markets, then the fundamentals become more important because markets move more based on fundamentals. And there, the information we have, the visibility we have in the network becomes much more important to make decisions. Than in other times when maybe materials are a little bit longer and softer, then there are more variables that come into play.

Robert Bain Moskow - *Crédit Suisse AG, Research Division - Research Analyst*

Maybe you can't give this much detail. But in the contracts that you were negotiating, were you able to negotiate prices higher in reaction to higher corn? Or was it not like that?

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

I think, Rob, I mean, I think it's fair -- I mean, let's keep it to the fact that we've be able to manage, in total, the portfolio of the contracts and been able to maintain the margins year-over-year. That's the level of, I think, disclosure we want to make at this point.

Operator

Your next question is from Ken Zaslow of BMO.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

I have 2 questions. First, the CapEx spending is going up. What are you incrementally spending on? And what do you think the returns are? And when will you actually get the returns associated with that? And how do we think about the incremental projects there? That's my first question.

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

So Ken, a couple of things on the increased CapEx. One, I mentioned that we are in the midst of the business transformation program. So 2021 will be one of our peak years into the project, the 1ADM project. So we do have some capitalized, some incremental capitalized costs associated with the program. That's in part of our CapEx budget.

Secondly, some -- with the pandemic in 2020, some projects got moved over, got pushed from 2020 into 2021. Some of them are growth projects, some of them are cost reduction projects. Some of them are just nondiscretionary expenditure projects. So there's a series of projects that we did push from 2020 to '21 just due to the pandemic and our ability to execute.

And then thirdly, we do have growth projects. We mentioned organic growth, our focus in that area. So we do have organic growth projects going on in the course of 2021. So those are the 3 buckets as to why the number is increasing from the number that we finished up in '20 to 2021. Again, the range $900 million to $1 billion is a large range. A lot of it -- we haven't approved some of these projects. We're just putting it in terms of a placeholder. But part of our discipline is we will be evaluating the timing, the returns and determining, do we actually spend it in the course of '21 or not.

But as you know, in terms of growth projects, our hurdle rates are double-digit percentages, right? Our hurdle rates are double-digit percentages in order to approve these projects.

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

And I'll remind you, Ken, that, first of all, we are also becoming a larger company. So there are projects now that are organic project coming from the new Neovia acquisition, the Animal Nutrition. We are expanding our bioactives production in Valencia, Spain. So we are becoming a larger company.

And I also remind you that we have a program to divest, to reduce capital investment, and we achieved $300 million in that side of the ledger. So we're continuing with the same capital discipline than before. You can be assured of that.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

Great. And then my just second question, really more of a clarification. You said in 2021, EPS and operating profit will be higher year-over-year or could be significantly higher, I forgot the exact word. But does that include or exclude the $295 million? And then I'll leave it there.

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

You referred to the $295 million timing effects, Ken?

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

Yes. Is it -- are you going to be able to grow numbers outside that $295 million? Or is that $295 million included in what you think is going to be a year-over-year...

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

It's all included there. It's all included in the number there, Ken. All included.

Kenneth Bryan Zaslow - *BMO Capital Markets Equity Research - MD of Food & Agribusiness Research and Food & Beverage Analyst*

Would you be able to grow even without that? Or is that part of the -- I guess I'm just trying to figure out, when you say significant growth, kind of, is that beyond the $295 million? Is that including -- is it -- if you didn't have the $295 million, would you still be able to grow? And I'll leave it there.

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

I mean there's a lot of puts and takes there, Ken, right? And so I think it's fair to say that our pretax numbers are going to grow significantly. And there's going to be a little bit -- you take a little bit off with a higher tax rate. I think that's probably the more important factors. Our higher tax rate will skim off a little of the pretax improvement that we're going to drive in '21 versus '20.

Operator

Your next question is from Tom Simonitsch of JPMorgan.

Thomas Marc Alfred Simonitsch - *JPMorgan Chase & Co, Research Division - Analyst*

Just following up on U.S. export strength. How much U.S. corn do you expect China to import beyond this marketing year?

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

Yes, Tom, sorry. I was trying to get my mask off. We're expecting China to take about 25 million tons of corn. So you know the situation there in China. We think that inventories are much -- or reserves are much lower than what the market is reporting there. You can see that in the prices that we've seen. And China didn't have a great crop, so we expect significant imports for both oilseeds and corn.

