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EDITED TRANSCRIPT

ADM.N - Q1 2022 Archer-Daniels-Midland Co Earnings Call

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OVERVIEW:

ADM reported 1Q22 EPS of $1.90.

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PRESENTATION

Operator

Good morning, and welcome to the ADM First Quarter 2022 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, Michael Cross, Director of Investor Relations. You may begin.

Michael Cross - *Archer-Daniels-Midland Company - Director of Investor Relations*

Thank you, Emily. Good morning, and welcome to ADM's First Quarter Earnings Webcast. Starting tomorrow, a replay of today's webcast will be available at adm.com.

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 risk and uncertainty. 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.

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On today's webcast, our Chairman and Chief Executive Officer, Juan Luciano, will provide an overview of the quarter and highlight some of our accomplishments. Our Chief Financial Officer, Vikram Luthar, will review the drivers of our performance as well as corporate results and financial highlights. Then Juan will make some final comments, and our Vice Chairman, Ray Young, will join us for 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, Michael.

This morning, we reported first quarter adjusted earnings per share of $1.90. Adjusted segment operating profit was $1.6 billion. Our trailing fourth quarter adjusted EBITDA was about $5.3 billion, and our trailing fourth quarter average adjusted ROIC was 10.6%.

What we saw in the first quarter was an extension and amplification of the factors that supported our growth in 2021. First was our team's great execution. Exceptional growth in Nutrition and effective risk management exemplified how we continued to serve our customers and provide nutrition around the globe amid volatile market conditions and an inflationary environment. Second was an environment of tight supply and demand. We operated in the first quarter in a constrained supply environment for crops, mostly driven by the smaller South American crop, and for other products driven by some continued supply chain and labor availability issues. And we continued to see solid global demand across most of our products and in most regions. While the pandemic is not over, and we're particularly monitoring the impact of rising cases and lockdowns in China. Much of the world continued to emerge. Pent-up demand remained solid, even in the face of higher prices.

The great work our team did was in service to our customers, our company and our purpose. Our company has come together once again in the wake of the unprovoked and unjustified invasion of Ukraine. ADM has about 650 colleagues in Ukraine, and of course, our highest priority continues to be supporting and protecting them and their families as well as helping Ukrainian farmers to get as much of their crop production as possible into world markets. Our thoughts and prayers remain with the people of Ukraine.

Slide 4, please.

Food security is foundational to ADM's purpose and beliefs, and recent events have only magnified its importance. From a global pandemic to the short crop in South America to the conflict in Ukraine, it has become clear that we cannot take an abundant and efficient supply of food for granted. Even beyond the current dislocations, this issue will remain one of critical importance over the next many years.

As the global population grows, the need for Nutrition will continue to grow with it.

At our Global Investor Day last December, we talked about how we expect demand to push global trade flows of corn, wheat, soybeans and soybean meal up 21% or 130 million tons in the next 10 years. Meeting that demand will not happen automatically. It will take dedication, expertise and agility as well as global scale and capabilities.

An example of that is ADM's destination marketing network, which gives us a presence in more regions where demand is strong and growing as well as more direct connections to customers and the ability to offer the full end-to-end capabilities of our integrated value chain. We are seeing how important that is today as customers are coming to us knowing that they can rely on ADM to meet their specific needs in a supply-constrained environment.

We are not immune to the impacts of global disruptions, including those in the Black Sea region, but our broad portfolio of nutrition products and our ability to efficiently move them around the world will allow us to manage through these dynamic market conditions and continue to help support the food needs of billions of people.

Please turn to Slide 5.

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Sustainability is another one of the global trends so important to our company's and our planet's future. We remain focused on our strategy, which is aligned with fast-growing demand for an array of products that are environmentally friendly, including alternative projects. That industry continues to show impressive growth. Global sales for alternative meats and dairy products are expected to increase 14% annually, reaching a targeting $125 billion by 2030.

When you look at the full range of products that alternative proteins could go into, from meat alternatives and meat extensions to emerging categories like ready meals and specialized nutrition, the opportunities are even greater. Our own growth in this area is faster than the industry's. The quality of our product, our integrated end-to-end value chain, our innovative product development and application capabilities and our global scale make us the partner of choice for our customers. In fact, we never had a stronger demand for our alternative protein products that we are seeing now, and we are confident in continued growth.

That is why earlier this month, we announced a significant investment to nearly double extrusion capacity at our Decatur, Illinois specialty protein complex. We also announced the industry's first end-to-end alternative protein innovation center. This, of course, follows up our last year's addition of leading European alternative protein provider, soy protein.

