THOMSON REUTERS STREETEVENTS

EDITED TRANSCRIPT

ADM - Archer Daniels Midland Co at BMO Capital Markets Farm to Market Conference

EVENT DATE/TIME: MAY 16, 2018 / 6:50PM GMT

CORPORATE PARTICIPANTS

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

CONFERENCE CALL PARTICIPANTS

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

PRESENTATION

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

Good afternoon. We are fortunate to have ADM's CFO, Ray Young, to join us for an open discussion about the opportunities ahead for ADM.

Since joining ADM more than 7 years ago, Ray has been instrumental in recreating ADM's identity in terms of business strategy, capital allocation, operating efficiency and culture. ADM not only refined its product portfolio with acquisitions and divestitures, but also went -- underwent material cost efficiency initiatives, became more focused on cash generation and implemented EVA across the company. After years of severe challenges, ADM is well positioned to capitalize on what may be the most pronounced reversal of fundamentals we can remember.

With that, I'm going to let Ray open it up with a few introductory comments, and then we'll have an open fireside discussion.

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

Okay, Ken, well, thank you. Good afternoon, everyone. It's good to be here at the BMO Conference again. Also want to extend greetings from our Chairman and CEO, Juan Luciano, who unfortunately could not be here with us today. But he looks forward to the next conference where he'll be able to participate.

So just a couple of opening comments from my side, as I kind of reflect upon sitting here in the middle of May, how we performed in the first 4 months of the year and our outlook for the year. But more importantly, our outlook beyond this year.

So the first observation I want to provide to you is sitting here in the middle of May, I'm actually -- I mentioned to some folks, I'm probably more optimistic about the prospects of this company more so than ever. Since really, the middle of 2014. All the actions that we've been taking over the past couple of years within this company to improve our cost structure, drive growth, it's starting to translate into actual results for our company.

And I just -- we finished closing the April books. We're going to have a fantastic April. It gives us confidence that 2018 will turn out to be an extremely strong year for ADM. And really, when you think about our path towards sustainable earnings growth, it gives me confidence that this year forms, really, a good baseline for us to move -- kind of move forward.

The second observation is that, looking beyond 2018, and because I do get this question a lot about what happens afterwards, after 2018? Let's assume Argentina gets a normal soybean crop in the future, what is our earnings going to look like? And when we actually look at our medium-term horizon, looking at our different businesses, what we're doing in terms of driving growth, we're actually very optimistic about beyond 2018 and our ability to sustainably grow earnings, generate returns for our shareholders over the medium term. And we can spend some time talking with Ken about this afterwards.

And then lastly, I know we've been getting a lot of questions as well regarding U.S., China, the tensions between U.S., China, the potential impact of a 25% duty on U.S. soybeans and the impact on ADM and our industry. As you can imagine, we've analyzed these different scenarios, both with duties, without duties, what will happen in South America, North America. When we actually go through these scenarios, we feel very, very confident that we're going to be able to manage through these types of scenarios, of the duty impact on U.S. soybeans, and frankly, look at how we can actually manage our global supply chain in order to actually maybe even capitalize in some opportunities that, that may actually create for ADM.

So in summary, when we take a look at the short term, the medium term, as well as some of the trade frictions that are out there, we actually feel very, very confident about our prospects of ADM in the future.

QUESTIONS AND ANSWERS

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

Great. So I'll kind of keep on that line of thought here. So a couple of years ago, Juan and you actually had a path towards that $4 number. And I guess how I think about this is, as you enter the upturn in agribusiness, will ADM's earnings power be higher in the current cycle, given corporate actions? And you will you be able to achieve or move towards that $4 number? And what's the time frame and how do we think about that?