Thomas Marc Alfred Simonitsch - *JPMorgan Chase & Co, Research Division - Analyst*

Sorry, do you think that 25 million tons is sustainable beyond this marketing year?

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

Yes, we think so. We think so. Of course, not all comes from the U.S. It come from different sources. But it is. And China is trying other things as well. They are reducing a little bit their wheat stocks. They have imported a lot of wheat from Australia as well.

Remember that all this is driven by their recovery from ASF. They are trying to rebuild the herd, but also by the professionalization of the feeding that has included much more of all these grains in rations. So we think that we will continue to see multiyear increases in China's appetite for all these commodities.

Thomas Marc Alfred Simonitsch - *JPMorgan Chase & Co, Research Division - Analyst*

Okay. And maybe you could break down your nutrition outlook for 2021. You mentioned the 15% segment profit growth. How does that compare for Human versus Animal Nutrition?

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

Yes. They have different dynamics. So Human Nutrition is much more related to specific innovation projects that are driven by customers in our pipeline, and we feel very strongly about that. Our pipeline continues to grow, and our win rates continue to grow.

Animal Nutrition has been a little bit more affected by COVID in the sense that there are some parts of it, like aquaculture, where fish and shrimp are much more consumed in restaurants than at home. While, on the other hand, pet, with people spending more time at home, companion animals have become a little bit better. So I would say there are puts and takes there. It's difficult to judge ahead of time.

I think the important thing about the Nutrition business is when you take a look at what's happening is that that's a business that is investing in growth, but is also has been able to grow returns and to grow margins during the year in both divisions, both in Animal and in Human Nutrition. And I think we're going to continue to see that with, as I said, the different paths to growth: with Animal Nutrition, more in building organic growth for some of the projects, especially in Asia and in parts of Latin America; and then in Human Nutrition, with more specific customer innovation projects in North America and Europe.

Operator

Your next question is from Eric Larson of Global Securities (sic) [Seaport Global Securities].

Eric Jon Larson - *Seaport Global Securities LLC, Research Division - Research Analyst*

Yes. Congratulations on a really good year.

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

Thank you, Eric.

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

Thank you, Eric.

Eric Jon Larson - *Seaport Global Securities LLC, Research Division - Research Analyst*

So Juan, I just want to dive a little -- I just want to add a little bit -- my first question is on Nutrition, just to add a little bit more clarity to that. Last year, you had talked about harvesting more of your investments. You built a lot of plants in South America, in Asia for your Nutrition business. And I still expect that harvesting that investment is still a big part of your earnings story and your margin story.

Can you talk a little bit about where you are in your harvesting of margins for Nutrition? And I'm sure it differs between human and animal. But can you help us with that a little bit?

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

Yes. I would say the harvesting continues. These plants that we built are relatively new plants, whether it's pea protein or specialty proteins in Campo Grande. So we're going to have harvesting for many years down the road, hopefully.

I would say, that 2021 is a year of heavier investments, if you will, again, another round of investment. Some of those things are capabilities, whether it's customer insights and marketing, whether it's new digital connections to customers, new models to innovate virtually and even a lot of organic growth. We have -- we kind of went light in organic growth projects in Animal Nutrition during 2020 because we were working on the synergies. And to be honest, because the COVID environment didn't allow for a lot of project work, and now we are going into more of that.

So you're going to see 2021 being a little bit heavier investments in that -- in capabilities and plants. And we see -- some of these, you don't see because it's building the foundations. We are a science-based nutrition company. But you see, for example, in the quarter, we got 2 awards. We got the FiE award for innovation in pea protein, and we got the BIG Innovation Award for BPL1, one of our probiotics.

So we continue to invest in science, in customer insights and in organic growth in this business as we harvest. And the harvesting, you see in how our ROIC continues to grow in that business. And you see that success of our value proposition in how the EBITDA margins continue to grow in our business.

So we are very happy. But Eric, we are at the early stages of building the best nutrition company out there. We are probably halfway through that build.

Eric Jon Larson - *Seaport Global Securities LLC, Research Division - Research Analyst*

Okay. Great. So Juan, the question that I have, and you've talked a lot about demand around the world, which is even surprisingly strong despite the grain pricing environment that we have, which is pretty high, and we're still seeing good exports. But when you look at the U.S. crop, upcoming planting season this year, you look at what's going on in South America, which is clearly, the world needed 140 million metric tons of soybeans out of Brazil, and they're not going to get that. We're seeing wheat in Russia.

