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ADM.N - Q4 2021 Archer-Daniels-Midland Co Earnings Call

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OVERVIEW:

ADM reported full-year 2021 adjusted EPS of $5.19 and 4Q21 adjusted EPS of $1.50.

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PRESENTATION

Operator

Good morning and welcome to the ADM Fourth Quarter 2021 Earnings Conference Call. (Operator Instructions) As a reminder, this call is being recorded.

I would now like to introduce your host for today's call, Vikram Luthar, Senior Vice President, Head of Investor Relations, Chief Financial Officer, Nutrition for ADM. Mr. Luthar, you may begin.

Vikram Luthar *- Archer-Daniels-Midland Company - Senior VP, Head of IR & CFO of Nutrition*

Thank you, Brieka. 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 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.

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On today's webcast, our Chairman and Chief Executive Officer, Juan Luciano, will provide an overview of the quarter and the year. Our Chief Financial Officer, Ray Young, will review the drivers of our performance as well as corporate results and financial highlights. Then Juan will discuss our outlook. 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, Vikram. Our team delivered a super fourth quarter. This morning, we reported record fourth quarter adjusted earnings per share of $1.50. Adjusted segment operating profit was $1.4 billion, 23% higher than the fourth quarter of 2020. Our trailing 4-quarter adjusted EBITDA was $4.9 billion, $1.25 billion more than a year ago. And our trailing 4-quarter average adjusted ROIC was 10%, meeting our objectives.

Slide 4, please. That performance represented a strong finish to an outstanding 2021. For the full year, our adjusted EPS was $5.19, also a record. And full year adjusted segment operating profit was $4.8 billion. This excellent performance was reflected across the company.

The Ag Services and Oilseeds team's actions to improve their business portfolio and strengthen their operating model continued to enable superior performance in a strong market environment. AS&O delivered full year 2021 OP of $2.8 billion, with each subsegment performing at or near historic highs.

Carbohydrate Solutions executed phenomenally well to deliver full year operating profits of $1.3 billion. And the team is continuing the evolution of Carbohydrate Solutions from the sale of our Peoria dry mill and the announcement of the sustainable aviation fuel MOU; to our agreement with LG Chem and the continued growth of our exciting biosolutions platform, which delivered new revenue wins with an annualized run rate of almost $100 million; to the project we announced earlier this month to further decarbonize our operations by connecting 2 other major processing facilities to our Decatur carbon capture and storage capabilities.

The Nutrition team once again delivered industry-leading revenue and OP growth, with full year revenues up 16% and full year OP of $691 million, representing a 20% year-over-year increase. We also continued to enhance our Nutrition business with strategic investments targeted at growing areas of demand, including soya protein, which will expand our participation in alternative proteins; PetDine, which substantially enhance our presence in pet food and treats; Deerland, which continued the expansion of our functional probiotics and enzymes portfolio within our global Health & Wellness business; and FISA, which enhance our flavor footprint by opening up new growth opportunities in Latin America and the Caribbean.

Slide 5, please. Last month, at our Global Investor Day, we unveiled our strategic plan and reiterated our balanced financial framework for value creation, including using our strong cash flows to deliver both growth investments and distributions to shareholders. We are confident in our plan and and committed to continuing to deliver value for our shareholders which is why we are pleased to announce an 8% increase in our quarterly dividend to $0.40 per share. We are proud of our record of 90 uninterrupted years of dividends and more than 40 years of consecutive annual dividend increases, and we are pleased to continue to follow through on our commitment to shareholder value creation. It's been a great year, and we're excited about what's to come. Our continued actions to build a better ADM and dynamically align it with the global trends of food security, health and well-being and sustainability, and the steadfast advancement of our productivity and innovation initiatives will help propel our 2022 results.

I will talk in more detail about the upcoming calendar year shortly. But first, I'd like to turn the call over to Ray to review our business performance. Ray?

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

Yes. Thanks, Juan. Good morning, good afternoon, everyone.

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Slide 6, please. The Ag Services and Oilseeds team capped off really a truly impressive year, successfully navigating through supply chain challenges to deliver results largely in line with the extremely strong prior year quarter. The Ag Services team performed well in an environment of continued strong global demand, including significantly increased export volumes for customers outside of China. Global trade was substantially higher year-over-year, driven by solid risk management and improved results in global ocean freight. Overall, Ag Services delivered strong results, just slightly off the outstanding fourth quarter of 2020 when we benefit from exceptionally high export margins.

Crushing executed well on the continued solid demand environment for both soybean meal and vegetable oil. Lower results in EMEA versus a very strong fourth quarter of 2020 and approximately $250 million in net negative timing impacts versus negative $125 million in the prior year quarter drove overall results lower year-over-year. The majority of those negative timing effects are expected to reverse in the first half of 2022.

The Refined Products and Other team delivered substantially higher results versus the prior year period, driven by strong volumes and margins in North America for refined oils and improved biodiesel margins in North America and EMEA, which more than offset weaker South American results due to the reduced biodiesel mandate.

Equity earnings from Wilmar were higher year-over-year. Looking ahead, we expect a strong first quarter from Ag Services and Oilseeds, higher than the first quarter of 2021 and in line with the just-ended fourth quarter.