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

Well, when we take a look at a lot of the actions that we've done in order to trying to drive our earnings prospects, our earnings power in the future, it's fair to say that these actions, we've actually materialized a lot of these actions. So when you think about the 4 buckets we talked about back in 2014, we're talking about growth accretion from recent investments, the investments that we're making; we talk about capitalizing on the WILD Flavors acquisitions and growing earnings associated with WILD Flavors; we talk about the cost actions that we were taking in order to drive additional efficiencies within the operation; and lastly, we talk about buying back shares with the cash flow that we're generating in order to generate accretion. And we talked about $1, $1.50 of additional earnings that we can actually drive by implementing these actions. When we actually do a look back in terms of these 4 buckets, it's fair to say that we did achieve that particular range. It's quite more in the lower range of the range because some of the recent investments, the investments that we've been making, some of them were starting to really realize the accretion from those investments actually just this year. So example, Campo Grande in Brazil, the Tianjin Fibersol plant, those things that we were still ramping up last year, we're actually starting to get accretion this year. So we feel good about that. But the biggest delta, like, when we kind of reflect back on kind of the earnings for this year, it's really, really 2 buckets. The first one is ethanol. When we were thinking about ethanol margins in 2018 back when -- back in 2014, we're envisioning ethanol margins to be more in the $0.30 to $0.40 a gallon range. I mean, as you saw in the [Todd Becker] presentation, we're more in the $0.15 to $0.20 per gallon range right now. And so therefore, clearly, that when you think about 1.6 billion of capacity on the part of ADM, that has a delta in terms of our overall earnings. Now the good news is I do believe that we're going to be able to recover that earnings. I mean, as you can -- even in the [GPRE] presentation, we talked a little bit about the fact that with the RVP waiver that we're going through and the growth of E15, you're going to have additional demand coming in on the ethanol industry that's going to tighten up capacity and hopefully drive additional margins. But even -- what I'm still more optimistic about is really this China E10 potential that's starting to unfold right now. And just for background, China announced that, by 2020, they want to move towards an E10 blend within the country. And so with the 50 billion gallons of gasoline consumption at a 10% blend rate, that's about 5 billion gallons of ethanol demand that they're going to need. Currently, China has roughly 1 billion gallons of ethanol capacity. And they will probably expand some capacity and get towards a $2 billion (sic) [2 billion] number. But the implication is they're going to have to bring in ethanol in order to try to support the E10 mandates that they're talking about. I know there's trade frictions between U.S. and China right now and there's additional tariffs on ethanol, which has actually stopped the flow of ethanol from United States to China. But I'm confident that, at some juncture, we'll get through the U.S.-China trade issues and tensions. And once we kind of get through that, when you think about the need for China, in order to help United States kind of address the trade imbalance, they're going to looking for products that you can actually bring from the United States to China to help address the trade imbalance issue. It would appear U.S. ethanol would be one of these items, which would be something that China won't actually bring on to support their mandates in terms of E10, but also to really kind of support the trade imbalance issues. So therefore, looking over the medium term, we're actually feeling optimistic that, that could create the potential in order to help us kind of drive ethanol margins in this industry back to the levels that we thought we were going to be, which is more in the $0.30 to $0.40 per gallon range over the medium term. The other area whereby, relative where we thought we were going to be is really, when you think about our old Ag Services implementation. You remember, Ken, we talked about a range of $850 million to $950 million in terms of offering product under the old Ag Services segmentation. We're probably running more in about the $600 million to $700 million range right now under the old segmentation, okay, in that range. And so you ask the question, why is it lower than where we originally thought we were going to be? Well, as we've talked about, there have been some structural issues that have impacted origination around the world. The free flow information, which actually has reduced arbitrage opportunities for a lot of the grain merchandisers. The fact that farmers have actually built a lot of on-farm stores. And so that's actually taking away some basis opportunities from the Ag merchandisers like ADM. We've talked a little bit about the expansion of acreage down in South America. And so there has been a shift towards South America in terms of origination. And also, there's been more competition in certain areas, which have kind of compressed margins in terms of Origination. So we've seen some structural changes in terms with the Ag Services business or the Origination business, which has kind of brought down the earnings. But we're working to offset that. And so we've talked about destination marketing, right? So we've significantly grown the destination marketing business within ADM. We've increased the volumes, from roughly 10 million metric tons; and this year, we'll probably be up to about 18 million metric tons. The profit contribution from destination marketing has moved from roughly 10% of our Origination business to really the high-teens now. And our intent is to continue to drive the growth of the destination marketing business so it can offset some of the structural deteriorations we've seen on part of the Origination. But beyond that, from a portfolio perspective, we're also looking to offset the deterioration at Ag Services by driving the Nutrition business harder. Like, so the WFSI business, plus the Animal Nutrition business, the new segmentation that we've created, we're going to drive that business hard in terms of growth to offset the deterioration in Ag Services, but moreover, drive growth in that particular area there. Because the trends supporting growth in natural, food, health and wellness, they're clearly there. And so from a capital allocation perspective, we've indicated that we've dialed back capital towards the Ag Services types of businesses and to reallocate capital towards the Nutrition business. So when you think about the prospects of ethanol margins returning back to where we thought they were going to originally going to be; when you think about the work that we're doing in terms of driving destination marketing; the work that we're doing in terms of driving Nutrition growth; and then lastly, you think about the readiness initiative that we announced in our Q1 earnings call, whereby we think that by a coordinated effort, looking at our cost and how we do margin management, there's [about $1 billion] of opportunities in revenues that we believe that we can execute over the past -- next couple of years. And then finally, on top of that, we are going to benefit from U.S. tax reform. So therefore, our effective tax rates will fall from our historical range of 28% to 30% to 17% to 20%. And when you put it all together, we actually feel very, very good about the prospects of driving significant earnings growth in the future for the company.