Can you -- it seems to me when you just put all the numbers together on a global basis, we are not going to rebuild these global supplies in a single year. It might take a couple of years of good weather and all of that to sustain demand. Can you kind of encapsulate how ADM is looking at the next 2 years regarding demand and supply of global grains?

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

Yes. We see an environment of real demand, real effective demand happening out there. And to be honest, our customers don't have a lot of inventory because everybody has been destocking or going hand to mouth with this inverse. So we see truly a strong demand and tight balance sheets.

As you said, corn and oilseeds, I think they're going to touch pipeline balance sheet. Wheat is a little bit stronger, but the Black Sea has not had a great wheat season, although Australia has a wheat growing season. So we see this is going to take 18 to 24 months for this supply-demand balances to be rebuilt. So we see these conditions subsisting for the next couple of years. Even with farmers, I imagine like you, trying to plant more because I think that these prices will bring more acres into production. But we need those extra acres right now.

Eric Jon Larson - *Seaport Global Securities LLC, Research Division - Research Analyst*

Yes, not only plant more acres, but we'll also try to maximize our yields. So it's the combination of both. So I'll pass it on.

Operator

Your final question is from Ben Theurer of Barclays.

Benjamin M. Theurer - *Barclays Bank PLC, Research Division - Head of the Mexico Equity Research & Director*

Congrats on the results. Just wanted to follow up on the CapEx related to the different businesses. And I mean, clearly, you've been putting a lot of emphasis on the growth and the prospects within Nutrition. And you've just said this will be another year and the need of investments in order to get to that 15% CAGR you've been talking about.

So if we think about the CapEx in general, that $900 million to maybe $1 billion, which is clearly up from what we saw in the last 2 years, could you give us a little bit of an understanding how you allocate or how you plan to allocate within that CapEx to the different segments? And in particular, to the Nutrition business, just to understand how much capital you're adding to that business?

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

Yes. Something that you have to understand, and I'm going to speak high level here. But Nutrition has a different OP to capital sensitivity than the other businesses. These projects are -- so sometimes, you have big projects like Campo Grande for specialty proteins. But the rest of the projects, if you think that the commodity business have maybe a multiplier of -- you need 5 units of CapEx to get 1 unit of OP, sometimes in Nutrition, you get the 1-on-1. So I think the issue is that because it's a smaller business, sometimes this investment, these efforts have a higher impact in their P&L because they need to carry as they grow and as they build a smaller business.

But I would say, the Nutrition is not a heavy capital-intensive business. So when you hear me speaking about Animal Nutrition, organic growth projects, those are a small projects. They are not in the hundreds of millions of dollars type of projects.

So I will say we continue to emphasize them, but it's not a heavy burden on the capital. That's why we're growing so fast, and we still are not forecasting north of $1 billion, even when we're doing 1ADM and all that. So I think it's a very affordable growth from a capital perspective.

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

Yes. There's a couple, Ben, there's a couple of large projects in the carb solutions business that we're finishing up in 2021. So the Bulgaria expansion, we're finishing up. We're finishing up the building of the feed house in Clinton. So there's a couple of chunky investments that we're just finishing up over the course of '21.

Benjamin M. Theurer - *Barclays Bank PLC, Research Division - Head of the Mexico Equity Research & Director*

Okay. Perfect. Great. And then one final one, just netting it out, you've been talking about the ethanol imports over to China, but then how is that netting out versus Brazil and what you're seeing there? Is that -- is this just tit for tat south to north? Or how are how is the balance currently on that export business to China?

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

I think, listen, exports to China, we've been talking a lot about that. We expect this year, we will be the record high. So they are taking because corn is expensive in China.

You also need to remember in this equation, sugar prices are an all-time high. So in Brazil, you make a choice. So it's different than the U.S. In Brazil, you make a choice how much you make of sugar and ethanol. And of course, sugar prices are a big temptation this year. So we expect higher exports, and maybe we expect a little bit of less pressure from Brazil in that sense.

Operator

There are no other questions in queue at this time. Ms. de la Huerga, do you have any closing remarks?

Victoria de la Huerga - *Archer-Daniels-Midland Company - VP of IR & ADM Ventures*

Yes. Thank you for joining us today. Slide 10 notes upcoming investor events in which we will be participating. As always, please feel free to follow up with me if you have any other questions. Have a good day, and thanks for your time and interest in ADM.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect.
