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ADM.N - Q2 2022 Archer-Daniels-Midland Co Earnings Call

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## OVERVIEW:

ADM reported 2Q22 EPS of \$2.15. Expects 2022 EPS to be above \$6.50.

## CORPORATE PARTICIPANTS

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

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

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

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

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## PRESENTATION

### Operator

Good morning and welcome to the ADM Second 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.

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### Michael Cross - Archer-Daniels-Midland Company - Director, Investor Relations

Thank you, Alex. Good morning and welcome to ADM's second quarter earnings webcast. Starting tomorrow, a replay of today's webcast will be available at [adm.com](http://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 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 the presentation. To the extent permitted under applicable law, ADM assumes no obligations to update any forward-looking statements as a result of new information or future events.

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 he and Vikram 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, Michael. This morning, we reported outstanding second quarter adjusted earnings per share of \$2.15. Adjusted segment operating profit was \$1.8 billion, and our trailing fourth quarter adjusted EBITDA approached \$6 billion. And our trailing four quarter average adjusted ROIC was 11.6%. Our team executed extremely well in the second quarter, navigating dynamic conditions to deliver nutrition to billions. And even as we work tirelessly to serve our customers and consumers around the globe, we are continuing to advance our strategy with productivity initiatives that are improving our efficiency and cost structure and innovation work that is powering profitable growth.

Slide 4, please. Productivity is how we are improving our execution and optimizing costs is key to our long-term success, but equally as importantly, our productivity work is helping us mitigate the impact of inflation. We have a very strong pipeline of productivity initiatives, and I will be updating you on them regularly.

There are 2 initiatives I'd like to highlight today. First is a set of operational transformation efforts we are driving across production facilities around the globe and spanning all 3 businesses. Earlier this year, we completed a modernization project in our Marshall, Minnesota corn facility that is unlocking significant new value through enhanced automation, more sophisticated control systems and the increased use of analytics. We're already seeing double-digit returns on the investment we made in that project. This is an example of the kinds of projects we're undertaking across our operational footprint, designed to unlock incremental volumes and deliver safer, more reliable, more cost-efficient operations.

Second, as we look to continue to grow returns, we want to focus not only on the numerator but also the denominator. Our original \$1 billion challenge and its follow-up, the next billion, help us drive to 10% ROIC. Earlier this year, we launched a new challenge aimed at monetizing assets and optimizing working capital to unlock another \$1 billion in cash, helping us to continue to drive returns. In fact, we already realized more than \$400 million.

Next slide, please. We're also advancing our innovation pillar, fueling profitable growth as we continue to expand our capabilities to meet demand across the 3 global trends of food security, health and well-being and sustainability. For example, last November, we added significant new capabilities in our Health & Wellness business with the acquisition of Deerland Probiotics. Demand in the human microbiome space is expected to reach \$9.1 billion by 2026. While in animal feed, probiotic demand is expected to grow to \$6.2 billion.

Deerland, with a broad portfolio of probiotics, prebiotics and enzymes provides a wide array of commercial, R&D and operations-related synergy opportunities to help us meet that demand. And we're taking advantage of those opportunities, from connecting our deal and capabilities with our Biopolis team in Spain to utilize spore probiotics in a functional chocolate bar, to bringing together our expertise to expand our capabilities in pet, a key growth category, to looking across teams to offer new types of dietary supplements.

Thanks to the strong collaboration across the enterprise, Deerland today is increasing our share of wallet for customers in both human and pet solutions. And we're seeing similar outcomes from other recent investments as well. In the first half of the year, our combined portfolio of 2021 nutrition acquisitions has delivered significantly more OP than we had in our acquisition models.

Now I'd like to turn the call over to Vikram to talk about our business performance. Vikram?

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

Thanks, Juan. Slide 6, please. The Ag Services and Oilseeds team delivered exceptional results in a dynamic market. Ag Services results more than doubled versus the year ago quarter. Global trade had an outstanding quarter. The destination marketing team's ability to meet customer demand around the globe helped drive strong volumes and margins. And good execution in global freight as well as net timing gains of about \$65 million for the quarter contributed to significantly higher year-over-year profits.

North America had a solid performance as export volumes remained strong in a good global demand environment, though year-over-year results were lower due to the prior year's insurance settlement and strong positioning gains. South America results were higher based on stronger origination volumes and better margins driven by strong global grain demand.

Crushing delivered substantially higher results. Strong soy crush margins drove improved performance in all 3 regions as meal and oil demand remained robust. Positive net timing effects of approximately \$90 million for the quarter versus the \$70 million of negative timing in the year ago period helped drive year-over-year results.

Refined products and other results were similar to the prior year period as strong demand for biofuels and food oils drove refining premiums and biodiesel margins, offset by approximately \$150 million of negative timing effects versus negative \$30 million in the prior year quarter. Equity earnings from Wilmar were significantly higher versus the second quarter of 2021.

Looking ahead for AS&O. We expect Q3, the seasonal transition quarter from the South American to the North American harvest, to deliver results significantly higher than the prior year period driven by continued strong global demand for grains and strong cash crush margins.

