Archer-Daniels-Midland Company (ADM) CEO Juan Luciano on Q3 2019 Results - Earnings Call Transcript

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Q3: 10-31-19 Earnings Summary

Press Release SEC *10-Q* *Slides*

EPS of $0.77 beats by $0.06 | Revenue of $16.73B (5.86% Y/Y) beats by $541.75M

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Archer-Daniels-Midland Company (NYSE:ADM) Q3 2019 Earnings Conference Call
October 31, 2019 9:00 AM ET

Company Participants

Victoria de la Huerga - VP, IR & ADM Ventures

Juan Luciano - Chairman, CEO & President

Ray Young - EVP & CFO

Conference Call Participants

Eric Larson - Buckingham Research

Ben Bienvenu - Stephens

Tom Simonich - JPMorgan

Michael Piken - Cleveland Research

Steven Haynes - Morgan Stanley

Vincent Anderson - Stifel

Robert Moskow - Credit Suisse

Adam Samuelson - Goldman Sachs

Heather Jones - Heather Jones Research

Ken Zaslow - BMO Capital Markets

Operator

Ladies and gentlemen, thank you for standing by and welcome to the Archer Daniels Midland Company Third Quarter 2019 Earnings Conference Call. All lines have been placed on listen-only mode to prevent background noise. As a reminder, this conference call is being recorded.

I would now like to introduce your host for today’s call, Victoria de la Huerga, Vice President, Investor Relations for Archer Daniels Midland Company. Ms. de la Huerga, you may begin.

Victoria de la Huerga

Thank you, Jack. Good morning, and welcome to ADM’s third quarter earnings webcast. Starting tomorrow, a replay of today’s webcast will be available at adm.com. For those following the presentation, please turn to Slide 2, the Company’s safe harbor statement, which says that some of our comments constitute forward-looking statements that reflect management's current views and estimates of future economic circumstances, industry condition, company performance and financial results. These statements are based on many assumptions and factors that are subject to risks and uncertainties. ADM has provided additional information in its report on file with the SEC concerning assumptions and factors that could cause actual results to differ materially from those in its presentation and you should carefully review the assumptions and factors in our SEC report. To the extent permitted under applicable law, ADM assumes no obligation to update any forward-looking statement as a result of new information or future events.

On today’s webcast, our Chairman and Chief Executive Officer, Juan Luciano, will provide an overview of the quarter and important actions we are taking to meet our strategic goals. Our Chief Financial Officer, Ray Young, will review financial highlights and corporate results as well as the drivers of our performance. Then Juan will discuss our forward look, and finally, they will take your questions.

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

Juan Luciano

Thank you, Victoria. Good morning, everyone. Thank you all for joining us today. This morning we reported third quarter adjusted earnings per share of $0.77, down from $0.92 in the prior year quarter. Our adjusted segment operating profit was $764 million. Our team delivered solid results this quarter.

We stayed focused on the levers we could control advancing our strategic plan despite the difficult external environment. North American grain export volumes and margins remained limited. Crush margins were part of the record high 2018 levels and ethanol industry margins remained challenged. Despite all of these, we delivered the performance consistent with the perspectives we provided last quarter, including the strong year-over-year growth in our nutrition business.

Throughout the quarter, we continued to deliver on our strategic plan. In our optimize pillar we are successfully capturing synergies offered by the midyear combination of our Ag Services and Oilseeds business. By looking at the combined value chain of the new business, we've identified a wide range of opportunities to improve capital efficiency.

We have already executed more than $200 million of capital reduction initiatives. As part of our ongoing efforts to optimize our U.S. origination footprint, we completed our previously announced transaction with Cargill to exchange grain elevators in Illinois and Indiana. We also celebrated the opening of our new state-of-the-art mill in Mendota, Illinois, an important milestone in our ongoing process of replacing older, higher cost plants with more efficient facilities.

And as we anticipated earlier this year, we're starting to see the positive impact of the measures we took to improve the long-term reliability of our Decatur complex. In our drive pillar, we are continuing to see growing benefits of the improved analytics, technologies and processes we put in place after we launched Readiness last year.

We're implementing innovative uses of AI, machine learning and robotic process automation across the Company to do everything from identifying and solving IT issues to reducing costs and improving efficiencies in our global business services center to helping our customer-facing teams, meet needs with more speed and flexibility.

On the organizational redesign we completed in the first half of the year, including transforming our IT foundational services and centralizing our global operations organization is delivering higher service levels at lower costs. In our expand pillar, a key element of our growth strategy is focusing on major global trends, trends that have the potential to fundamentally change markets and in which we are solidifying our global leadership position.