Alternative proteins are just one of the many areas in which we are expanding our capabilities to meet growing customer demand for more environmentally responsible products. Our biosolutions team, for example, continued to expand its pipeline and advance the evolution of our Carbohydrate Solutions business with an impressive $55 million in revenue growth in the quarter.

Please turn to Slide 6.

We are advancing sustainability commitments in other parts of our business as well. Last year, we unveiled new goals to reduce Scope 3 emissions and eliminate deforestation from our supply chain. This is critical work. We do not make these kinds of commitments without an achievable plan to meet them, and once we move forward, we constantly challenge ourselves to do it faster. That is why last week, we announced that we've accelerated our deadline for a completely deforestation-free supply chain by 5 years from 2030 to 2025.

We also recently committed to work with the science-based targets initiative, with the goal of obtaining their approval of ADM's climate target and our alignment with ambitious global goals to limit rising temperatures to 1.5 degrees Celsius.

Across ADM, we are continuing to align our portfolio with the world's growing needs and with our own purpose, positioning us to serve our customers, our communities and our planet and power in our future.

I'll discuss our business outlook at the end of our call. But in the meantime, I'd like to turn to Vikram to talk about our business. Vikram?

Vikram Luthar - *Archer-Daniels-Midland Company - CFO & Senior VP*

Thanks, Juan. Slide 7, please.

The Ag Services and Oilseeds team effectively managed risk and executed exceptionally well in a dynamic environment of robust global demand and tight supply, driven primarily by the short South American crop. Ag Services results were significantly higher versus the first quarter of 2021. Global trade results were higher, driven by strong performances in destination marketing and global ocean freight. North American origination margins and volumes were lower year-over-year, including approximately $75 million in negative timing effects, which will reverse in the coming quarters.

Crushing was higher year-over-year in a strong global margin environment driven by robust protein and vegetable oil demand. Improving margins in the quarter resulted in approximately $60 million in negative timing effects, which will reverse in the coming quarters, versus approximately $50 million in positive timing in the prior year quarter.

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Refined Products and Other results were much higher than the prior year period, driven by healthy refining premiums and good refined oil demand in North America as well as strong biodiesel margins in EMEA.

Equity earnings from Wilmar was significantly higher versus the first quarter of 2021.

Looking ahead, we expect substantially higher Q2 AS&O results than the second quarter of 2021.

Slide 8, please.

Carbohydrate Solutions delivered substantially higher year-over-year results. The Starches and Sweeteners subsegment, including ethanol production from our wet mills, delivered much higher results versus the prior year quarter driven by higher corn core product revenues, improved citric acid profits and excellent risk management in North America, higher volumes and margins in EMEA and higher volumes and margins in wheat milling. Sales volumes for Starches and Sweeteners continued their recovery towards pre-pandemic levels. And as Juan mentioned, our biosolutions platform continued to deliver impressive growth, with $55 million in new sales as demand for plant-based products expands into more diverse applications.

Vantage Corn Processors delivered solid execution margins, but position losses on ethanol inventory, as prices fell early in the quarter, drove lower results versus the prior year. The prior year quarter's results also benefited from demand for USP-grade industrial alcohol from the Peoria facility, which was divested in Q4 2021.

Looking ahead to the second quarter, we expect the current market dynamics to continue, delivering Carbohydrate Solutions results similar to the very strong second quarter of 2021.

On Slide 9, the Nutrition business delivered continued strong profit growth. Revenues increased by a very impressive 23%. Even when adjusting for currency effects and removing the impacts of recent acquisitions, revenue was up by 17%. And while margins have softened somewhat, they remain healthy.

Human Nutrition delivered higher year-over-year results. Flavors continued to deliver solid revenue growth, offset by some higher costs. Strong sales growth in alternative proteins, including contributions from our soy protein acquisition and positive currency timing effects in South America, offset some higher operating costs to help deliver better year-over-year results in Specialty Ingredients. Health and Wellness results were also higher year-over-year, powered by continued growth in probiotics, including our late 2021 Deerland probiotics acquisition and robust demand for fiber.

Animal Nutrition profits were nearly double the year ago period due primarily to strength in amino acids driven by a combination of product mix changes, improved North American demand and global supply chain disruptions.

Looking ahead, we expect Nutrition to deliver a second quarter significantly higher than the prior year period. And with our recent acquisitions delivering ahead of our expectations, we are raising our profit growth outlook for the full year from 15-plus to 20%.

Slide 10, please.

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 better performance in captive insurance, including reduced claims settlements versus the prior year. Some of the claims settlements that we expected to negatively impact Q1 results are now expected in the second quarter. Net interest expense for the quarter was higher year-over-year on higher expense for long-term debt, higher short-term borrowings to support working capital needs and interest related to a tax item.