Slide 7, please. The Carbohydrate Solutions team delivered a second quarter of extremely strong results. The Starches and Sweeteners subsegment, including ethanol production from our wet mills, delivered much better results due to solid demand as food service volumes reached close to pre-pandemic levels. Corn coproducts, including strong demand for corn oil, and effective risk management drove higher ethanol and sweetener margins.

Biosolutions continued its strong growth with \$81 million in year-over-year revenue growth in Q2 and \$136 million year-to-date. Vantage Corn Processors results were slightly higher in an environment of good gasoline demand and strong ethanol blending economics. A \$50 million recovery from the USDA biofuel producer recovery program helped offset the prior year's strong industrial alcohol results from the now sold Peoria facility as well as valuation losses on ethanol inventory as prices fell late in the quarter.

Looking ahead to the third quarter. We expect results significantly higher versus the third quarter of 2021 driven by steady demand for our products and favorable ethanol blending economics. On Slide 8, the Nutrition business continued on its strong growth trajectory with 19% year-over-year profit growth. Revenues increased by 20% on a constant currency basis and 13% like-for-like, and the team did a good job protecting margins.

Human Nutrition delivered higher year-over-year results. Flavors grew revenue in North America, EMEA and South America, though profits were lower due to negative currency effects in EMEA as well as weaker results in APAC. Healthy demand for alternative proteins resulted in strong soy protein volumes and margins as contributions from the Sojaprotein acquisition as well as good demand for texturants drove higher results in Specialty Ingredients. Strength across probiotics, including in the recently acquired Deerland business as well as robust demand for fibers, contributed to a stronger quarter in Health & Wellness. Across the Human Nutrition business, we continue to see low price elasticity and good demand for our diverse portfolio of ingredients and systems as we continue to support our customers with new product and cost-out innovation and drive industry-leading win rates.

Animal Nutrition profits were up substantially year-over-year driven by continued strong volumes and margins in amino acids. Looking ahead, we expect third quarter results for Nutrition to be higher year-over-year as the business remains on a trajectory to deliver 20% OP growth for the full year.

Slide 9, please. Other Business results increased from the prior year quarter driven primarily by higher ADM investor services earnings due to higher short-term interest rates. In the corporate lines, unallocated corporate costs of \$267 million was slightly higher year-over-year due primarily to higher IT operating and project-related costs and higher costs in the company's centers of excellence. Net interest expense for the quarter increased year-over-year on higher rates and higher short-term borrowings to support working capital needs as well as higher expense for long-term debt.

The effective tax rate for the second quarter of 2022 was approximately 18%. Based upon our current outlook, we expect full year corporate costs to trend towards \$1.3 billion versus our previous outlook of about \$1.2 billion, largely due to higher year-over-year interest rates. We still expect our adjusted tax rate to be in the range of 16% to 19%.

Next slide, please. Year-to-date operating cash flows before working capital of \$3.2 billion are up significantly versus \$2.2 billion at the same time last year. Our balance sheet remains solid with a net debt-to-total capital ratio of about 30% and available liquidity of about \$11.5 billion. Driven by our strong cash flows and robust earnings, we expect to accelerate our share repurchase program, adding to the \$200 million we repurchased in the second quarter of the year with an additional \$1 billion in the back half.

And of course, the strong cash flows and balance sheet also preserve our flexibility to continue reinvesting in the business and advancing upside growth opportunities. Our CapEx outlook is unchanged at approximately \$1.3 billion for the year. Juan?

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

Thank you, Vikram. Slide 11, please. For context, as we discuss our outlook, I would like to go back to the goals and drivers we laid out at our Global Investor Day in December. We talked about the plan in which our strategic productivity and innovation actions will continue to build a better ADM and align our portfolio to meet accelerating structural demand changes driven by the enduring global trends of food security, health and well-being and sustainability and how that would drive a strong earnings trajectory over the plan horizon.

What has transpired since then is that some of the market factors have reinforced and further enhanced the value proposition of our diverse product portfolio and our integrated global network of assets. This helps drive stronger-than-expected margins. So while we may see some reversion in the medium term, we now believe that margin structures are generally higher than when we have laid out in December.

We are on a trajectory to deliver a very strong second half, resulting in expected full year earnings above \$6.50 per share. And as Vikram said, the strong cash flows we are generating will enable us to accelerate the timing of our share repurchase program with \$1 billion in repurchases in the back half of the year.

As we look beyond that, we have not changed our strategy nor our expectations of strong earnings growth and returns over our plan horizon. And as we laid out at our Global Investor Day, there are upside opportunities to our medium-term plan. But as we have already covered today, we are advancing those now and realizing higher value from them. Higher biosolutions revenue growth, higher Health & Wellness OP contributions, the operational transformation across the enterprise, we expect these and more to add further upside in the medium term.

The opportunities before us are significant. I'm proud of what our team has achieved, but I'm even more excited about what we're going to deliver tomorrow, next year and in the years to come.

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

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## QUESTIONS AND ANSWERS

### Operator

(Operator Instructions) Our first question for today comes from Ben Bienvenu from Stephens.