The first of those game-changing trends is one we see in the headlines every day now, flexitarian diets. ADM has a rich history of a leader in plant-based meat alternatives. Today, our full pantry of great tasting, innovative flavors, ingredients & solutions make us the provider of choice for customers looking to grow with this fast moving market.

Our new plant protein facilities in Campo Grande, Brazil and Enderlin, North Dakota are supporting the increased demand from our global customer base. And in the third quarter, we entered into a partnership with the world's largest beef patty producer to co-develop and produce a 100% alternative protein burger that is now being offered in Brazil.

Another major global trend is nutrition for health. We are capitalizing on our investments in Biopolis and Protexin with the goal of building a leadership position in science-based microbiome solutions for human and animal health. There are tremendous opportunities here, such as our recent announcement of promising results from clinical trials of our probiotics for skin health.

Another growing trend is sustainable materials. Our long-standing expertise and technology and fermentation and our research and development capabilities give us industry-leading abilities to provide the review of feedstocks and underpin the creation of innovative sustainable progress.

Last year in partnership with DuPont, we opened the world's first production facility for SBME, which has applications as a sustainable replacement for plastics. On last month, we announced an agreement with LG Chem to develop sustainable super-absorbent polymers. This is a growing earlier and we plan to continue to expand our presence on it.

Please turn to Slide 4. Readiness continues to underpin our strategic work and help drive our results. This quarter our list of completed initiatives has grown to 218 which taken together will account for about $515 million in run rate benefits on an annual basis. We remain on target for our two year goal of $1.2 billion in annual run rate benefits by the end of 2020.

As of the end of the third quarter, Readiness have contributed close to $200 million in 2019 in year accrued results. We are confident we will reach our goal of $250 million to $300 million of accrued benefits by the end of this year. Finally, more than half of our global workforce of 40,000 has now completed our comprehensive ability to execute or aid to retraining since we began the program.

This training is a critical part of Readiness. It lays the foundation for the permanent culture change that we're working to instill to make our Company better. In some ways, we are entering a new phase of Readiness. We are moving on to a more complex to more complex projects that will take longer to complete, but will deliver more fundamental changes to how we run our Company.

And while external conditions in 2019 are impacting overall results, the benefits we're seeing from readiness are real. And more importantly, they are long lasting. These changes will make ADM better for the long run.

I'll discuss Readiness more later. Now, Ray will take us through our business performance. Ray?

Ray Young

Please turn to Slide number 5, beginning this quarter, we are simplifying the financial information that I will be speaking to, on our calls. However, all the data we have included in the past will be included in the appendix of our quarterly slide deck. As Juan mentioned adjusted EPS for the quarter was $0.77, down from the $0.92 per share in the prior year quarter.

Excluding specified items, adjusted segment operating profit was $764 million down 11%. Our trailing four quarter average adjusted ROIC was 6.5% slightly below our 2019 WACC of 6.75%. The effective tax rate for the third quarter of 2019 was approximately 19% in line with the range of guidance we provided last quarter.

For the full year, we continue to expect an effective tax rate in the range of 17% to 20%, which was our initial guidance. We generated about $1.7 billion of cash from operations before working capital in the first nine months of the year, slightly lower than the prior year period. Return of capital for the first nine months was about $740 million, including about $150 million in opportunistic share repurchases throughout the year to offset dilution.

We finished the quarter with a net debt to total capital ratio of about 30% up from the 27% in the year ago quarter and continuing to improve from the first quarter high relate to the acquisition of Neovia. Capital spending for the year is forecast to be around $850 million in line with our previous guidance of $800 million to $900 million.

Turning to Slide 6, other business results were $47 million, significantly above the prior-year period, largely due to favorable underwriting results in captive insurance. Revised full year estimate for other will be in the $70 million to $80 million range, lower than the $80 million to $90 million. We previously guided, largely due to lower expected underwriting performance in the fourth quarter.

In the corporate lines, unallocated corporate costs of $139 million were down versus the prior-year period, principally due to lower accruals for performance-related compensation and the benefits of our restructuring earlier this year. Partially offset by higher spending in IT, as part of our business process transformation investment and by Readiness-related cost.

As a result we're expecting full year unallocated corporate cost to be in a range of $625 million to $650 million, significantly below the $700 million initial guidance we previously communicated. Net interest expense for the quarter was similar to last year's quarter. We continue to expect full year interest expense on a segment presentation basis to be in the range of $350 million to $375 million, down from our initial guidance of $400 million.