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In the Corporate Lines, unallocated Corporate costs of $209 million were due primarily to higher IT operating and project-related costs and higher costs in the company's centers of excellence, partially offset by incentive compensation accrual adjustments. The effective tax rate for the first quarter of 2022 was approximately 16%. For the full year, we are now anticipating an effective tax rate at the higher end of our previously guided range of 16% to 19%.

Cash flow generation remains strong, $1.6 billion before working capital changes versus $1.2 billion in the prior year period. Our balance sheet remains solid with a net debt to total capital ratio of about 34%, and available liquidity of about $9.3 billion, even with almost $3 billion in higher working capital needs since December.

With that, I'll turn it back to Juan.

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

Thank you, Vikram. Slide 11, please.

As the strong start of the year, we are looking ahead. In the near-term future, we expect lower crop supplies caused by the weak Canadian canola crop, the short South American crops and now the Black Sea disruptions, to drive continued tightness in global grain markets through 2022, well into 2023 and perhaps beyond. As we look further ahead, markets will continue to reflect the importance of the enduring global trends that are fueling performance across our portfolio including a growing global population, driving expansion in demand for full and healthy nutrition.

That is why the work we've done to build a better ADM is so important. We have the global integrated network, risk management capabilities and diverse product portfolio to help us navigate through tight market conditions and meet global nutritional needs. This is the challenge we expanded, improved and repositioned our business to meet, and we'll continue to advance our strategy and grow our capabilities through our productivity and innovation initiatives in order to drive performance under our control and deliver on the evolving needs of our customers.

But it doesn't stop with ADM. Our working with other participants across the food and agriculture value chain, from farmers who continue to do more every year to sustainably increase production to technology providers who offer new ways to make more with less, to governments who, in a tight supply and demand environment, should resist the impulse to impose export restrictions.

So looking at the balance of the year, when we combine the strategic work we have done to align our portfolio with fundamental global trends with our strong execution and the expectation of a continued tight supply-demand environment, we expect 2022 results to substantially exceed 2021's. And as we look further ahead to a future of increasing needs for more and better foods, we will continue to work to add new adjacent products to address the world's toughest challenges and unlock the power of nature to enrich the quality of life.

Once again, I'd like to thank our colleagues around the globe for their commitment and hard work to serve vital global needs in a challenging and dynamic environment.

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

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Our first question today comes from the line of Adam Samuelson with Goldman Sachs.

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

So I want to -- Vikram, I guess first question. Just as we think about the current market environment, obviously, a tremendous number of moving pieces, I guess I'm trying to calibrate some of the things that could prove more enduring to the business. And the one that sticks out, I mean, is inflation broadly. And I'm thinking about energy costs and what that -- especially in Europe, thinking about construction costs for new plants. I'm just trying to think, specifically in Oilseeds, how higher operating costs in Europe, higher replacement costs as we're thinking about new builds, how that might be impacting oilseed crush margins around the world? And do you think that has a bit longer tail to it? And I would think that benefits you, given your footprint is principally in the Americas.

Vikram Luthar - *Archer-Daniels-Midland Company - CFO & Senior VP*

Yes, Adam. Thanks for the question.

Yes, in terms of energy costs, clearly, we are not immune to that and we've seen an elevation in energy costs. As you well know, we have a program to actively hedge our program. So I think to a large degree, we've been successful in doing that. Nevertheless, in places like Europe, where energy costs have been significantly elevated, yes, that's had an impact on net margins.

But as you look at the broader dynamics, we continue to see very strong outlook in terms of vegetable demand as well as protein demand. And as you see, most of the grain flows, given what's happening around the world particularly in the Black Sea region and the short South American crop moving to North America, that should actually support us in terms of our footprint. So the structural changes associated with RGD remained very much intact. So we think longer term, we feel very confident about the move higher that we cited in the Global Investor Day in terms of crush margins. And for 2022, in particular, we see even more strength, given some of the near-term dynamics I just referenced.

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

Okay. That's helpful.

And then I guess the second question is more on capital on the balance sheet, and I think it was impressive to see in the quarter the growth in inventory. You have the committed credit capacity basically being unchanged from year-end. And I'm wondering how you think about that as a strategic asset and the opportunities it presents both in terms of merchandising and risk in the short term, but also if the M&A pipeline is maybe improving as some others may not have the liquidity that you do in the current high commodity environment?

Vikram Luthar - *Archer-Daniels-Midland Company - CFO & Senior VP*

Yes, Adam, we clearly view our balance sheet as a competitive advantage. And in terms of capital allocation, we've talked about this before. Our capital allocation is inextricably linked to our strategy.