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

I want to ask one kind of bigger-picture conceptual question, and then my second question is more near term in nature. The first is on the accelerated share repurchase. I'd be curious to hear a little bit more about all of the decision points that flow into that bigger-picture decision. I would imagine -- you highlighted strong underlying fundamentals in the business. I imagine there's a component associated with working capital as well as some of that frees up with commodity markets cooling a bit.

I'm curious also to get an update on your longer-term capacity expansion pipeline and how on schedule those build-outs are. And should we think of share repurchase as a lever to throttle up and pull back depending on M&A and CapEx timing of kind of long-lived capital investments? That's my first question.

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

Yes. Thank you, Ben. Good question. We are maintaining our balanced capital allocation that we put together some years back. We always said that we're going to take about 30% to 40% of our free cash flow to reinvest in the business, and that's what our strategy of bolt-on and organic growth normally takes. And that will be the priority. We have exciting opportunities ahead of us. So we're going to prioritize our investment plan.

But of course, we've been paying dividends for 90 years. We've been growing dividends for more than 40 years, and we will continue that. We increased dividends 8% this year. And when we're looking at our distribution, again, this 60% to 70%, whether there are strategic opportunities to do M&A or giving back to shareholders, as we said before, at this point in time, when valuations may be correcting and all that, we don't have any significant targets in front of us. Our team continues to look for bolt-ons. And given the significant strength of our cash flows, we have decided to honor that return of shareholder -- of funds to shareholders.

So I would say we will maintain that balanced allocation. We are not -- in the plan when we presented in December, we were looking at the later part of the plan as we were approaching \$6 to \$7 per share that we will have ability to repurchase about \$5 billion of that. Certainly, we will be, as I said in my initial remarks, north of \$6.50 today. So some of those buybacks are accelerated to the scenario. So I would say it continues to be consistent in that regard.

Is there a later part of the question I'm missing or forgetting? The capacity to increase, yes, organic capacity. Listen, we are -- as you can -- Vikram mentioned it, we are increasing our CapEx to \$1.3 billion. And we've been accelerating some long lead equipment this year to make sure that our capacity expansions remain on schedule.

So if we look at the big ones that we have right now, whether it's Spiritwood, which is still expected to be online by the harvest of 2023. We are expanding capacity in bioactives in Valencia. That's expected to come in the first quarter of 2023. That's also on schedule. So I would say, in general, across the globe, since we have the ability and the funds, we've been making sure that we eliminated that risk or we minimized that risk. Of course, there is always a risk of labor and labor is tight, especially in North America. But I think at this point in time, we don't have any major deviation to our plans.

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

Okay. Great. My second question is related to the grappling of supply-demand that we're seeing right now. Obviously, there, you highlighted your expectation of structurally higher margins across your business. That makes sense given the kind of bigger-picture structural changes in demand that support the profitability of your business over the next several years.

But we are starting to see demand destruction cyclically as the consumer deteriorates. I think your business is really well positioned. But I'm curious about kind of what you guys are keeping your eyes on relative to a deteriorating underlying consumer and that -- the consequence of that rippling back up the supply chain -- the value chain potentially.

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

Yes. Ben, listen, we're watching the demand, of course. We go -- we work very closely with our customers and our farmers on this. I would say we have seen demand substitution, demand shifting here or there. And you see it in retail, maybe to private label. We've seen a little bit to people looking into smaller packaging to make things more affordable. So I would say, if I think of the big categories for ADM, food tends to be, despite all these comments, much more reliable, much more stable in that -- just the essential nature of that.

I think our fuels business, our biofuels business in general, are more tied to programs that are long term and to initiatives to reduce emissions and improve climate over the long term. So they also tend to be relatively firm, if you will. And we see that with RGD bringing new demand for oil. So if we have any issue in edible oils, it's certainly been more than offset by the new demand on renewables.

And I will say the area where maybe we keep a closer look to all that is animal feed. Animal feed has been impacted by this. We estimate something in the range of maybe 10 million to 15 million tons on a global basis that maybe we took out of our S&D's from the global perspective, not just from our own revenue, from the global S&D's.

I think we have seen less of an impact on an OP perspective because as people like to trade down, if you will, or if they were to trade down from beef, chicken is a cheaper protein. It's a more affordable protein. And chicken is where we get all the soybean meal mostly sourced. If you think about what's happening with soybean meal, it is -- it has a cost advantage to corn. So it continues to have a high proportion in the rations on things that are, if you will, more demanded right now like poultry.

When we go to Nutrition, I think you said it in your -- in the question -- is we are well positioned in some of the applications that are growing the fastest. and of course, not completely insulated. To a certain degree, we haven't seen significant drops at this point in time. So our expansions and -- continue forward. And you saw in our remarks, our -- the acquisitions we made last year are actually performing, from an OP perspective, better than in the economic model we put together.

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

Congratulations on the results.

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

Thank you. Appreciate it.

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**Operator**

Our next question comes from Ben Theurer from Barclays.

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

So my first question is also related a little bit to the picture you draw and you laid out just about 7, 8 months ago during the Capital Markets Day back in December, and you talked about the path to get to the \$6 to \$7. Now you're just at \$6.50 for this year. But the one thing that kind of pops out is the significant strength and the up we've been seeing on the return on invested capital. And you still say your long-term objective is 10%, but now we've been consistently gone higher.