Slide 7, please. Carbohydrate Solutions' fourth quarter results were more than double the prior year quarter. In Starches and Sweeteners subsegment, including ethanol production from our wet mills, results were lower versus the fourth quarter of 2020, driven by higher input costs, including energy costs in EMEA as well as lower wheat milling volumes, partially offset by continued strong ethanol margins. Volumes for North America Sweeteners and Starches were largely flat year-over-year.

Vantage Corn Processor results were again substantially higher year-over-year, driven by historically strong industry ethanol margins as a result of strong demand relative to supply as well as increased sales volumes due to production at the 2 dry mills that were idle in the previous year period. As we look ahead, we believe the first quarter for Carbohydrate Solutions should be similar to or slightly above the strong first quarter of 2021.

Slide 8, please. The Nutrition business closed out a year of consistent and strong growth, with fourth quarter revenues 19% higher year-over-year, 21% on a constant currency basis, with 26% higher profits year-over-year and sustained strong EBITDA margins. Human Nutrition had a great fourth quarter, with revenue growth of 21% on a constant currency basis and substantially higher profits.

Flavors continued its growth trajectory, driven primarily by improved product mix in EMEAI and continued strong performance from North America, partially offset by weaker APAC results. In Specialty Ingredients, overall profits for the fourth quarter were in line with the year ago period as strong demand for plant-based proteins offset the impact of onetime insurance proceeds in the fourth quarter of 2020.

Health & Wellness was higher versus the prior year quarter as the business continued to deliver growing profits in bioactives and fermentation. Animal Nutrition revenue was up 21% on a constant currency basis, and operating profit was much higher year-over-year, driven primarily by continued strength in amino acids.

Now looking ahead, we expect Nutrition to continue to grow operating profits at a 15%-plus rate for calendar year 2022, with the first quarter similar to the first quarter of 2021 with continued revenue growth offset by some higher costs upfront in the year and the absence of the onetime benefits we saw in the first quarter of the prior year.

Slide 9, please. Now let me finish up with a few observations from the Other segment as well as some of the Corporate line items. Other Business results were substantially higher, driven primarily by higher captive insurance underwriting results as the prior year quarter included larger intracompany insurance settlements. For calendar year 2022, we expect Other Business results to be similar to 2021. Although for the first quarter, we expect a loss of about $25 million due to insurance settlements currently planned. Net interest expense increased year-over-year on higher short-term borrowings.

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In the Corporate lines, unallocated corporate costs of $276 million were lower year-over-year due primarily to increased variable performance-related compensation expense accruals in the prior year, partially offset by higher IT offering in project-related costs and transfers of costs from business segments into centralized centers of excellence in supply chain and operations.

We anticipate calendar year 2022 total corporate costs, including net interest, corporate unallocated and other corporate, to be in line with the $1.2 billion area, consistent with what I discussed at Global Investor Day with net interest roughly similar, corporate unallocated a bit higher and corporate other a bit lower.

The effective tax rate for the fourth quarter of 2021 was approximately 21% compared to 8% in the prior year. The calendar year 2021 effective tax rate was approximately 17%, up from 5% in 2020. The increase for the calendar year was due primarily to changes in geographic mix of earnings and current year discrete tax items, primarily valuation allowance and return to provision adjustments. Looking ahead, we're expecting full year 2022 effective tax rate to be in the range of 16% to 19%. Our balance sheet remains solid, with a net debt-to-total capital ratio of about 28% and available liquidity of about $9 billion.

With that, let me turn it back to Juan. Juan?

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

Thank you, Ray. Slide 10, please. I hope most of you were able to join us on our Global Investor Day last month. There, we showed that we have consistently advanced our strategy from our work to improve ROIC through capital cost and cash; to our strategic growth and margin enhancement accomplishments, including the creation of a global Nutrition business; to today's focus on productivity and innovation. Thanks to this work, we are moving into 2022 with a better ADM, a more returns-focused organization with higher margins and less volatile earnings and a portfolio that is well positioned to capitalize on the positive structural changes being driven by the enduring global trends of food security, health and well-being and sustainability.

Slide 11, please. Let me take a few moments to talk about how we see the 2022 environment. In Ag Services and Oilseeds, we see a continued favorable global demand environment. Due to a short crop in South America, with the magnitude of the shortfall still to be determined, we expect global ag commodity buyers will rely relatively more on the U.S. market for their needs, assuming we have a normal U.S. crop later this year.

On the Oilseeds side, we're starting 2022 with strong soy crush margins. And as we discussed at Global Investor Day, we believe that increasing demand for meal as well as vegetable oil as a feedstock for renewable green diesel should continue to support the positive environment this year, with our soy crush margins in the range of $45 to $55 per metric ton.

Assuming these dynamics play out, we believe that Ag Services and Oilseeds in 2022 has the potential to deliver operating profit similar to or better than 2021.

For Carbohydrate Solutions, we are assuming the demand and margin environment for our Starch and Sweetener products will be steady versus 2021. We expect the industry ethanol environment to continue to be constructive, supported by the recovery of domestic demand to pre-COVID levels, energy costs driving higher exports and better clarity on the regulatory landscape. With this in mind, we're assuming higher ADM ethanol volumes and EBITDA margins to average $0.15 to $0.25 for the calendar year. In addition, we are expecting our biosolutions platform to deliver another year of solid growth as we continue to evolve the Carbohydrate Solutions business. Putting it all together, we expect Carbohydrate Solutions to deliver full year operating profit slightly lower than their outstanding 2021.