In terms of the guidelines, in terms of the framework, we've articulated about 30% to 40% of our cash flow as we all direct towards capital expenditures, and the remaining 60% to 70% for strategic growth investments. And given our balance sheet flexibility, we are clearly in a position to undertake some of those growth investments, including M&A, if that becomes attractive. But also shareholder distributions, including 30% to 40% towards dividends. As we cited in Global Investor Day, we expect dividend payouts to be actually at the higher end of that 30% to 40% range in the near to medium term.

But at the end of the day, if you step back, think about the operating cash flow we generated, $1.6 billion in Q1. So we should be in a position to conduct meaningful buybacks as well in the medium term, as we noted in the Global Investor Day. In the near term, we will repurchase shares to at least offset dilution.

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

Great. That color is all really helpful. I'll pass it on.

Operator

Our next question is from Ben Theurer from Barclays.

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

Perfect. Juan, Vikram, congrats on the strong results.

I wanted to ask a question around just the global freight and global trade environment, and obviously, with some of the backlog that's been caused on unloading ships over in China because of all the lockdowns. Have you seen or are you seeing any incremental disruptions over the last couple of weeks that you think is going to cost greater opportunities for you guys within the next coming weeks to excel here, and to ultimately deliver a strong quarter on the AG-service piece, just similarly to what we saw already in 1Q?

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

Yes. Thank you Ben. Good morning.

Of course, we've been dealing with supply chain issues for a while, and I think that the situation in China has nothing more than just bring back more challenges, if you will. We see the number of ships in congestion, if you will, from capesize, Panamax, Supramax and handysize have increased over the last week, increases about 10% give or take, depending on the category. So I think that's especially complicated as you see that because of the different conflicts and different shortages in crops that we have, some of these trading flows around the world that are being redirected. So you redirect trading flows with maybe less ship availability and higher freight and longer travel times.

So the situation continued to be dire, and that's why it's so important to have a team, a global team, very active with many options to provide supply and then to reach different destinations. So the combination, if you will, of our global trade with the destination marketing and all that, becomes more and more important every day for customers around the world.

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

Okay. Perfect. I'll leave it here so you can stay on track.

Operator

The next question comes from the line of Tom Palmer with JPMorgan.

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

Maybe just a follow-up on the outlook for the second quarter in the AS&O segment, maybe just a little commentary on the subsegment expectations. Are you expecting year-over-year profit increases across all 3 of the subsegments? Are there any to call out of particular strength?

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

Yes. I would say our first quarter was -- showed strength across the 3 businesses, very good performance. And as we look at Q2, probably we see the same. There was some reduction in exports in Ag Services in the first quarter because of weather issues and some of that has been moved into the second quarter, so we have a good book there. China has put some orders also for corn Q2 and Q3, we expect crush profits to continue to be very strong in the second quarter. Certainly, refining margins also very good.

So I would say demand has been domestically strong for soybean meal in North America and certainly, a lot of demand around the world for that. So we continue to see crush very well supported by the oil and the meal. We continue to see demand for our exports in the second quarter. So had the window effects for North America, we will have expanded a little bit. And certainly, the refining materials are -- they've maintained very strong margins.

If you look at last year, we entered into Q1 with low margins and we ended with strong margins. This year has been strong margins across the quarter, and we expect that to continue into the second quarter.

Operator

Our next question comes from Ken Zaslow from Bank of Montreal.

Apologies, we have lost Ken.

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

I want to ask about the Nutrition business. Strong results in the first quarter, you noted it. Versus the prior expectation of 15% plus, now 20% growth for the year. You called out acquisition contribution or the performance of acquisitions. Is that a fair breakdown of organic versus inorganic growth, thinking about maybe 15% organic growth plus 5% inorganic? Or how would you delineate between the 2 contributing factors?

Vikram Luthar - *Archer-Daniels-Midland Company - CFO & Senior VP*

Well, so as we talked about -- I referenced in my comments, Ben, the revenue growth, right, was 23% and if you exclude M&A and adjusted for FX, it was 17%. So strong revenue growth frankly, across Human Nutrition and Animal Nutrition.

The reason our profits were stronger than what we had guided in Q4 were threefold. One is, we did expect some upfront costs that we cited, and we had anticipated inflationary cost pressures and supply disruptions. However, with the smart pricing and active supply chain collaboration with our AS&O Carb Solutions teams, we manage these very well across all the Nutrition businesses.

The other aspect is we talked about industry-leading win rates in our Global Investor Day. Actually, our win rates are even expanding beyond that.

And the second point is, as you referenced, the OP contribution from our M&A were actually higher than expected.