So if we put it like into the context and your comments of the margin structure to remain higher, how should we think conceptually over the medium to long term? Where is your real ROIC objective given that you've been consistently above that 10% level? And what does that mean for your potential to return cash to shareholders via dividends, buybacks versus then, ultimately, the CapEx needs?

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

Thanks, Ben, for the question. So just to give you some context, when we decided on the 10% ROIC target, it was based on an expectation of about 300 basis points above our long-term cost of capital. The long-term cost of capital has been around 7% for some time now. But as we look forward and we see interest rates on the rise, there is likelihood that over the medium term, the long-term WACC is going to increase. We still want to maintain our buffer or our spread versus that long-term WACC.

So in short, yes, we are actually looking at growing our ROIC beyond the 10%. We haven't firmly established a new target. But clearly, as you've seen, we are well ahead of 10% on the back of a strong demand outlook for the medium term as well a strong discipline on the denominator from a balance sheet perspective.

So in terms of the capital allocation and the forward outlook, Ben, I think it's consistent with what Juan said. We expect we are going to be very disciplined and balanced in terms of how we deploy that capital, both in terms of reinvesting in the business. And by the way, the opportunities to reinvest in the business are significant. Juan mentioned some, including the operational transformation. And much of that is not even baked into the medium-term plan that we highlighted.

So we anticipate there likely will be some additional reinvestment in the business, but that should still leave us enough flexibility to do share buybacks, potentially even in excess of \$5 billion, as well as continue our pace of dividend growth as we've done historically over the last 40-plus years.

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

Got it. That sounds very promising, Vikram. And then just coming back on the growth and what's being delivered within the Nutrition segment, just to kind of frame it and understand it well what you're seeing into the back half here because clearly, you kind of reconfirmed the 20-ish percent growth in OP income. We've had a very strong first half. You expect next quarter to be better.

Is there anything where you think there could be a little bit of a headwind in the more short term just because of people maybe down-trading on the consumption side? You mentioned a little bit maybe the packaging side going to smaller sizes, et cetera, but to understand a little bit the risks versus the opportunities within Nutrition.

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

Yes. Ben, first of all, Nutrition is the business where we're probably exposed the most to the supply chain issues that everybody is talking about because we have more variety of raw materials that we consume in all these formulations. So that is always something that the team works very well to overcome. But that's an issue we watch very closely.

The second is, as you know, that business is also very strong in Europe, so there is a ForEx exposure that we keep on looking. And I mentioned at the beginning that Animal Nutrition volumes are a little bit more difficult, I think that given the price point where we are. So I would say those are the 3 levers that we keep on looking to make sure that we balance that. I would have to say the business has done a terrific job of offsetting all that.

And again, we still believe in our enhanced guidance from 15% to 20% for this year. We're still going to do that. And the business, again, as I've said many, many times before, it's clearly in its path to achieve our \$1 billion operating profit objective probably next year. So we feel good about the business, but it's not without a lot of active management, if you will.

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**Operator**

Our next question comes from Adam Samuelson from Goldman Sachs.

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

Juan, so I wanted to maybe dig into the outlook on oilseeds a little bit. In your prepared remarks, you alluded to a mid-cycle or normalized medium-term kind of margin structure that moves higher, and I'd love to get a little bit more color on how your view over the medium term has

evolved there and especially in the context of a North American kind of industry that's in the midst of some pretty healthy capacity expansions by you and many others.

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

Yes. Adam, listen, we continue to see a strong demand for meal and oil. North America has many advantages. North America has the beans and North America has a robust domestic consumption. North America has the new demand for oil. So that makes, of course, soybean meal more competitive in the world.

We continue to see good margins and good volumes in poultry as -- again, as the consumer favors that meat. We continue to see soybean meal advantage to corn. As I said before, in the ration, that continues to have high inclusion rates. We see China recovering from COVID, so activity coming back. And we see Argentina pretty much given the current financial issues outside of the markets in terms of their aggressiveness. So I would say the scenario that we've been seeing, it continues with strength going forward.

I think that's kind of what we see at the moment. So Q3 is strong. I would say maybe if I go to canola, canola has been -- margins have popped. So maybe we had -- we didn't have that in the past. Now we have, they're very strong. So we see a strong demand for biodiesel. I'm just trying to go mentally through all the businesses. And as we said before, Wilmar has been doing very good.

So we don't see any significant clouds in the horizon right now. We have good expectations. We think that for the second half, the U.S. will become the place to export for corn and soybeans. So I think that exports should come to the U.S. from the period of September to maybe February or maybe even March. So we will have to watch logistics and whether logistics can allow us to execute a strong export season. But that's probably the only thing out there that I will be thinking, Adam, in terms of puts and takes.

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

Okay. That's all really helpful. And if I could maybe just switch gears over to Carbohydrate Solutions and specifically Starches and Sweeteners. I mean very strong kind of first half results. And I guess I'm trying to think about the contributions of between kind of volume growth, better ethanol profitability, coproducts and kind of -- and risk management and just that thing could be your most mature business, and seeing some very, very healthy absolute and year-over-year performance and trying to just maybe just aggregate some of the drivers there a little bit.