In Nutrition, we're expecting continued growth in demand for our unparalleled portfolio of nutrition ingredients and systems, along with the benefits of accretion from our recent acquisitions. With these dynamics, we expect 15-plus percent OP growth in 2022, revenue growth above 10% and EBITDA margins above 20% in Human Nutrition and high single digits in Animal Nutrition, consistent with targets we set out at our Global Investor Day.

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Slide 12, please. So as we look forward in 2022, we see a positive demand environment across our portfolio. And then we add to that things we can do better. Our execution was great in 2021, but we're always identifying opportunities for improvement. And we intend to do even more to meet this growing demand in 2022. Put it all together, and we're optimistic for another very strong performance in 2022 as we progress towards our strategic plans next earnings milestones of $6 to $7 per share.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) And our first question from the phone lines comes from Ben Theurer of Barclays.

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

Juan, Ray, congrats on those very strong results. So to start off, maybe just to stay a little bit within the outlook, I mean, clearly, you continue to have a very positive view on the segment side. But could you also share a little bit your assumptions in terms of CapEx needs and where you think investment needs to be put into in order to deliver on the actual supply of these? So a little bit of your CapEx program and how you feel about that then, ultimately, the results flowing down to net income and what your expectations are for 2022.

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

Yes. So many questions wrapped in one, Ben. Good job. On a CapEx perspective here, as you look at our strategic plan, most of our strategic plan is coming from organic growth and productivity. So in order to fund that, we can have a little bit higher CapEx this year of about $1.3 billion. That will be, of course, in some of the projects we need to do to expand like Spiritwood that we announced our JV with Marathon. But also, again, some productivity enhancements to make sure we deliver bigger volumes as we supply that demand.

As you know, we are facing 2022 with a very strong perspective for the first quarter. We are entering the year with great momentum as we left 2021 also in a big high. So at this point in time, we continue to see a very strong 2022. And I think I described it in all my commentary. Ag Services and Oilseeds continue to be firing in all cylinders, and we expect the year as good as last year or maybe even better.

Carb Solutions also going very strong with many -- with a very stable Starch and Sweeteners and with always some uncertainty on ethanol but with a favorable environment. And biosolutions continue to grow as we grew last year. And again, Nutrition going up above 15% per year, operating profit growth on double-digit revenue growth. So all in all, we feel very good about all the things that we can control.

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

Okay. Perfect. And then just one last question, just a quick one. If you think about your medium-term targets -- and I remember you've laid out obviously as well the initiatives for share buybacks, et cetera. But in light of the higher CapEx plus the increase in dividend, fair to assume that share buybacks, at least in the short term, aren't going to be a priority yet, correct?

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

Yes. I think the priorities for capital allocation is to deleverage after we had maybe a couple of billion dollars invested in acquisitions, certainly fund the projects that we have in higher CapEx, as I described, and then the dividend -- to support the dividend. Of course, cash flow generation is strong in ADM. We focus a lot on that. So as cash flow becomes available, I mean, we're going to think in the -- again, in the 5-year plan, to have more

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buybacks in the later period. But if cash flow continues to be as strong, we might anticipate that a little bit. At this point in time, we don't expect significant M&A as part of our plan. So that will be the capital allocation decision.

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

Perfect. Juan, very clear. Thank you very much, and congrats again.

Operator

We now have the next question from Ben Bienvenu of Stephens.

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

Congrats on the strong quarter. I want to follow up on the outlook commentary, which was really helpful and detailed. Of particular interest to us is the Bioproducts commentary that you offered. I think within the Carbohydrate Solutions business, the commentary around Starches and Sweeteners makes sense. The Bioproducts obviously benefited from a very strong fourth quarter. And I suspect perhaps you had an opportunity to secure margins into the first quarter. But the commentary is pretty positive through the balance of the year, and I realize higher production will help in benefiting operating profit for that business. Can you talk a little bit about what informs your view for the strength of the ethanol business sustaining into 2022?

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

Ben, it's Ray here. Yes, we finished up very strong in the Bioproducts business, ethanol specifically. The fourth quarter demand environment was very, very constructive. And I think that's just reflective of what was happening in terms of the recovery in driving miles in the United States. The holiday season gasoline demand was strong. That translates to strong demand for ethanol.

And on the supply side, I mean, actually, the industry had some supply challenges. And so that translated to a very robust environment. In fact, our EBITDA margins in the fourth quarter for our ethanol business were above $1 a gallon, which is very, very -- on a historical basis, very, very strong. We indicate that as we go into 2022, we feel optimistic about ethanol as well. Now while inventories have built up a little bit in January, and that's just a seasonal nature of ethanol -- of inventory builds, a couple of things give us optimism for 2022.

Number one, we do expect domestic demand for ethanol to be strong. In fact, it will be a growth year-over-year from '21 to '22. And frankly, we're seeing ethanol demand probably returning back to pre-pandemic levels of demand here in the United States. So we're talking about domestic demand probably in the 14-billion-gallon level.