Corporate results also include non-cash early retirement charges and global workforce restructuring charges of $47 million or $0.07 per share in the LIFO credit of $16 million or $0.02 per share. Next, I'll discuss our business segment performance for the quarter. Please turn to Slide number 7.

Our newly combined Ag Services and Oilseeds business reported results that were lower than the third quarter of 2018, but up over the second quarter of this year. Ag Services results were in line with the prior year quarter. In North America improved merchandising results, particularly from ownership positions in corn and soybeans help to offset a weak U.S. export environment.

South American results were higher as we capture better origination margin opportunities in Brazil compared to the previous year and export volumes from Argentina increased. Crush results were down year-over-year. Global crush margins have come down from the record high levels of last year, but our teams nevertheless delivered solid margins in North America and EMEA in the third quarter.

In South America, margins were pressured by higher input costs caused by continued Chinese demand for Brazilian soybeans. Overall, our global crush margins benefited from positive net timing effects of approximately $50 million during the third quarter. Refined products and other results were significantly higher than the third quarter of 2018, largely driven by significant improvements in our golden peanut and tree nuts business. Wilmar results were lower year-over-year.

Now looking ahead to the fourth quarter, we expect Ag Services and Oilseeds results to be substantially lower year-over-year, though performance should be stronger than the third quarter of this year with Ag Services expected to be sequentially better and crushing expected to be sequentially down.

Slide 8 please. Carbohydrate Solutions results were substantially lower than the year-ago period. Starches and Sweetener results were down versus the third quarter of 2018. In North America, higher net corn costs, pressured margins, partially offset by lower manufacturing costs including the benefits of our work to improve the reliability of our Decatur corn complex.

Starch volumes remained steady. In EMEA continued challenging market conditions including pressure from Turkish sweetener quotas and lower liquid sweetener prices impacting Central and Eastern European operations led to low results for the year. In wheat milling, an increase in sales volume was more than offset by lower margins due to limited opportunities in wheat procurement. Bioproducts results were significantly lower driven by high industry inventories and higher net corn costs in North America, leading to a challenged industry margin environment. Ethanol margin conditions remain negatively impacted by the lack of Chinese purchases from the U.S. and by the small refinery exemptions.

Looking ahead with typical seasonal reductions in sales volumes for sweeteners and for ethanol, as well as the continued difficult conditions for the ethanol business, we expect fourth quarter results in Carbohydrate Solutions to remain challenged, but with the continued benefits of our improvements at the Decatur complex we expect fourth quarter results to be sequentially similar to the quarter just ended.

On to Slide number 9. Nutrition results were substantially higher with operating profits approaching double the year ago quarter. WFSI results were significantly higher than prior-year quarter, with growth across the portfolio. Wild Flavors delivered its strongest quarterly profit ever. Sales were up 16% year-over-year on a constant currency basis. Organic sales, excluding acquisitions were up 7%.

In Specialty Ingredients, the protein business continue to expand powered by our leadership position in supplying solutions to meet growing customer demand for alternative proteins. Continued contributions from our growth investments in bioactives and fibers support higher results in the Health & Wellness business.

Animal nutrition results were up substantially year-over-year as our Neovia acquisition continues to contribute. Vitamin additives were another strong performer, particularly coming off the year ago period when margins were significantly compressed. Lysine production is showing improvement, though market pricing has been negatively impacted by the lower global demand due to the effects of the African swine fever in Asia.

With a robust pipeline of new opportunities and continued benefits from investments we expect nutrition's growth story to continue in the fourth quarter, with results once again approaching double the prior year fourth quarter profit of $62 million.

WFSI should continue to benefit from increasing sales in flavors and alternative proteins solutions. Neovia will contribute to improve animal nutrition results. The results will be impacted by the Lysine production in the world markets. Juan?

Juan Luciano

Thank you, Ray. Please turn to Slide 10. As Ray explained market conditions in the third quarter remained challenging. Yet we delivered what we said we would, three months ago. We pull the levers that were under our control to turning a solid performance and I appreciate the team's good work.

We also continue to focus on the three key areas of our growth and returns algorithm. First, we improved underperforming businesses. Golden peanuts and tree nuts, our Decatur complex and Lysine production are all showing improved results, and we are now targeting December 1st for the launch of Vantage Corn Processors, our stand-alone ethanol subsidiary.

This is an important step as we continue to evaluate the strategic alternatives for our dry mills. Second, Readiness continues to spur our efforts to make ADM a more efficient, more innovative and more customer-focused company. We are seeing some truly exciting Readiness initiatives advance in the back half of this year.