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

Yes. Sure. So Adam, just breaking it down into volume margin and mix. In Sweeteners and Starches, from a volume perspective, actually, we saw volumes in North America higher year-over-year in the first half. And that is different from what you may have heard generally in the marketplace. We clearly benefit from an integrated network that enables us to deliver to our customers effectively and efficiently. And in some cases, we've actually also imported tapioca starch, for example, from Europe to meet that demand. So volume has been strong.

In terms of margin, clearly, we benefited from higher coproduct values, including corn oil in particular. So that's also helped in terms of the net corn and effective margins for Sweeteners and Starches. And from a mix perspective, we talked about biosolutions driving more and more growth, higher than what we had anticipated. So on all 3 fronts, in terms of volume, margin and mix, S&S looks brighter than what we had anticipated at the beginning of the year.

In terms of ethanol also, if you think about similar way of thinking about volumes, volumes have been strong in terms of gasoline demand locally. Strong exports expected. We've had strong exports. Outlook for exports about 1.6 billion gallons for the year. In terms of margins, we've also again benefited from the fact that we've had good coproduct values particularly, again, in DCO. And that has helped us maintain margins.

The other aspect is the -- RVOs have been finalized. So that puts -- removes the cloud from the regulatory landscape, at least for 2022. And gasoline and ethanol blending economics remain fantastic. If you include RIN values, that's above \$2 relative to RBOB today. So I think based on all those facts, we think Q3 is going to be stronger quarter-over-quarter. And our outlook for the year is also very constructive.

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

Just to clarify, Vikram, because I don't think that was the nuance you said in the prepared remarks. You said -- in the prepared remarks you said significantly higher year-over-year and you're saying all of Carbohydrate Solutions will be higher quarter-over-quarter as well. I just want to be clear on that point.

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

No. My comments were specifically quarter-over-quarter, significantly higher quarter-over-quarter for Q3. And what I just emphasized as well, we are constructive for the outlook for the full year.

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**Operator**

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

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

Just a couple of questions. One is, how much dollar amount do you expect to increase in 2023 from your cost savings and your harvesting of your growth investments? How do we kind of think about that for 2023 in terms of the dollar amounts that's going to be coming out from both your cost savings and your investments in growth?

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

So I think, Ken, just providing context, going back to the Global Investor Day in terms of the framework, right, we talked about productivity and innovation driving about \$1.1 billion in aggregate each. And then we expected market forces should be about \$1 billion. In terms of 2023, we haven't gone through the specific plan yet, right? We are still working through that. But you could assume kind of a flat line, roughly speaking, over that 4-year time frame.

What I would submit to you, Ken, is over the last 3 or 4 months, as Juan mentioned, we see additional opportunities on the horizon as it relates to operational transformation with digitization and automation. We talked about the Marshall example. If we multiply that Marshall example, the upside could be even more. But that's something that we are still fleshing out, and we will be prepared in the foreseen quarters to provide you a little more granularity on that. Juan?

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

Yes. Ken, what I would like to add to what Vikram said is that if I think back to December, there are 2 things that are different. A lot of the productivity efforts this year have been used to offset inflation, and I think the team has done a terrific job of protecting margins in that sense. Those productivity efforts continue. And as inflation may be recedes next year, we might see that -- more of that coming to actually improve our productivity versus just offsetting inflation.

The second thing that I noticed and I tried to make a point in my prepared remarks is that we probably see innovation -- a little bit more activity in innovation. I think that as customers are trying to fight inflation, I think that bringing a newness, bringing new categories, new innovation, we've seen that in Nutrition and other pieces of the portfolio. So I think there is an opportunity there.

And some of the things that were not included in our 5-year estimate, whether it was some of the growth on Health & Wellness or some of the biosolutions opportunities and all that, are coming stronger and faster than maybe we anticipated. So Vikram said it, we normally start the planning season maybe late September or October. So we're going to be looking at '23 there. But I think we're going to have a lot of puts and takes on a scenario that is very dynamic. But we feel good about the initiatives we can control, let's say.

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

Great. Just a clarification question. You talked about the \$6.50 number. That includes share repurchases. Is that -- does that -- but yes, underlying fundamentals seem stronger than maybe you expected. Can you reconcile that? Because if it includes the share repurchase, I would argue that maybe it should be better than that. I don't know if you're being conservative. I'm not trying to pinpoint you. Just -- there was just some incongruence in terms of the accelerated share repurchase and just kind of sticking to that \$6.50 number. I just wanted to touch base with that -- touch base on that, if you could help us out on that.

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

Yes. So Ken, just to be clear, we did not say an "ASR". We did not say accelerated share repurchase, right? I want to make sure that we clarify that comment. We did say that we are going to do \$1 billion in the back half of the year. And as you well know is EPS impact of that, given the averaging, is pretty minimized for this calendar year. So the impact, whether you consider a share repurchase in the \$6.50 number or not, is frankly insignificant for 2022.