Secondly, I think you're going to see a recovery around the world on gasoline demand and, hence, ethanol demand as well. And as you know, with the movement in crude oil prices in general, ethanol is becoming one of the most attractive oxygenates in the world. So we do see the export demand side of the equation in 2022 being also very constructive for ethanol, with ethanol probably recovering to 1.4 billion to 1.5 billion gallons in terms of export demand. So that's very, very constructive.

Thirdly, we do believe that the regulatory landscape has clarified itself in the context of small refinery exemptions. I know there's some challenges going on here. But what we see right now is, going forward, smaller SREs, as they call it, small refinery exemptions, will not have an impact in terms of kind of like the supply-demand balances. And we talk internally that when they say 15 billion gallons, it means 15 billion gallons, right, in terms of what we need to deliver to the marketplace. So that's actually a positive also for our industry. And then they've also remanded about 250 million gallons in terms of requirements as well going forward.

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So when you add it all together, the fact that we're starting off the year with a fairly balanced supply-demand perspective in terms of U.S. ethanol inventories; two, a demand environment that's going to be even more constructive versus 2021; and three, a regulatory environment that seems to be supportive of where we want to go, we're actually having a constructive viewpoint.

As Juan indicated, directionally, we're assuming $0.15 to $0.25 per gallon as EBITDA margins for 2022. That's lower than the '21 assumption, and maybe, we're just being a little bit conservative about this juncture as we start off the year. But nevertheless, we do believe that it should be a favorable environment for us as we move forward into 2022.

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

Okay. That's great. Very helpful, Ray. And my second question is just related to the global operating environment and, in particular, some of the goings-on in Ukraine at the moment and tensions there. Is that -- how is that manifesting itself today in terms of the impact to your business? I know from an asset footprint perspective, you guys don't have super heavy exposure there, but they are a major producer of rapeseed, corn, wheat, barley. So I'm curious what impact you're seeing in the market today and how you think about the potential impact as we look into 2022, recognizing a lot of different scenarios could play out there.

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

Yes, Ben. Of course, you realize the supply of many commodities remain at their tightest levels in years. So I think any news around the world of disruption, whether it's weather or geopolitics, I mean it's going to prolong the high prices well into probably 2023.

As you described, at this point in time, there are 3 things. We're all looking at the development of the crops in South America as they need to go through February rains, especially in Argentina and the harvest in Brazil. We are looking, of course, at geopolitical conflicts and like the one you described and also the expectations of the crop in the U.S., all these in the middle of a very strong demand.

So as you said, Ukraine is a big exporter, especially if you think about corn and the ability to supply China needs that you have the 3 main suppliers with the U.S. and you have Ukraine and you have Brazil. So hopefully, Brazil, with this range will have a safrinha crop that is may be a little bit better than what we expected. But among these 3 countries need to cover the supply of corn. And corn today is one of the best sources of energy and fat, and they are one of the cheapest ones. So it's a very demanded product. So we're all paying attention to what happened with that.

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

Okay. Juan, congrats on the quarter and best of luck into 2022.

Operator

We now have another question on the phone lines from Adam Samuelson of Goldman Sachs.

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

I guess my first question, I want to come back to the outlook in Carbohydrate Solutions and just make sure I'm understanding the moving pieces to think about a full year 2022 outlook that's only slightly below 2021, where both your '22 -- '21 performance was above what you would have expected in 2025 for the unit. And just trying to think about the moving pieces with ethanol, and maybe there's a clarification point on the -- when you talk about ethanol margins, $0.15 to $0.25 a gallon EBITDA, is that purely the dry mill gallons within Vantage Corn Processors? Is that including the wet mill?

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And I guess in that vein, in the fourth quarter, given the strong ethanol margin environment, I guess I was surprised just to have seen the Starches and Sweeteners business be down if that was -- should have also been benefiting from a strong U.S. ethanol environment. So maybe just help us think about some of the bridges of the pieces within the segment to get you to the '22 outlook.

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

Yes, Adam. It's Ray here. So $0.15 to $0.25 EBITDA margin represents total ethanol, wet mill and dry mills. So that's a combined basis on that assumption. In the fourth quarter, we had, as you saw, an outstanding quarter. VCP really benefited from the ethanol margins. And clearly, Starches and Sweeteners also benefit as well on the ethanol side of the business.

Our net corn cost was a little bit higher in the fourth quarter for Starches and Sweeteners. And if you recall, when we hedged 2021 for corn, we put on a very attractive hedge position in 2020 for a lot of our 2021 requirements, but not all the requirements. And so when we got to the fourth quarter, I think we were a little bit more exposed on that corn. And so therefore, the higher net corn cost translates maybe a little bit lower margin on the sweetener side of the business there.

We also had some operating challenges with the start-up of Bulgaria in Europe, which, again, this is an opportunity, frankly, speaking, for us in 2022, right? And we also had some higher energy costs over in Europe as well. As you know, natural gas prices ran up significantly in the back part of the year. So that impacted our energy costs over in Europe, and that flowed through in terms of our Starches and Sweeteners segment.