For example, we've completed the pilot program in one of our Oilseeds processing facilities that utilize advanced analytics to deliver real time analysis and -- of production data, significantly increasing efficiency and quality. We're now rolling this technology out to more plans, leveraging the center of excellence structure we put into place for our global operations.

We've also piloted and are rolling out an innovative data mining and analytics package that will provide our merchandising and sales teams with an important new tool set to better capture market opportunities. We're also seeing good progress and results from the third pillar of our algorithm, harvesting our growth investments.

Back at the beginning of the year, we said we expected 2019, to be a breakout year for Nutrition. For the first three quarters of 2019, our Nutrition business has delivered $316 million in adjusted operating profit, just shy of the total for all of 2018. Additionally, we are delivering on our synergy targets for our Neovia integration and that business is strongly contributing to our results.

And we're also seeing the benefits of growth in our core businesses, from our expanding stevedoring and destination marketing businesses to the development of new applications from our full portfolio of vegetable oils to our increasing capabilities in food grade and industrial starches.

We are making good progress, however, while we believe our results this quarter were solid in the context of the external headwinds we face. Our team nevertheless is not satisfied. There is still more we can and will do to reach our returns objectives.

Looking ahead, we expect some external headwinds to continue in the foreseeable future. Conditions are fluid, however external conditions, good or bad, do not change our fundamental plan. We will remain focused on taking actions under our control to improve our near term results.

And we will continue to advance our strategic objectives including driving growth from the major global trends I discussed earlier. We remain confident that our strategy combined with our continued disciplined capital allocation, position us well for stronger results in 2020 and beyond.

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

Question-and-Answer Session

Operator

[Operator Instructions] Eric Larson with Buckingham Research. Your line is open.

Eric Larson

So, my first question is, Ray's comments on fourth quarter Ag Services. It's -- obviously we don't know your ownership position to net debt segment was actually quite a bit stronger than I had thought for the quarter. So when you look at kind of the difficult harvest maybe farmers holding pretty tight to new crop, if you're limiting some of your merchandising opportunities, how does the fourth quarter -- how does all that play into your outlook for the fourth quarter?

Ray Young

Yes, I mean, I think you're right. I mean, the general export environment remains somewhat challenge for the entire U.S. agricultural industry, but sequentially we're having a later harvest this year. So we will be procuring. I mean we have procured a lot. We will continue to procure. We will be exporting of all of the two markets outside of China.

The other thing to note is that, with the wet harvest that we're having. We are anticipating to gain some significant drawing revenue as well within our business. And then also just want to remind people that, our Ag Services division really has diversified significantly. And so when you take a look at some of the other businesses such as the stevedoring business such as the global trade business, such as the destination marketing business, every year those businesses represent a greater contribution to our overall results within Ag Services.

So, as I indicated in the call. I mean, we do believe on a sequential basis, Ag Services will be stronger in the fourth quarter compared to the third quarter.

Eric Larson

Okay. On a year-over-year -- on a year-over-year basis, will you expect it to be flat, down, up sequentially, obviously a little bit better than Q3, but how might that compare with Q4, a year ago?

Ray Young

Yes. Versus last year, but probably be similar to slightly better directionally in that area, just speaking of what we're seeing here.

Eric Larson

Okay. So, and then the combination of crush, your crushing results and Wilmar, I would assume that Wilmar is facing some pretty tough comps in Q4. So, I would assume that, that was probably going to be down year-over-year as well, would that be a fair observation.

Ray Young

Well, we said on crush again -- so crush will be -- compared to the third quarter, crush, we expect to be sequentially down in the fourth quarter compared to third quarter. Again a lot of it will be a function crush margins kind of evolve, right, in the fourth quarter. On the case of Wilmar, I mean, Wilmar will be announced in earnings in a couple of weeks. So I think you'll have a better perspective in terms of what it means for our fourth quarter after Wilmar announces its results there.

Operator

Ben Bienvenu with Stephens. Your line is open.

Ben Bienvenu

I wanted to ask a question as it relates to Argentina, given the political change there and the prospect for a potential return to elevated export taxes. Is it possible that dynamic, that constrict the exports of Oilseeds derivative products out of Argentina? So that could be a net positive for your overall crushing margins operations. I know you don't have Argentina exposure, but just curious to hear your thoughts there. And then also kind of just opposing that with potentially weaker meal demand at Philippines and Vietnam as a result of the ASF in the near term would be helpful. Thanks.