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

Okay. So just putting this all together, even as fundamentals kind of stabilize at this higher level, your share repurchases, your productivity and your growth initiatives can propel earnings higher in 2023 even if fundamentals kind of stabilize and not -- not to say we're peaking, I don't want to use that word, but if we stabilize at a higher level. Is that fair way to think about it, that your interactions, those 3 components, can drive earnings growth in 2023? And I'll leave it there.

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

Ken, the way I think about it, let me share that, is we need to have in ADM certain ambidexterity. On one side, we have a team that executes on opportunities presented by the market. And the team is executing on great opportunities this year. We don't control that all the time. We control our execution, but we don't control the opportunities that pop based on the macro environment.

On the other hand, we are committed to keep improving the company. So -- and that's what we committed in December over the 5-year plan. So to the extent that those forces, whether favorable or negative, offset our productivity and innovation, at times, we're going to see more of that effect and at times, we're going to see less. So we know we're going to grow earnings over the next 5 years based on all that.

We have not gotten to 2023 at this point in time. So I want to make sure that people don't hear that what we're going to do is a promise to grow earnings every year. We cannot control all the environment in the world, but we can control that we get better and we can control that we can maximize our execution on the opportunities provided. Will 2023 provide the same opportunities of 2022? Unclear at this point in time, and we need to go through our scenarios. But I think we're going to feel -- we feel very good, as I said, on the team's ability to execute.

Some of the macro that we're seeing in terms of demand, demand for food has been growing over the last 15 years at 1.8% per year. You can argue that at times, we are getting to the peak of arable land being brought into production, that at times, we are hitting the peak of maybe even yield in the area. So we think that although margins may not stay at this level, if they're going to stabilize, they're going to stabilize at higher level than in the past. And that's where we based our forecast in December, and we are maintaining that. So we feel good about continue to grow earnings. We haven't gotten to the specific 2023 number yet.

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**Operator**

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

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

Vikram, you had some constructive comments about third quarter for Ag Solutions and Oilseeds (sic) [Ag Services and Oilseeds], and I wanted to specifically ask you about which of those 2 big businesses is primarily driving that favorable outlook? And in Ag Services, what is it? What regions of the world? Where do you see that strength coming from? And then one more for you on that. And if there is less crop production in the world in 2022 just from significantly less fertilizer applications, is that net positive or net negative for you? You could have tighter supplies but less volume.

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

Yes. So thanks for the question, Steve. In terms of AS&O -- I'll break it up. In terms of AS, we talked about destination marketing being very strong, right? So that's part of global trading. We anticipate that to remain strong given our ability to deliver to customers around the globe. And actually, we have -- the globally integrated network we have enables us to do that very effectively and efficiently. So we believe that's going to be a continued contributor of the growth.

You think about also where we are positioned as a company in North America and South America. Where is the world likely going to come for grain in the back half of this year? It's probably going to be in North America. And with a reasonable crop that we expect right now, we should be well positioned to be able to benefit from that, given our footprint. So I think the strength in destination marketing within global trade as well as our asset footprint and the dearth of grain around the globe in light of what's happened gives us good flexibility and constructive margin outlook for the back half.

On the Oilseeds side, the fundamentals remain strong. I mean you've seen that the demand for oil both on the food side as well as RGD remains strong. So North American crush margins should be constructive. As soybean meal remains a very efficient and cost-effective protein substitute for even wheat as wheat prices, even though they've come up, they're still relatively expensive. So soybean meal remains an important feed for all types of protein and especially for poultry, and you've seen the number of poultry rising. So we're constructive for crush margins in North America.

And even with biodiesel as well, that's also providing another avenue to support crush margins even in Europe. So crush margin outlook for the back half is strong in terms of the fundamentals that I highlighted. So candidly, the strength in AS&O is both on AS as well as O for the back half of this year.

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

And you made a comment on one of the slides about investing in this sustainable agriculture initiative of FBN. My question for you on that is, how meaningful of an opportunity do you think this is for you? Are your food company customers willing to pay a premium to you, and thus the farmer, for grains and oilseeds that are produced in various sustainable ways? Is this a niche? Or is this a potentially meaningful portion of your origination business?

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

Yes. Steve, this is Juan. We are building this. I think we have a division now within the business to look at these certified grains, if you will, or differentiated grains. There is certainly a consumer push into this that we feel through the CPGs and having the desire to engage in these transactions with us. So it continues to build.

I don't think it's going to be meaningful to our earnings over the next 2, 3 years, but it's something that is aligned with sustainability trends. It's aligned with the ability of the whole industry to decarbonize and become better. So it makes us more sustainable. But it is growing. It's still small, but it continues to accelerate.

So I don't think you should expect an OP impact over the next 2 years, but we're building a good position here. And with partners like FBN and all that, we continue to improve the economics and simplify the recognition to farmers as they embrace sustainable practices. So there is an economic motive or result later on, maybe in the planning cycle. At this point in time, it's more a sustainability thing that we do to help our customers as they need more of this.

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**Operator**

Our next question comes from Tom Palmer of JPMorgan.

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

Maybe I'll just start off on the crushing side. Margin info in the earnings presentation was encouraging as was your second half commentary. At the same time, we saw board crush at least temporarily weaken going back a month or 2. So it looks like it hasn't carried forward in terms of board crush or in spot as much but -- and nor have much bearing on third quarter results, but I hope to get at least a little bit of color on what happened and why the impact was so temporary.