So there are a bunch of puts and takes that moved through the fourth quarter. Again, we think a lot of that will be behind us because I think we've put ourselves -- put in a good hedge position for 2022. And then also, we believe that we've got -- the Bulgarian project, we've addressed a lot of those issues, and that should be a plus delta for us in 2022 as well.

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

Okay. That color is really helpful. And if I could just switch gears over to the Nutrition segment. And maybe help us think a little bit about the expectations for the business on an organic basis in 2022. I know there was a -- you did some M&A through the second half of 2021. So you talked to 10%-plus revenue growth and 15%-plus profit growth. Can you help us think about the M&A contributions within that? And any specific parts of the business that you might be more optimistic than the segment average in areas where the growth might be a little below that?

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

Yes. I think most of 2022 will be on an organic growth basis, if you will. The contribution still of the acquisitions, it's going to happen a little bit later. These acquisitions are not made, to be honest, to -- for the accretion of 2022. As you recall, we are just building the Nutrition business. So this is the strategic importance of positioning ourselves in the areas where we've been informing you. I think that we always like to have the policy of no surprises. And I think you heard me saying Health & Wellness is an area where we were going to invest, and that's where we did Deerland pet food, and that's where we did PetDine.

We continue to think about the incredible potential of plant-based proteins, and that's where we did Sojaprotein, which is making us more international. And I talked about how powerful we are in flavors, but we were underrepresented, if you will, in the emerging markets. And that's why we invested in capacity in Pinghu for flavors in China. And we also acquired FISA that gives us a beachhead into Central America, Caribbean and maybe northern part of Latin America.

So when we look at the business and our confidence in the 15%-plus organic operating profit growth is driven by our pipeline and our win rates, to be honest, that's why we look. Our pipeline continues to increase. Our product launches continue to increase and actually accelerate. And our win rates have almost doubled from 1 year to the other. So the business is operating very well. We guided flat for Q1 just because of the way some of the costs fall, and they are more front-loaded into next year. But this is a business, again that's been growing 34%, 20%. I think we're going to study life in the long term at this rate of 15%, 15% plus with double-digit organic growth basically without even touching the M&A for that.

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Operator

We now have a question from Robert Moskow of Crédit Suisse.

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

Congrats on a great year. And maybe you've kind of implied this already. But your pricing for corn sweeteners in 2022, can you describe how the negotiations went? And it looks like what you're guiding to was kind of flattish profits in North America for corn sweeteners as a result of that pricing. Is that a fair assessment?

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

Yes, Rob. I mean our objective is really to maintain margins. And so through the course of the negotiations, I think it's fair to make an assumption that we've been able to maintain margins and offset the higher corn costs that has occurred recently. So I think we've achieved that objective, and that's a fair assumption to assume as we go into 2022.

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

Okay. And maybe a follow-up. The expansion of refined soybean oil is driven by the growing demand of renewable biodiesel. Have you been watching the industry -- the planned industry expansion for all of those refineries? And what kind of -- is it achieving what you'd expect? Are the -- is the capacity coming on line as expected? And is it having the results on demand for oil that you expected?

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

Yes. Of course, we keep a close eye into that. You have to understand that at this point in time, demand continues to outpace even the announced capacity expansions. But there is a reality also in this world of supply shortages and labor issues that projects are not that easy to execute.

So I think that when you look at the battery of announcements like the way we've seen, I think it's reasonable to put a percentage that is going to happen, either the reality or that they're all going to happen but in a little bit longer time line. So we tend to look at that from a long-term basis and maybe something like 2/3 or 75% will happen. At this point in time, we see the volume coming our way.

And you have to remember that the original oil story, Rob, it was due to tight palm oil around the world. And that drove soybean oil and other oils up. And now on top of that, now we have the demand for RGD. So that -- now there is a full confluence of raw materials to be able to supply that oil. And so yes, we are looking at this very closely. And at this point in time, everything is evolving as planned.

Operator

We now have Tom Palmer of JPMorgan.

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

Congratulations on the quarter. Maybe I can follow up on Rob's question just on the refined products outlook and maybe a little more specific on how you're thinking about the setup for 2022. We do have kind of maybe the first larger wave of facilities coming on line with pretreatment units, at least back half-weighted, I think. So maybe what's the assumption for refined products this year? And do you think that, that will -- that addition in terms of capacity is going to have much impact or, as you were kind of noting with Rob, maybe just with timing and kind of needs of still sourcing from -- at least a portion from third parties, it won't be as impactful?

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

Yes, Tom. Listen, we continue to believe we will add around 1 billion gallons per year of incremental R&D -- RGD capacity and approach that 5 billion gallons total capacity by 2025. And as I was selling Rob, we continually restrain the announced capacity and analyze the market conditions. So we have several scenarios in this.

We do believe this announced capacity are important to -- and necessary to keep up with the expected demand growth for both vegetable oil, as I explained before, but also global meal demand needs. And at this point, vegetable oil consumption is still growing faster than supply. We've gotten a little bit good news from sun oil availability from the Black Sea that maybe will help bean oil tightness.

And so regarding the pretreat comments, in the end, the vegetable oil will be required as a feedstock, and pricing will reflect the value of this feedstock, likely based on carbon intensity. So we could see some shift in value between the crude oil and the refining. I think what we need to realize is we are at the early stages of this industry formation. So we're going to see some of those movements. And sometimes, we're going to capture the value in one place. Sometimes, we're going to capture the value in another one.