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

Great. So to what extent will ADM benefit in the U.S., European and Chinese crush margins with the recent shortfall in South America? It almost feels like it's almost a $20 per metric ton improvement. You guys seem to have been somewhat cautious on that. Can you talk about where you're seeing it right now? And what is the sustainability of the crush margin outlook?

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

Clearly, during our earnings call, we indicated that, for our Oilseeds division, we'll be north of $1 billion. And I think some people kind of misinterpreted our commentary there as being maybe a little bit conservative. I think it's fair to say that we're actually very optimistic about our Oilseeds business this calendar year and beyond. Now I kind of go through the logic here. We had seen expansions in crush margins throughout the year and even over the last 6 weeks since we announced earnings. The demand for soybean meal continues to be very, very solid around the world. The soybean crop in Argentina seems to be coming down in size every time they go through another assessment. So when we look at the numbers right now, we think that the Argentine soybean meal production will be down about 5 million metric tons compared to last year. And I think that's fairly similar to what you estimated, Ken. I think in your last commodity catch up, I think you were committing 5 million to 7 million metric tons lower in terms of soybean meal production in Argentina. So we're kind of consistent in that number there. So the 5 million metric tons of lower soybean meal production, in combination with the fact that soybean meal growth around -- the trend rates are about 4% a year of growth, right? You have the combination of them, of these 2 factors, it's created a supply/demand imbalances, which has resulted in the expansion of the crush margins. And more importantly, the global buyer of soybean meal has changed their behavior. In the prior years, when there was plentiful soybeans, plentiful soybean meal, they were what we call hand-to-mouth buyers. They were not buying it advance. What we've seen is the global soybean meal buyer is now buying in advance. And that's significant for a soybean crusher like us because now, we can actually create a forward meal book, and that's what's happening right now. We are creating a fairly sizable forward meal book, which allows us to trade around the book as well and create additional margin opportunities. So when we actually take a look at this year, 2018, and how the margin's evolving, how the demand profile is evolving, the fact that Argentina crop seems to coming in even a little shorter than what people had originally thought, the prospects for us to have a significant year in Oilseeds crush is there. And in just to give you some reference to make sure I kind of set -- re-set the applications here, our historical high in Oilseeds after we actually account for the resegmentation that we did. So we divested at cocoa and chocolate, we moved businesses from Oilseeds into WFSI. The historical high is actually $1.3 billion, right? And so therefore, when I take a look at this year right now and how the year is unfolding, I could clearly see a path towards actually achieving that type of number. Now I'm not going to say we're going to promise that number because we still got a some months to go in this year. But clearly, there's a path for us to actually get back to some of the historical highs we've seen from the Oilseeds business of the past. Now getting back to sustainability, Ken, of 2019 in terms of the Oilseeds business, what you need to remember is as follows. Argentine is producing 5 million metric tons less soybean meal this year. The global market in soybean meal growth is like 10 million metric tons per year if you include China, 6 million metric tons per year if you exclude China. So there is global growth in terms of soybean meal. In many respects, I want Argentina to have a normal crop next year. I think it's actually important for global supply/demand balances for Argentina to come back with a normal soybean crop and actually produce additional 5 million metric tons of soybean meal in order to make sure we kind of balance off global supply and demand. What we don't want actually is for -- is Argentina have another short crop. You're going to be short soybean meal, crush margins will expand even further. And actually, that creates, actually, an unhealthy scenario for our industry because then, that may actually encourage significant capacity expansions, which frankly, we don't want. We want capacity expansions on the steady basis within our industry here. And so therefore from my perspective, as I kind of think about 2019, there is still going to be a tight supply/demand balance in terms of soybean meal because of global growth. And because the global buyer has actually changed in terms the behavior, right, the fact that they're no longer hand-to-mouth, they're actually buying in advance, this actually creates a healthy environment for soybean crush in 2019. So therefore, that's why on that basis, as we kind of think about our business in the future, we actually think 2019 for our Oilseeds division remains actually very, very healthy for us.