The third point is amino acids. Because of the deliberate switch we made from dry to liquid lysine last year, combined with the strong North American protein demand and the supply chain disruptions, our contribution from amino acids business was actually higher. So really, it's a reflection of those 3 factors that resulted in higher-than-expected nutrition profit for Q1.

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

Okay, great. I'll get back in the queue.

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Operator

We do have a question on the line now from Ken Zaslow with Bank of Montreal.

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

When I think about longer term, you guys set out 2 targets: One, high single-digit growth, and then the $6 to $7 outlook by 2025. Given the operating environment, I know you just literally just put this out, so it's hard to change it on a change of environment. But how do you see that? Do you think that the growth rate is higher? Or do you think that the ability to get to the $6 to $7 comes earlier than expected given the favorable operating environment?

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

Yes. Thank you Ken. Good question.

Listen, when we put the plan in front of shareholders in December, we're just -- mostly to explain how our company and our business model and portfolio continues to evolve, aligning ourselves with markets of higher growth rates and actually higher margins. And so what we can control, as you can imagine, is a portfolio, capital allocation and our execution, so we focus on that. So directionally, we're going into that, and we just put a milestone there to have a reference for investors.

Of course, at this point in time, we're going to hit those numbers earlier. It is obvious. But I think we don't worry that much of the pace. It's more important for us the direction we're going is higher margins, higher growth rates. The pace, sometimes, is dictated for outside events in which our team and their execution are supposed to capitalize as much as possible into them.

So do you ask me, is it going to be $6 to $7 in 2025? Certainly, it's going to happen sooner than that. But again, I think it's important to keep the team, continue to build that better company. With Vikram's explain how we have generated $1.6 billion of cash flow in this, that gives us much more optionality on how much to accelerate that shift of the company into higher margin and higher growth rates.

And to be honest, after we have created Nutrition; and Nutrition, we continue to upgrade targets even if they make $700 million last year, we are now focusing on building the next scale business. We're looking at microbial solutions and how that will drive the next generation of food and proteins. We're looking at climate solutions or biosolutions, which will drive the next generation of sustainable products. And also microbiome modulators, which with the pre, pro and postbiotics, will drive personalized health and nutrition.

And let me remind you and the shareholders, contributions for all these 3 elements that we're thinking on building was basically muted during the forecast that we showed in the December Global Investor Day. So we feel very good about the existing business is delivering $6 to $7 maybe earlier than expected, but we having the capabilities to build the next scale business for ADM.

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

Great.

And then my follow-up question is when I think about the renewable diesel and the way it's going to happen and with the backdrop of inflation, how does the balance between the renewable diesel kind of going versus the potential for inflation to curtail that? Or do you see that renewable diesel already -- the horse is already out of the barn, that, that momentum is going to continue, versus is there a potential that the inflation can kind of either elongate the timing of it or delay anything? And then I'll leave it there, and I appreciate your time.

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

Thank you. Ken. Good questions as always.

Listen, first of all, let me say on that, that I'm very proud that our team -- and remember, when we announced Spiritwood, we said we've been looking at that for 2 years. So we took into consideration all these aspects, and -- so our project remains to be -- remains on schedule to deliver on the harvest 2023. So most important, what we can control. That project is going well, and we're managing through inflations and delays, so proud of the team there.

Listen, at the end of the day, we still expect the significant new capacity will come online. Of course, when there are so many announcements in any industry, you're going to have a percentage of that being -- coming on a stream. I think that there may be some variability on the timing of all that. It doesn't escape anybody that there are labor availability issues especially in the U.S. Certainly, raw materials, whether it's steel or energy or whatever, are more expensive than whenever some of these things were announced, and maybe the builders of this hedged, the raw materials exposure or both things in anticipation.

But I would say if there is some delay, it may not be bad to allow crush expansions to actually come on stream so they can provide the soybean oil for all these plants to run, and we also wait for canola to have a path to that. So I think, listen, the industry will develop. It may have some short-term issues here or there, but at the end of the day, a significant piece of new demand for soybean oil is being built and will be built.

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

Perfect.

Operator

Our next question is from Steve Byrne from Bank of America.

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

Yes.

Given those comments you just made there, Juan, about the outlook for renewable diesel, and you also had comments in your slide deck about your own views about the demand growth for alternative meat and dairy which could potentially lead to less demand for soybean meal. I'm curious to hear your own view on, do you see any challenge here meeting what might be a disparate growth in demand for the oil versus the meal side of all of these crush plants that are going to be built?

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

Yes. No. Listen, it's a very good question. And we look at that, of course, with a lot of attention.