But we are well positioned. Our biodiesel plants are all integrated in refineries and all that. So we are watching it very closely. We feel good about how it's developing so far.

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

Great. And maybe I'll segue with that to the crushing side. It seems like you're starting off the year with quite strong soy crush margins, perhaps higher than maybe you're guiding to for the year. Is there, I guess, catalyst or a driver that maybe makes margins weaker? Is there a bit of conservatism embedded as we see headlines around lysine shortage? Is that something you're expecting to kind of resolve itself and maybe see still a very favorable crush environment but a little more normalized versus to start off the year?

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

Yes. There are many -- of course, it's a large industry, so many puts and takes. When we look at the demand side, the forecasted 2022 poultry production is going to be a record and near record for beef and hogs. So protein demand continues to grow around the world, and that's sustaining a lot.

There is a tight meat proteins and synthetic amino acids, and that's supporting soybean meal. Remember, I mentioned fat is very expensive today and energy as well. So corn, at this point in time, is the cheapest carbohydrate. That's pulling soybean meal into the ration. And we expect, at one point in time, the lysine market come maybe back into balance later in 2022. But still, the S&Ds are very beneficial to soybean meal and to crush.

So I think also, don't forget, RGD is also changing the dynamics for soybean meal, making soybean meal from the U.S. much more competitive and able to gain some export markets. And when you have maybe a less-than-stellar soybean crop in Argentina, Argentina being such a strong exporter of meal, I think that bodes well for crush margins in North America and also in Europe.

Operator

We now have the next question from Vincent Andrews of Morgan Stanley.

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Steven Kyle Haynes - *Morgan Stanley, Research Division - Research Associate*

This is Steve Haynes on for Vincent. I wanted to ask a question on the biosolutions business and the $100 million of annualized revenue in 2021. And if you could maybe just provide some more color on specific end markets where you're getting those wins and then how to think about the size of that going forward.

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

Yes. Thank you for the question, Steve. Listen, we are very excited about how that business is developing. I think we recognized in the past that, that business happened almost -- while we were not watching, and it was a customer pull more than our push. And now we have a segment approach to that. We have intentionality in developing that market. And that, as such, the opportunities have flourished.

I would say a strong contribution from packaging; a strong contribution from fermentation, just we're helping other people that are creating some of these materials out of plant-based; personal and home care, very important segment that is growing; and a growing contribution from pharma, construction and plant treatment. So as you can tell, as we continue to deploy marketing resources into some of these segments, we continue to have success. So there are some segments that are more developed and larger for us and some segments that are more incipient. But I think it's going very well. We are working on the product mix as, sometimes, the growth is faster than our capacity. So we're trying to accommodate that. And we're going to be having more capacity coming up soon to be able to sustain this 10% growth rate of revenue that we have.

Operator

We now have Ken Zaslow of BMO Capital Markets.

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

Let me just take a different approach. When you think about your -- you talk about all the things that are happening on the demand side, but at your Analyst Day, you kind of did talk about the cost structure increasing and that there were going to be some headwinds. As I look forward, these headwinds don't seem to be materializing to the extent. Or are they? And can you frame how you kind of put it during the Analyst Day and where you see they are going through -- no, what are you seeing now, where you see them to 2022? And are you really seeing them develop the way you thought they were? Or are they a little bit lower than you thought?

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

Yes. The dynamics here, Ken, of course, is we have forecasted or accounted for some -- the potential reversion of margins and some inflation, of course, that we were going to have. And that is difficult to estimate, the timing. And then we have productivity and innovation that is going to be growing in their impact as some of these projects develop.

So when we look at, if you will, at the negative side of the equation, at the positive side, we can control. On the negative side, we've put together several scenarios. And I would say the biggest manifestation of that, at this point in time, has been energy inflation and inflation from some smaller products. We suffer probably more of this and some supply change disruptions and labor shortages that you probably hear every company talking about.

I would say from an energy perspective, the impact is probably more on Europe, whether it's on crush or Carb Solutions. That's where we see the impact. And we have our team basically working on energy efficiency and shaving some percentages of that increase and also our hedging mechanisms and all that.

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On the raw material side and the supply chain disruption, that's probably more the territory of Nutrition. Nutrition, as you can imagine, has more variety of raw materials and more SKUs. So the complexity of that business makes it more exposed to some of these headwinds. So that's the way we're looking at that. It's more the European energy increase and some of the Nutrition one-offs that are here and there on supply chain.

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

My second question is -- and I appreciate that. On the China side, I think the last call or the call before, you kind of outlined how the demand is growing. I know 2021 was an extraordinary year for China demand. How do you think that's going to play out in 2022 and 2023 in terms of -- will there be a mix change? Will there be increased demand? How do you kind of think about it relative to your business model? And I appreciate your time as always.

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

Yes. Thank you, Ken. Listen, we think that China has recovered from the ASF. They recovered from ASF. And you saw the dynamics in terms of pork prices coming up and down. We still believe that they will import some -- they will import soybeans in the high 90s, 96, 97 million, give or take and around probably 25 million tons of corn.