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

Great. Thinking about Ag Services a little bit. Are you starting to see some dislocation opportunities emerge with the China-U.S. relations, the Argentine crop? Is there anything there that's starting to develop? And then is ADM a beneficiary of the return of elevation in margin? And when will you see that, if you will see that?

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

So you probably read a lot in -- about the fact that the Chinese are not buying U.S. soybeans right now. The reality that matters this time of the year, normally, China goes to South America to buy their soybeans. So therefore, in terms of impact on ADM, it's actually fairly minimal impact. Just remember that the key here in terms of soybean in China is the fact that global soybean demand grows at a 4% to 5% rate a year, right? So there's significant growth in terms of just demand for soybeans. So when we take a look at our business right now and the fact that you've got a short crop down in Argentina. So you got a short soybean crop. You've got a short corn crop and you've got a short corn crop down in Brazil. These are significant dislocations that are occurring right now around the world. And so the fact that China is buying soybeans from South America right now, well, at some juncture, they will have to come to United States. The fact that you have a short corn crop down in South America means the global buyer will have to come to United States for their corn crop at some juncture here. So when we actually look at the scenarios for our Origination business, we're actually seeing -- actually, even right now, pretty healthy volumes. In the month of April, just for perspective, our Origination business actually had a fantastic April. And normally, April is a low month for us in Origination. But as we kind of move through the calendar year, our expectation is the global demand pull from North America will be significant for both corn and soybeans. The question that we have in terms of determining whether we're going to have a good year or a great year is whether the demand pull occurs at the same time in the fourth quarter for both soybeans and corn. In our business, when there's significant demand pull for corn and soybeans at the same time, all of our export terminals, elevation margins significantly expand. And so that's what we're analyzing right now and trying to assess how the global buyer is going to time their purchases of U.S. soybeans and U.S. corn.

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

So you think you will participate in the elevation margins...

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

Yes. We believe we're -- so the question is the degree of how we're going to participate in those margins. And is it going to be a fourth quarter or will some of it spill into the first quarter of next year?

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

We've heard from several of your competitors, or peers, I guess, that freight costs have been spiking. How does ADM handle that? And is there any businesses that ADM will incur that this headwind? So -- and how do you compensate for that?

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

Yes. So we've heard some similar comments also for some of our peers. What we've noticed, and I think just referencing the Corn Processing business, and I think that's where we've got some of the feedback, is that when you take a look at our business of high fructose corn syrup, we do transport the majority of that in rail cars and liquid truck terminals -- liquid truck tankers, okay? So that the inflationary pressures in tank cars and the real system as well as on the tankers, the road tankers, they're not as prevalent as what we see, let's say, in the van market, right? And so where we translate -- when we transfer products in vans, van trucks or van trailers, it's actually more the specialized products. And so we see a little bit there. But in the whole spectrum of Starches and Sweeteners business for ADM, when you look at it in totality, we're not seeing the same level of inflationary pressures that maybe some of our peers are seeing.

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

When I think about WFSI, it seems like it's fallen a little short of expectations. What has ADM learned in the process? And how profitable can the division become in 2019? And is there -- not a hockey stick approach, but is there a resetting to a new bar at some point to recapitalizing -- regain some of the expectations that may have been built in?