I think right now, when we see the capacity coming, it's all capacity needed actually to supply the growth of protein around the world. We see North America with very strong domestic demand for meal, but we see also North America soybean meal being the most competitive around the world. Especially now when you have issues in Argentina with some changes in DT, when you have short crops in South America, like we have had, and we continue to have a strong demand. We see also that customers are relatively open, so there's not a lot of inventory in the chain that at one point needs to be flushed out.

And when you look at what happened with feed and competitive feeds, certainly wheat, given the conflict in Ukraine, the unfortunate conflict in Ukraine, wheat prices need to go up high enough that they get out of the feeding rations so they can be preserved to feeding people. When you

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take that up, you bring corn, the most effective carbohydrate, and corn immediately brings soybean meal into the ration. So we not only see strong demand, but we see high inclusion rates staying.

And again, given the strong leg of soybean oil in North America, that will make soybean meal the most competitive in the world. So we actually are very positive about that demand, and we think that we need all the expansion to match the market share that soybean meal North America will take from the rest of the world.

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

Maybe just one more on the oil side and that is, what do you see as the global impacts of Indonesia's ban on palm oil exports? How does that affect the global supply of oil and your business in particular?

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

Yes. You know oils have been tight for several months already, if not a year. And of course, any announcement in the -- in the proximity of the largest producer of palm oil in the world rattles the market. Of course, it was immediately clarified that this doesn't include crude palm oil, which is the biggest product.

So I would say I think Indonesia is just trying to take a short-term palliative for their domestic inflation. I don't think it will significantly alter the global balances, although the global balances continue to be very tight. And any disruption, we have the Ukrainian disruption, of course, with -- and the Russia with sunflower oil. So this is an area that everybody has to pay a lot of attention. And it will require companies like ADM to having the ability to reformulate, so we can take some customers that are existing customers of either palm oil or sunflower oil to have alternatives to continue to supply their customers.

So we are seeing that through our -- on the next joint venture. We're seeing that through our Stratas joint venture, so -- and we've seen the opportunity to add a lot of value to some of the customers that are looking for replacements at this point in time.

Operator

Our next question comes from Robert Moskow from Crédit Suisse.

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

I was wondering if you could give us a little insight into your visibility into crush margins in the second half of this year? Are your customers locking in their commitments for demand and supplying you yet? And can you use that to lock in those margins?

And then I have a quick follow-up, if I could.

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

Sure. Yes, Rob.

As I said, I think that we have very strong visibility, of course, into Q2. I would say further than that, I think customers -- the markets are inverted, so customers see prices relatively high right now. Those customers that are not covered, they feel like maybe the course is showing them that they can get covered later at the cheaper rate than today. So I would say, in general, we have coverage for the next quarter, not for Q3 or Q4.

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But when we look at the demand that we are seeing around the world, we think that when you think about meal and oil in general, not only in North America but also Brazil, the crush margins need to be there to encourage the crushers to crush. We need the demand for oil and we need the soybean meal, so you will have to have the demand -- the crush margins to incentivize people to crush. And we are seeing that with the margins that are happening in Brazil or the U.S. or Europe, all our margins today are higher than what we anticipated. And we think that as the year rollout and demand continues to be solid out there and strong, crush margins will continue to send that signal to all of us crushers which is, we need the meal, we need the oil, keep crushing.

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

Got it.

And just a follow-up. You mentioned ocean freight being a big benefit, and I think it had to do with some redirecting of ships in China related to lockdowns. But I'm sure it also has to do with just overall moving freight from one destination to another and shifting directions. Can I assume that, that is a big benefit to you, and that could continue for the rest of '22? Or is it kind of like more episodic in nature?

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

Rob, we have -- as part of our global trade group, we have a strong ocean freight group. And they work hand in glove to make sure that we continue to serve the customers with the most effective destinations, the most efficient destinations.

So we are the big player, and as a big player with a lot of resources, we tend to have a relative advantage to others. So when things get complicated, and right now, they are very complicated, we tend to have a relative higher competitive advantage than others. So I think that shows in the margins there that we obtaining this.

And logistics right now are complicated. They are complicated in the river, they are complicated in the oceans, and there is a lot of redrawing of trade flows. And you can only redraw a lot of trade flows if you have a lot of origin options and a lot of destination options, because you need to connect both. And our ocean freight group counts with that blessing, which is ADM, originates in all the key parts of the world and have destination units in all key parts of the world. So it provides them with more ability to play routes than maybe other players.

Operator

Our next question comes from Vincent Andrews from Morgan Stanley.

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

Congratulations to Vikram and Ray on your new roles, and Ray, it was great to work with you all those years.