Again, when -- we are watching the way they are managing through COVID challenges, but we expect demand will continue to grow. It continues to be supported by improved diets and professional feeding practices. Even if we see some moderation of GDP, we think that -- we've seen per capita consumption of the top 4 meat basically increases. And even if they corrected a little bit -- they correct versus 2021, they are still much bigger than pre-ASF and pre-pandemic.

So we can fit it with the numbers here or there, but still it's going to be very strong. And as I said, probably 96 million, 97 million of soybeans, 25 million of corn, that will provide a good base for the grain industry and the crushing industry.

Operator

We now have a question from Ben Kallo from Baird.

Benjamin Joseph Kallo - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

Ray, you touched on the regulatory environment just in your ethanol comments, but maybe just on a broader level just maybe around renewable diesel, if you guys could talk about that. And then on the legislative front, I hate to ask because it's anyone's best guess, but how you see maybe the blender's tax credit and anything around aviation fuel evolving?

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

Yes. On the biodiesel, as you know, the current blender's credit continues until the end of 2022, December 31, 2022. So we're -- actually, we're looking at what's happening on the legislative agenda in Washington on the BBB program to see whether it gets renewed. But historically, what you've seen is the -- both -- frankly, both parties are supportive of the biodiesel industry. It's important for United States. So even if something doesn't occur on BBB, we're optimistic that the blender's credit will get extended in one way or another through some form of legislation as we kind of move through the year.

And if you recall, sometimes it happens after you get through the end of the year and then you have a retroactive biodiesel tax credit, which we've seen in the past. So we actually feel confident that something will occur there in order to kind of continue with the blender's credit on the biodiesel tax credit.

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On the SAF front, as you know, this is something that we're working on right now with different partners. It is going to be an important part of the fuel industry in the future as we go green in terms of aviation fuel. So just based upon frankly, again, the support we see in terms of the direction of SAF, we're optimistic that some form of legislative -- yes, some form of legislative actions to be taken to support the sustainable aviation fuel industry, the SAF industry.

And again, it's a nascent industry right now, right? Very few gallons are being produced, but projections show that by 2030, there's going to be a need for about 4 billion gallons of sustainable aviation fuel in combination of the United States and Europe. So it's a significant growth industry, and probably, there's going to be some level of support required in order to start up this industry here.

Benjamin Joseph Kallo - *Robert W. Baird & Co. Incorporated, Research Division - Senior Research Analyst*

And just on the -- back to the renewable front, could you just talk about any areas that you're watching? I know we talked about the supply side and how you discount these new production facilities coming online. But can you talk about the demand side and where you're seeing the incremental demand coming from, the regions that we already know out there, new regions?

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

I mean the demand side is really driven by the different states implementing low-carbon fuel standards, LCFS standards, particularly starting out in the West, but frankly, it's going to get extended across all of the United States and Canada. So the demand side is there, right, as all the states move towards LCFS standards. And frankly, the industry is just simply trying to respond to that demand by building the supply to meet that particular requirement there.

Operator

We now have a question from Steve Byrne from Bank of America.

Stephen V. Byrne - *BofA Securities, Research Division - MD in Americas Equity Research & Research Analyst*

Do you think that soybean oil will represent the majority of the feedstock for this 5 billion gallons of renewable diesel?

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

It's going to represent an important part of it. I mean as demand rolls for renewable green diesel, it's going to require the pull for many sorts of feedstocks. And in fact, it's very likely that even canola oil will find a pathway eventually to become part of a feedstock for renewable green diesel. But we still believe that maybe about 45% of the production will come from soybean oil, eventually a small production out of the canola oil that I referenced here. So it is going to be an important component because there's just insufficient amount of that they used cooking oil and other types of feedstock, fats and renderings. There's just not enough supply in order to kind of meet this growing demand.

Stephen V. Byrne - *BofA Securities, Research Division - MD in Americas Equity Research & Research Analyst*

Believing your 45% is 30 million acres of incremental soybeans, which I don't think is going to happen, does that mean soybean exports get squeezed out and, instead, it gets crushed, the oil goes into R&D and you export the meal?

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

We've indicated we believe that a lot of the U.S. soybean oil exports will actually come down. You're correct. I think there's going to be a diversion away from exports to soybean oil. There could also be some diversions away from even food applications. There's going to be a daisy chain effect that goes on, which frankly is actually supportive for the entire vegetable oil complex around the world, right? So I think there is going to be some daisy chain effects that are going on in order to kind of meet this type of demand.

Stephen V. Byrne - *BofA Securities, Research Division - MD in Americas Equity Research & Research Analyst*

And then what about your Slide 15 where you show forward sales by farmers in South America being below historical averages? Do you attribute that to the uncertainty that they are seeing with their current crop, just from either drought or excessive rain? And if grain and oilseed production is lower there in 2022 or the rest of the world for that matter, is that a net benefit to you in trading?

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

Steve, this is Juan. So what you're seeing from the farmer in South America is reflective of both things: one is the current impact in South America; and the second is, as you see, they are looking at the -- what happened with the size of the crop.

In terms of whether it's beneficial for ADM or not, our role is to try to fulfill our mission of providing nutrition around the world, and that's where we use our supply chain to make sure that we deliver to our customers and we deliver to the populations around the world. So sometimes, it coincides with margin expansion in some part the business. Sometimes, it may not. We like the fact that there is a strong demand around the world, and that tends to be good for ADM.