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

Yes. I think, Tom, what we saw -- of course, base has become a little bit tighter in the U.S. and soy, and we saw a little bit of palm oil correction that maybe impacted some of the oil. So you get board compressed a little bit. In reality, the cash markets have never moved, and they remain very constructive and very strong. And now you have seen how board crush have bounced back.

I think that what we need to remember is like before all this volatility, whether it's the war or this or that, we were coming into very strong markets. Again, demand continues to grow for meal. And now we have another leg of that, that has a new demand. And mature markets like these, when they get new demand in a significant quantity like RGD, you get a significant change in margin. When you think about the structural changes that have happened over time, whether it's the different way with China feed pork now or Argentina with an exchange rate delta that makes the farmer really have no desire to sell and the farmer, to a certain degree, curtailing crush in Argentina.

And then we see China coming back from the lockdowns and soybean meal being better than corn into the ration, we continue to see this strong. Now we have also canola helping onto this on the strength in biofuels, in biodiesel per se. So I think from our perspective, we were always looking at cash margins. And so we -- it didn't make a significant shift in our operating profit as we were saying in the last earnings calls, to be honest. So it has moved and at times some of these moves, to be honest, in commodities has been driven more by financial flows than fundamentals. I would say the fundamentals were strong before the war. They continue to be strong.

Some prices have spiked because of the war, then they came back, but they came back to the high levels that we had before the war because it was just supply-demand fundamentals. And as much as people talk about rising interest rates and all that, rising interest rates do not produce grain. So we have not seen any change in our supply-demand fundamentals that were in place before the war, before the tightening by the Fed. So to a certain degree, we need to keep our eyes on the fundamentals. That's what matters.

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

That's very helpful color. Maybe I'll just follow up on the soybean oil side. There's a lot of renewable diesel capacity scheduled to come online later this year. What are you seeing in terms of that demand environment? Are you starting to see inventories build to essentially new customers? Because the soybean curve at least is downward sloping and it does seem like there's a lot more demand to step up that could at least theoretically change that.

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

Yes. Listen, I think we're building new industries. So there are so many players here and so many things in motion. It's a very dynamic environment that we continue to watch. I think with -- we see the demand coming as expected. I think you may have, like in every capital project these days, some projects that may be a little bit delayed. But we don't see any significant change to our medium-term forecast.

So we see the strength. We see the recovery on even potentially edible oils based on China coming back into the markets and coming back from lockdowns. So none of our forecast has changed in the oil side. And if you look at the contribution of meal and oil to crush from the last quarter to this quarter, it has maintained. So it looks like both legs continue to have the same strength at this point than we expected.

**Operator**

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

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

Congratulations on a great quarter. So this may sound kind of like a little bit of a corny question, Juan, and is very 30,000-foot kind of speaking level. In the past, there's no promise that aren't long enough. When you have global recession, it does change the fundamentals for grain demand. And I get the question all the time. My sense is so that there are enough structural changes, particularly in the U.S. market, where even if we did have a global recession is that the fundamentals have a reasonable chance of remaining fairly strong. Is that an off-base thought? Or how would you look at that?

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

Yes. As I was saying in the previous question, I think that, again, before rising rates that could drive into a slowdown of the economy or the war, we had a tight balance sheet. I mean, Eric, and you want to keep it at 30,000 feet. We're going to run this experiment of trying to feed 2 more billion people from here to 2050, something that we haven't done in the past.

And as I said, you could argue that if we're going to move population from 7 billion to like 9.5 billion by 2050, there's not the same proportion of arable land are going to be brought into production nor the same proportion of yield going to be. So I think in recessions, food is more protected than other things. So we don't expect a significant drop in demand, at least not for a sustainable period of time. While the reality is that production may or may not be there when you think about weather, when you think about the limitations of acreage or the limitations of potential yield.

So our scenario is for tightness going forward. And we will do our best to make sure we continue to supply the billions of people around the world with their needs. But I think it's more prudent to plan on a tight supply-demand scenario. And at this point in time, when we run the supply-demand going a little bit more shorter term, we think that at least we need to have 2 very good years of good crops in North America and South America to bring a little bit more of relief to the current supply-demand inventories.

Even if we have a good growth in North America, I don't think we're going to increase pipeline from -- for soybeans at this point in time. And South America has been with La Niña for like 3 years or something like that. So some of these events are starting to last a little bit longer. Thankfully, in

North America, everything looks like we're still going to have another good year. So we welcome the end of the harvest to see a very good crop this year in North America.

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

Yes. No, I would agree with that. So I'll ask one more quick question, and it's more technical in nature. So in the quarter, you put over \$3 billion on top of your inventories. And I'm just curious when you look at where grain prices were on March 31 versus June 30, June 30, you were down across the board, corn, beans, meal, oil, wheat, all the prices were down. So does that mean that you've just taken on -- you've been able to buy more grain, taken on bigger positions so your volume inventory is larger? Does that explain that \$3 billion-plus of inventory increase?