Juan, could I ask you just to talk a little bit about how you're thinking about the consumer and consumer demand maybe particularly in Europe, but I guess also globally? Just given we have a lot of food inflation, we have a lot of energy inflation. What do you think gives? Clearly, we need to destroy some demand just given how tight supply is. But how are you thinking about that equation this year into next year?

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

Yes. Listen, we are paying, of course, close attention to that. At this point in time, we haven't seen any significant impact on demand for us. If you think about -- so far, customers are paying higher prices, but they still -- especially in North America, they still haven't changed their behaviors.

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We think that, of course, if you have disposable income suffering from higher gas prices and higher food prices, eventually they will have to adjust. We have seen more, to be honest, Vincent, in the -- some of the emerging markets in which maybe food is a bigger percentage of their disposable income. So we have seen some adjustments, small adjustment in that.

But I would say, at this point in time, we have not seen any relevant or material adjustment to our demand. And we think that given the pent-up demand that existed from recovery of the coming out of COVID, people, in general, have been higher -- having higher saving rates. And we have seen wage inflation around the world that have gotten more money in the pockets of many. So at this point in time, we think consumer has been -- and demand has been very resilient.

But there's going to be a point in which disposable income will get tight, and we will see some changes into that. We haven't seen it yet. We don't see it in the immediate future either.

Operator

Our next question comes from Michael Piken from Cleveland Research.

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

I was wondering if you could talk a little bit about the impact of the Avian Flu here in the U.S. as well as internationally, and what that might look like in terms of the impact from meal demand?

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

Yes. Listen, Michael, we haven't seen at this point in time any significant impact to our poultry demand in North America. The numbers at this point in time seems to be about half the size of the issue that was in 2015. So it's something we're following very closely, of course, but we cannot say that we have had an impact so far.

And hopefully -- these viruses are difficult to control. So of course, there is a lot of sanitary elements being thrown at that. Hopefully, I would blockade, but we will have to keep a close eye to that.

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

Great. And a follow-up question, just shifting gears. Are you concerned about the movement of fertilizers throughout the world? I know you have a fertilizer business. But beyond that, just the impact if we do end up in a really tight grain environment. Are you -- how do you think, if there is a food versus fuel debate, how do you see that sort of playing out? And is there any risk to the ethanol volumes or the growth in biodiesel, or how do you sort of see that playing out?

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

Yes. On fertilizers, to be honest, Michael, of course, fertilizer supply chains are tight and it's been highly publicized. However, we get -- our evidence shows that trade lanes are adapting and markets are getting sufficient supply to fertilizer, of course, at much higher prices than they would -- drive prices for grain.

I think today, especially Brazil, the U.S. certainly has the fertilizer for this crop. So the question is the Brazilian crop, which is coming in a few months. And I think it's still possible what we get from our people in Brazil to get enough potassium fertilizer in country by the planting season. And of course, any shortages can produce production losses. But at this point in time, when people are thinking between maybe 15% or 20% less application,

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at that level, we don't think that we're going to see a significant change in the production forecast. It's probably more depending on weather at this point in time and rain than fertilizer application.

And the second was on food versus fuel. At this point in time, I think that we are committed to try to help the world with food and the environment, so they're both axis of the same equation. I would say they both touch disposable income. As I was saying before, if you get ethanol to reduce the cost of gasoline, that creates more disposable income to take on food inflation. If you take -- if you don't put any biofuels into gasoline and you pay more for gasoline, then you may get cheaper food, but you have less disposable income there.

So to be honest, I think the molecules react to the prices that they are given in the market, given the different regulations and the different values. And what we try to be is as efficient as possible, bringing as much of those -- as many of those molecules to the market as possible to satisfy everybody. So I think at this point in time, we have seen some corrections in certain biofuels mandates across the world. But in other countries, it has been only a reduction and not an elimination. So this, I think, with the short-term things -- because we still have the climate crisis, which is a long-term objective that -- mostly the transportation industry, but also every industry, will have to address, and biofuel or sustainable aviation fuels and all that are a big part of that reduction.

Operator

Our next question comes from Eric Larson from Seaport Research Partners.

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

Yes. Congratulations, everybody. And Vikram, I congratulate you on your new role. And Ray, you as well, I look forward to working with both of you on that, so congrats.

So listening to the call today, Juan, I hear -- as all of us, there's a lot of confusion, there's a lot of moving parts. So when I look back 10 weeks ago, I realized that U.S. grain prices had to move higher in order to even kind of -- even begin to maybe ration demand or not. And of course, it moved quite a bit higher.