Operator

We now have our next question from Michael Piken of Cleveland Research.

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

Just wanted to sort of get your take on kind of the current transportation system and the outlook at the ports. Both at New Orleans, are we fully recovered from the hurricanes and then kind of the barge system? And what's happening over in the ports in China? And what's sort of the backup? And your business -- is this kind of flowing normally? Or how backed up is it?

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

Yes, Michael, good question. Talk about -- let's talk about China. Some slight COVID-related challenges in China are impacting ports. But to be honest, the situation has improved. Initially, we got the highlights. But in general, port situation continues to improve. And maybe we have average waiting about 2, 3 days for bulk cargo in agriculture in most main ports. So I would say China is kind of okay.

We've seen lineups or the moorage time increasing in Brazil. They're still boats exporting corn and importing fertilizers. And since the soybean crop is a little bit delayed, we're seeing more -- we're seeing waiting times kind of doubled from maybe 15 days to 30 days in Brazil. And that's pushing some volume into North America for maybe March, April deliveries.

North America export capacity has recovered for the most part. I think there is one plan that was going to have some long-term or medium-term, if you will, repairments. But for the most part, the export capacity has been recovered to pre-Ida level at least for us. And I would say in terms of the river, the Illinois River, there is a lot of freezing, and there is a lot of icy conditions that have slowed down the river movement. And we see that, and that probably will happen -- will continue.

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

Great. That's helpful. And then just as a follow-up, what's the elevation margin outlook as you guys kind of see it for the year?

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

We've seen -- as you know, we have the impact of Ida in the Q4. We had the demand, but we didn't have the ability to supply. So a lot of that volume was moved into Q1. And we have seen the elevation margins increasing in Q1, so a little bit as expected. And so we feel good about how to satisfy that demand.

Operator

Our last question comes from Eric of Seaport Research Partners (sic) [Seaport Research Partners].

Eric Jon Larson - *Seaport Research Partners - Research Analyst*

Congrats on a great quarter. Great year, everyone. So I know this has kind of been beaten to death, and it's -- obviously, it's very important. So if you -- if again, on the renewable -- if you just take a renewable green diesel market, if you just look at the amount of feedstock that's required to meet to kind of get to that 2025 goal, your goal of 5 billion gallons, it's -- and I think it was alluded to earlier with that 45% comment, it's 30 million acres of increased -- it's the equivalent of 30 million acres of soybean production, which it just isn't going to happen. So -- and I'm sure -- and I know that Greg and Chris are all over this. The -- doesn't this -- if you -- it's got to be -- it is a global market. It will be. Doesn't this just feed right into your -- into a very positive long-term outlook for Ag Services that you're going to have to be able to pull globally a lot of resources in to meet these demand functions, but that's what makes it possible. Is that the way to look at this?

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

Yes. I think, Eric, when you have one explosion of demand in one place of the world, resources from around the world will come. And as Ray was saying, maybe we're going to export less. Certainly, we may import more. And there are going to be shifts between the different products. So I would say we continue to be in a world that requires more food and also that requires to help the environment. It has been a structural change in demand for us. And for a company that have assets around the world, that probably means better utilization of those assets and better value of those assets as we try to solve these issues, yes.

Eric Jon Larson - *Seaport Research Partners - Research Analyst*

Good. And so the final question I have, and a lot of those have been answered already. So when you -- when we look at the current year in terms of U.S. crop production, so what are you hearing from your farmer clients? Obviously, it looks like we're putting a bid in the corn markets today to get more corn production. There's a lot of uncertainty with input costs and all the other stuff. What is your feel for how -- and it's early, but it's not so early any more. It's getting closer to time. What is your feel on how the crop production outlook looks for this year kind of by crop?

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

Yes. We expect a strong U.S. planting. Of course, some of those decisions, as you said, is getting the time to make those decisions. And a lot of people are looking at the South American weather. South American weather is very strange at the moment. There's very dry conditions in Paraná or the south of Brazil and maybe Argentina. And it was a little bit too wet in the north. Numbers in the north are coming strong in terms of yield for Brazil. I think that the recent rains have stopped the deterioration of the crop in Argentina and the south of Brazil and probably with Paraguay having already felt the damage.

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So we believe in the U.S. We still believe that probably corn will outpace soybeans in terms of acres. So we probably think about, I don't know, something like 93 million acres of corn, 87 million acres of soybean, give or take. And I understand the dynamics about fertilizers and all that. But I think given the prices of last year, I think that the prime land will probably maintain the same mix.

Eric Jon Larson - *Seaport Research Partners - Research Analyst*

Yes. No, I would agree with you. Juan, again, congratulations on a great year.

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

Thank you. Thank you, Eric.

Operator

I would like to hand it back to Vikram Luthar for some closing remarks.

Vikram Luthar - *Archer-Daniels-Midland Company - Senior VP, Head of IR & CFO of Nutrition*

Thank you, Brieka. Thank you for joining us today. Slide 13 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 great day, and thanks for your time and interest in ADM.

Operator

Thank you, everyone, for joining. That does conclude today's call. You may disconnect your lines, and have a lovely day.

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