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

We're actually very, very pleased of the WILD Flavors business. So remember, we acquired WILD Flavors back at the end of 2014. It's the largest natural flavoring company in the world. We've actually been able to build up that business. And actually, being part of the ADM family has actually been beneficial for WILD Flavors because they've been able to access a lot of the customer accounts that they were not able to access as a standalone company, but we've been able to actually allow them access to our customer base and grow their business. So when we bought WILD Flavors, I remember the EBITDA margins at that business were in the low teens. And we said that, "Hey, we can help you kind of grow those EBITDA margins towards the high teens." And we've actually done that. And we've been actually very pleased in terms of how we've helped WILD Flavors along. And you've seen the revenue growth has been the high single-digit percentages in the case of WILD Flavors. The area of opportunity, and maybe I wouldn't say disappointment, but it's taken some time for us to kind of get this business into an acceleration phase, has been the Specialty Ingredients business. And for several reasons. First of all, some of these new plants, some of these organic growth initiatives whereby we were building new plants down in Brazil in the case of specialty proteins plant, the new plant in Tianjin, China in the case of the Fibersol facilities, they're taking -- they have taken longer than we had hoped for in terms of getting up and running. And so therefore, I mean, these organic growth initiatives, sometimes, you got to take time in terms of getting these things debottlenecked. And so last year, as an example, we talk about the fact that these start-ups actually cost us about $30 million in terms of drags on our earnings. So in 2018, we're getting these things behind us. The Brazilian specialty proteins plant, which is really 6 different plants, is up and running, and now we're in the commercialization phase of those products. The Tianjin Fibersol plant in China, we've actually built up a very significant a book of business for Europe because this is kind of a non-GMO Fibersol. And so we're actually looking very optimistically about how these businesses are going to grow and contribute towards the Specialty Ingredients profitability. I mean, there has been certain businesses, there's been certain acquisitions we've done, bolt-on acquisitions in the Specialty Ingredients business that we've been somewhat disappointed on. And we've talked about Specialty Commodities Inc. as one of them. There has been lessons learned on some of these. And some of these lessons learned has been that sometimes, when we do these bolt-on acquisitions, we've got to do these integrations more quicker, sooner into our company in order to try and capture these synergies. But overall, kind of when I look at the SI business, the Specialty Ingredients business, I'm pretty confident, 2018, this business is going to be starting to deliver the results that we're expecting.

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

The sale of your ethanol assets probably seems to be unlikely, particularly given that there are going to be more assets on the market, it sounds like that. So my sense is, is there an opportunity for you to actually go the other way and look into technology for high-protein DDGs? Or do something different with that asset that would actually make it more than just a volatile spread asset? What is your thoughts on that?

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

Well, first of all, we do have a product called PROPLEX DY out of our Decatur corn processing plant, which is -- it's a high-pro product that we're actually starting to market right now. So we actually are in that business right now. We've looked at, for our dry mills, it doesn't quite work for our dry mills. But for wet mills, we are actually doing this product out of the Decatur. As we kind of think about our strategy for the dry mills, and we talked about the fact that we were looking at potential opportunities to divest our dry mill assets, we've done some work. I mean, we've done some reconfiguration for our Peoria hybrid mill. And so we kind of shuttered some of that capacity and devoted the rest of the capacity towards industrial ethanol, food beverage ethanol as well as export markets. And so we've been able to kind of reconfigure that plant towards that particular market. The 2 remaining big dry mills, frankly, we're not going to sell that on the cheap. I mean, we're -- we don't view these things as distressed assets. And so as we kind of think about what's happening in the ethanol market right now and the potential for ethanol margins to expand from, say, the $0.15 to $0.20 per gallon level; to, say, a $0.30 to $0.40 per gallon level. Which at $0.30, $0.40 per gallon level, it actually becomes actually profitable, profitable plants with good returns. So what we're looking at how these markets are evolving in terms of both the E15, the RVP issue, plus also China E10. And so we're going to continue to look at opportunities for monetization. But I would have to say that with the prospects of this industry margin structure improving, my threshold for selling these assets has moved up because, I mean, I do a net present value, as I kind of reassess the forward earnings potential of these assets, especially given the potential for China to buy U.S. ethanol, my net present value of these assets actually moved up. So my threshold for selling probably has going up relative to maybe, like, a couple of years ago when we started out the process.

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

Can you talk about the E10 policy out of China? If that does take full hold, how does that -- across the ADM network, actually? Is it beneficial? Or is it negative on the corn prices? How is it going to play out for ADM? I'm assuming that you think that the ethanol margins would be higher. But net-net, how much do you think it would add in terms of an earnings basis or subtract? How do you think about it?