So what I'd really like you to do, one, is kind of take a 30,000-foot viewpoint here. As we all know, price does ultimately ration demand, and the only thing I can see that would maybe do that at this point is maybe global recession or U.S. recession. So can you kind of -- I don't see a lot of demand destruction at this point. A little bit from bird flu, maybe it's 25 million bushels, which is a spit in the ocean, but do you see any significant demand destruction today -- and including what's happening in Ukraine and what they have in storage for corn and other things, what -- how do you look at the world today from a demand -- total demand perspective versus supply? And are we seeing demand destruction with high prices?

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

Yes. Eric. Let me see -- let me tell you how I see this.

So last year was a big production year, and the world needed to consume more grain than that big production. So the issue is the world continues to grow, and sometimes, it's not a matter of population growth, but it's a matter of income. And how people, like people in China, has been an incredible economic improvement of their standard of living that improved their diets. That doesn't go down. So we think -- that's why we keep on talking about our trend of food security. We will have to provide more for the world.

In situations like today where we are already tied from a supply-demand perspective, and we will get tighter as demand continues to grow, we see here in ADM that at least we need 2 very good seasons of crops in North America and South America to actually balance and become more comfortable in those supply-demand imbalances.

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When we think about prices today, prices today are going up to mark 3 things that needs to happen. One is export prices need to go up to being able to draw out all the inventories that are stuck there or they are safe, they are hoarded there, to be able to replace the production that we have lost. The production we have lost in South America, but the production we are losing now in the Ukraine and Russia. So first, you need to draw out those inventories and bring them into market so we can balance ourselves.

The second, as I said before, wheat needs to be placed out of the rations, so you can be preserved for human consumption. And the third one is to give farmers [like you] the signal that they need to plant more. And I think the world needs big -- more acres. Those acres today, they're not going to happen from the Baltic area. They're not going to happen from U.S. that we are basically maxed out, so that may happen in South America. So we need higher prices to bring South American acres. We need higher prices to draw those inventories into the market, and we need 2 good years of crops, both in North America and South America. That will allow us to balance the supply and demand, given the strong demand.

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

Yes. No, and I agree is that we need this year's crop in the U.S., next year's crop in Brazil, and we need 2023 in the U.S. to do very well again and maybe even another -- we need 4 maybe big crops around the world.

But sometimes, what rebalances some of this is this high inflation rate that we have around the world. There's an economic recession that comes in place. Have you factored anything into that forecast that would -- would change your outlook?

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

Eric, I'm not an economist, but I think there is a narrow path to achieve soft landing here. And the U.S. economy has been very resilient through all these events, so I think the U.S. economy is driven by the consumer. The consumer has been saving money for 2 years that they didn't spend a lot. And as I said before, they were COVID recovery packages, but there has also been salary inflation and wages inflation that has put money in the pockets of customers.

So I think that for the foreseeable future, we don't see a significant -- a significant impact of demand. If not, we will be finding that out. But we look at that, we look at our plans, we are preparing our plans for a long period of strong demand. We want to run them at high capacity. So at this point in time, I don't see -- I don't see an issue in the West. Maybe the only flag is how COVID lockdowns evolve in China, but that -- I don't have a lot of visibility at this point in time.

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

Juan. I appreciate your comments.

Operator

Those are all the questions we have time for today, so I'll now turn the call back over to Juan Luciano.

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

Thank you, Emily.

Before we close our call, I wanted to take a minute to thank Ray for his exceptional contribution all these years to ADM as our CFO. So thank you, Ray, and it's been a pleasure, and I'm delighted that you continue with us to continue to help ADM to be a bigger place.

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Ray Young - *Archer-Daniels-Midland Company - Vice Chairman*

Yes. Thank you, Juan. And also I just want to thank all the investors and all the analysts for really, like 11 years in this role, I've grown. I've learned from you. And hopefully, we've been also been able to teach you about ADM and how this is a great company. And the future is incredible for this company, and I look forward to continuing to support Juan and support the company in my new role. So thank you, Juan.

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

Thank you, and congratulations, Ray. And of course, welcome, Vikram, and this was your baptism of fire here in the earnings call. So thank you very much, and welcome to the role and looking forward to it.

Vikram Luthar - *Archer-Daniels-Midland Company - CFO & Senior VP*

Thank you so much, Juan.

Michael Cross - *Archer-Daniels-Midland Company - Director of Investor Relations*

Thank you, everybody, for joining us today. Slide 12 notes upcoming investor events in which we'll be participating. I will also note that our Annual Sustainability Report, which will detail our significant progress and our bold ambitions across the value chain, is scheduled to be published in May. 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

Thank you, everyone, for joining us today. This concludes our conference call. You may now disconnect your lines.

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