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

Well, I think the inventory, when you're talking about us, I think our working capital effectively from Q1 to Q2 has come down a bit, Eric. So I think it's a function of both volumes as well as prices. Yes, prices have come off. But I think it's a function of also what's happening around the globe. You've got to think about not just our Ag Services and Oilseeds business, you got to think about also the other parts of our business. So while in general, there is a correlation to prices, there's also not necessarily same flat volume across every quarter.

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**Operator**

Our next question comes from Steven Haynes of Morgan Stanley.

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

I just wanted to ask a question on China. It's come up a few times. Maybe could you just go into a little bit more detail around demand dynamics there? I think soybean imports are still kind of trending down year-over-year. So are we kind of at an inflection point there? And any additional color would be great.

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

Yes. We think -- we are in close contact with our China team, of course. And I think demand there has, of course, suffered an impact. You saw their quarterly growth rate for the whole country. But we get encouraging reports of how activity is coming back. I think that at the beginning, even if they relieved on some of the restrictions, people were still a little bit shy to come out. But I think that now we're seeing people coming back to the office, were 100% back into the office. That brings traffic and that brings external breakfast and external lunches and things like that. So we see that with a recovery, if you will, coming from our perspective.

If you think about the 4 main meats for China, China has produced about 5% more of the combined 4 meats in the first half of the year. So you could see there that, of course, the mouths are still there to be fed. And certainly, food security continues to be a high priority of, of course, the very responsible Chinese government. So nothing significant to report other than the ease of the COVID situation that is happening in multiple cities.

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**Operator**

Our next question comes from Robert Moskow of Credit Suisse.

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

Juan, forgive me if you've addressed this already, but there's a lot of grain still trapped in Ukraine. And I want to know if you have a view on what's going to happen to it and how it will affect your business.

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

Yes. So thank you for the question on Ukraine. So our priorities in the company, Rob, as we have said it before, continue to be twofold. First is to provide for the support and well-being of our employees now and into the future. But the second very close priority is what you described, is that how do we help the industry in Ukraine, the agricultural industry to come back on their feet. As you know, there are 20 million, 30 million tons trapped there. And we've been working to increase the land exports and I think even some of the river exports. And so we're very proud of what the whole industry has done to increase those.

We're still short of that. And of course, that's why you see both countries signing this Black Sea Initiative, which is to allow Odessa and other ports there to come back to full capacity to be able to export. At this point in time, as you have read the news, you get encouraging news one day and maybe discouraging news the other day. I do believe that both countries are committed to help keep this corridor open. I think that at the beginning, you're going to see a little bit of a trickle down of exports, maybe smaller boats. I think it's going to take a little bit of building confidence that this works before you can put the bigger boats.

There are issues in the country about getting fuel for that. There are issues in the country about getting the crews to man this boat. There are also issues about insurance and financial institutions guaranteeing some of these large transactions. So I think I'm optimistic. I think you're going to have a trickle-down. That will be good for all -- for us and for everybody that we allow that capacity not to be unutilized, if you will.

At this point in time, the world needs access to those inventories. So this is an important thing. If we don't have access to those inventories and they are not clear from the storage next year, we may have an availability issue for food because we will lose part of the crop. Ukrainians apparently have done a very good job of planting about 70% of all the capacity -- all the area, and they are harvesting right now the wheat. They're going to be harvesting in September and October, the corn and the sun seed. So we need that space to be able to store those in September and October.

So we are optimistic. We are helping as much as possible. There is a lot of people with good intention. So hopefully, we will see the sea exports to grow over the next 2 or 3 months.

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**Operator**

Our final question for today comes from Michael Piken of Cleveland Research.

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

A couple of parts on Nutrition. The first part being within Human Nutrition, how much of your revenue growth was with new customers versus expansion of current customers? And then on the Animal Nutrition side, how much of the growth was due to the favorability of the lysine market versus just internal operational improvements? And how sustainable is that?

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

On the Human Nutrition side, it was a balanced growth across new customers as well as existing customers. And we think about our revenue growth in terms of volume, pricing and mix, right? So I think we had balanced growth across the 3. We drove early action on pricing to ensure that we maintain margins and kept a strong focus on driving mix. Price elasticity for some of the products -- or most of the products, frankly, we participate in Human Nutrition has tended to be pretty low as Juan noted. So I think that's helped benefit protecting margins as well as driving revenue growth.

On the Animal Nutrition side, as I highlighted in my prepared comments, most of that growth has come from amino acids, and amino acids has benefited from, a, the relative protein demand as well as supply chain challenges out of China. And the third aspect that's benefited us is our conscious effort to switch from liquid lysine to dry lysine. And that's -- sorry, so from dry lysine to liquid lysine, yes. And that's actually helped us drive improved profitability and improved margins as well as increase stickiness with our customers. So most of that volume growth in Animal Nutrition has been driven by amino acids.

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**Operator**

We have no further questions for today, so I will hand back to Michael Cross for any further remarks.

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

Thank you for joining us today. Slide 12 notes upcoming investor events in which we will be participating. As always, please feel free to follow up with me if you have any other questions. Have a good day, and thanks for your time and interest in ADM.

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**Operator**

Thank you all for joining today's call. You may now disconnect.

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