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

Well, what we have to do is how -- we got to figure out how China's going to implement the policy. Because when you actually do the raw numbers, I mean, it's actually quite daunting, right? If you do the raw numbers, whereby China actually has to import 3 billion gallons of ethanol to meet their E10 mandate, where do they get 3 billion gallons of ethanol around the world, right? In 1 year. You can't do that, right? So I think, practically speaking, it's probably going to be more of a phased-in approach over time, practically speaking. And so when you kind of think about that, there's going to be a pull on ethanol from around the world from different feedstocks, whether it be corn or whether it be sugar, whether it be some other type of feedstock, I mean, China will add some capacity on itself. But would have an impact in terms of driving corn prices up? It may. I mean, just simply because of supply/demand here. Driving corn prices up, is that healthy for the U.S. economy, for the U.S. farmers? That's probably going to be healthy for the U.S. economy and U.S. farmers. Look at ADM, we're a middle man here in terms of how we actually manage prices, right? So we're a buyer and we're a seller, so we're margin managers here. To the extent that corn becomes tighter around the world, there's probably more merchandising opportunities, frankly speaking, as well.

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

Can you tell me about your cost savings? You have -- kind of i look at it as 3 buckets: $100 million from fixing leakages, about $200 million run rate from cost savings. And then you have this combining wheat and Corn Processing and combining the Animal Nutrition, WFSI. So that seems to be somewhere between $300 million to $400 million. Of that, how much would we think to include in terms of approaching that $4 number, approaching the higher earnings basis? How much of that do you think will be captured and kept at ADM? And how much will be used to reinvest? How do you think about that?

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

Yes, I mean, normally, when I think about these costs savings, I usually think about, like, 50% of the cost savings is going to go away in terms of covering inflation and in certain leakages, right? So I mean, generally, a rule of thumb, I use like a 50% flow rate through that. Of the 50% flow rate, then we may decide to reinvest some of those savings in our business. And I've mentioned in the past that one of the things that we are reinvesting in our business is the area of technology, information technology, our whole process technology, I mean, you've heard about 1ADM. I mean, we've kind of incrementally, our annualized spend rate on these projects have kind of moved up by about $100 million, right? So we are reinvesting in the business right now. So that's how I kind of think about the savings going forward. I do believe that as we move to the next stage of readiness. And when I talk about the next stage of readiness, this is not just cost, it's also margins right? And so we are going to be revisiting this whole issue of pricing. So how do we price products? Are we giving away some of the cost savings through the pricing mechanisms that we're using? So we're going to be looking at that aspect there. And then I mean the retention rate in terms of savings is going to be much higher there.

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

When I think about the high fructose corn syrup going forward, do you think the -- obviously, the net corn costs are going higher or have been higher. Do you think there's an opportunity in next year to be able to price through that? Is there a capacity utilization tightness that should be able to help that? Or is there some issues that may prevent some of that margin structure from expanding in 2019?

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

I think it's fair to say that we got pretty healthy margin structures now in the industry. And so the way I kind of look at it is when you have healthy margin structures, that you want to preserve those margin structures, right? And so therefore, our objective always is kind of to preserve the healthy margin structures as we go forward. Setting aside the margin structures, in terms of pricing, we're still driving costs. So we're driving cost hard within our Corn Processing operations. And so therefore, when we actually see margin expansion, it's going to be margin expansion based upon the cost side of the business as opposed to necessarily the pricing side of the business. In addition, in our Sweetener, Starches business, we're growing our footprint internationally. So when you actually see volume growth in our business, it's going to be primarily overseas, whether it be the European business after the acquisition of Eaststarch and Chamtor and then our Moroccan operations. So we're going to drive our international business hard. In addition, what's interesting, recently, the growth in terms of the containerboard business, like, the e-commerce and all that, that's what increased demand for industrial starches. So we've actually seen increase in volumes in our industrial starches business just because of the e-commerce growth.

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

When I think about ADM putting its mark on the agribusiness industry over the next 3 years, do you think it's going to be more on ingredients or on global expansion when you kind of think of it over the next 3 years?

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

The way I kind of look at it, it's going to be a combination of both. Because we are going to be going after where the growth markets are for our business. So when you think about ADM's portfolio right now, you think about Origination, we got a pretty significant Origination footprint in North America, in South America and in Europe. So we're already pretty big in Origination already. When you think about Oilseeds crush, we've got a large footprint in North America, South America and Europe. And then through our participation in Wilmar in Asia, a significant footprint in Asia as well. So we're big in Oilseeds crush. In Corn Processing, we're big in North America. We're starting to become big in Europe due to the recent acquisitions. We don't have much of a presence in South America. Maybe that's something we're going to look at. And then in Asia, we're starting there with our Tianjin project, right? So therefore, there's some opportunities as we kind of expand in those areas. And then when you look at WFSI/Animal Nutrition or the Nutrition business, we're fairly large in United States and Europe, we don't have as much of a footprint in South America and in Asia. Those are opportunities for us in terms of growth, both organic growth, as well as maybe some bolt-on M&A activities. When you think about where we put our new innovation centers for our Nutrition business, lot of it has been in Asia. We open up a new innovation center in Singapore, one in Australia. We've got now, one -- a smaller one in Shanghai. We view these as growth markets for our Nutrition business. And in South America, with the Campo Grande facility, that's going to be significant in terms of how we're going to kind of drive growth in the Nutrition business. So in summary, I view that we're going to be growing internationally, continue to grow internationally where the growth prospects are. But we're going to be driving hard, our Nutrition business, as well.

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

Are there are a lot of opportunities in South America to be -- assets for sale that i should know about?

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

No, I think that it's going to be opportunistic. In fact, what's interesting with the economic crisis that's occurring in Argentina, and also with the volatility that we're seeing in Brazil, we're monitoring those places carefully. Because oftentimes, crisis in terms of economies also presents opportunities in terms of assets coming up for sale.

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

I'll leave the final question as, is the current environment more normal the last 5 years? Or vice versa, where the next 5 years will be more normal? And why and why not?

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

Yes. I mean, I truly do believe that the new norm, we're actually starting to become the new norm in 2018. And the reason why I say this is as follows. I think over the past 3 years, think about 2015, 2016, 2017, we actually suffered through an environment, whereby the world just had a lot of grain. I mean, inventories were building up around the world. We also had poor crops in terms of wheat, which actually contributed to a lot of feed wheat around the world. And so what happened was, with significant growing stocks of soybeans, of corn, of soybean meal, what happens, the behavior of the farmer and the behavior of the global buyer changed, right? So that the farmer, he didn't like low prices, they actually held back the crop, right? So there were reluctant sellers around the world. The global buyer, because there's plentiful supplies, they're saying that I don't need to buy forward, I'll just do hand-to-mouth. That actually caused compression of margins in both Origination business as well as the Oilseeds crush business. But what was interesting, the underlying growth of these businesses continued to exist. I mentioned the soybean growth, 4% to 5% a year. Soybean meal growth, 4% a year. These growth trends are continuing. So as we think about right now, global stocks are actually being corrected towards more normalized levels. So you see the [Wisely] report, where like, stocks used ratios are actually coming down, down towards more normal levels. You're going to see the global buyer and also the global farmer behave in more normal situations, which is they've become more normal sellers in terms of timing as well as normal buyers in terms of setting up a forward book. So we think this environment is going to become more than norm in the future. The other aspect in terms of how we think about the business is the fact that there is global economic growth. I mean, there is synchronized global economic growth. There's always a chance of a recession some times over the next couple of years. So yes, we acknowledge that. But we have synchronized global economic growth. But when we look at our business, that demand side is so important for us. So as I kind -- as we kind of think about the next 5 years for ADM, whereby you're actually seeing more of a norm in terms of the margin structures of the Origination business. (inaudible), we're not going to necessarily going to get back to the [$850 million, $950 million], but it's going to be significantly higher than where we were before. We're seeing Oilseeds margins return to actually more normalized levels. You can actually see the ethanol business, based upon what we talked about, actually getting the margins back to more normalized levels as well, like, $0.30 to $0.40 EBITDA margins is not unreal, based upon what we've seen in the past. And then with our portfolio efforts that we're doing on ADM, we're driving growth in terms of Nutrition business, Project Readiness and then lower tax rate, that's the reason why we feel very, very good about the prospects over the next 5 years.

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

Great. With that, we'll end it there. Thank you very much.

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

Thank you, Ken.