Juan Luciano

Yes, Ben, so Argentina change governments and of course part of these government in their previous experience has got some export taxes for the country. The country faces significant pace of their debt going forward. So of course, the economic situation is to be consolidated. And obviously the Ag industry is one of the biggest revenue producers of Argentina.

So, the possibilities there, we don't know yet, December 10th is when they take power. I will say at this point in time, what's happening in Argentina is crush is down, because basically the farmer given the results of the elections are holding to their grain. So in that sense, we see lower crush which is always helpful for profitability in Europe, I will say when crush from Argentina is low. So whether that's going to happen next year or not, and to what degree. I think we will have to wait until December 10th.

Your second question was on soybean meal demand. We actually continued to see strength outside China were forecast outside China, soybean meal growth is about 3%. And although there are a lot of headlines about ASF may be expanding into Southeast Asia, we need to be mindful of the relative size of the market, like Vietnam, versus a market like China. So I think that still the discussion is about China, that is what the gap in protein is.

And I will say, if you look at China and with the information we can get it feels to me that the decline in the herd has peaked or bottomed, whatever your perspective is on that. And I think that the incentives at big high prices are given and the producers are having record profits right now in China. They are starting to think about how to rebuild the herd. A lot of them have shifted. About a third of them have shifted into poultry production. That has softened a little bit decline in soybean meal, because obviously you need to feed them.

And a lot of people are looking at more sophisticated meals, because the whole production is being more professionalized and standards are rising. So I think that people are looking for higher quality feed producers and high quality feed of which soybean meal is inclusive in that. There is also these big prices that we have for pork, big pork inflation has created the incentives to increase weight before slaughtering. So we're seeing higher feed on animals as well. So I think in general, we continue to be positive about soybean meal demand going forward. We don't see a significant decline.

Of course, I would say, we will have the balance that rebuild of the herd in China and all these things in China are going to be positive to demand, expansion in Southeast Asia is negative to demand. But I think given the magnitude of those, we are not that concerned about the expansion in South East Asia.

Ben Bienvenu

Okay, very helpful. My second question relates to the ethanol business. You mentioned the formation of the subsidiary, curious around current improvement that we've seen in stocks, production levels kind of dipped in mid-September, they've been steadily climbing back. We have a lot of idled capacity in the U.S. I'm just curious to hear your thoughts around what you think about sustainability of improved performance in the near term and then just your outlook to the extent that you can offer one in the intermediate term.

Ray Young

Yes, I think, a couple of things. As Juan indicated, we are setting up the stand-alone ethanol subsidiary as of December 1. Just for context, starting January 1, we will report Vantage Corn Processors as a separate sub-segment within carbohydrate solution. So clearly we're in the process of making sure transactions are occurring between the new subsidiary with ADM. And so we're well on our way. And the good news is we've got quite a few interested parties that we're talking to right now at the initial stages about some form of sale joint venture or other type of structure transactions. So we're along the -- well along our way there in terms of our strategic alternatives.

You're correct. There has been idling of facilities, idling of production in United States with respect to ethanol, I think the ethanol margin environment this year clearly has been extremely challenging and there's real production levels have come down. And that's frankly resulted in ethanol margins in the industry improving in the month of September, after Labor Day, which by the way it's unusual because normally after Labor Day you actually see ethanol margins deteriorate.

And so there has been some rebalancing of supply and demand. You point out, there is probably been an increase, a little bit of an increase in terms of production recently. We have to watch that carefully. I think what we've learned here, frankly is that when you get supply and demand a little bit more balanced, margins do improve in our industry here. And so we're looking at that very, very carefully. I think it is also important to note here in getting back to ethanol in terms of what ultimately will drive the ethanol margins higher is that we do need to drive incremental demand here.

And I think the discussions right now and the U.S. trying to trade regarding ethanol are important, as a additional catalyst in terms of driving incremental demand for ethanol, which by the way, when we buy ethanol we've actually buying corn from United States. And so that's -- for the U.S. agricultural industry, this is actually a very important part of the discussions here.

We also have the special refinery exemptions. We've had -- clearly have had some negative impact in 2019, but again there's further discussions in terms of that as we go forward. So I think that when you take a look at 2020. You asked the question. Can it get worse than what we've seen in 2019? It's actually very difficult to see a scenario by the industry ethanol margins in 2020 being worse than 2019, because it's been tough in 2019. I'm somewhat encouraged to seeing, idling a facility. So there seems to be a little bit more discipline within the industry right now, in terms of just trying to better match supply and demand.

But again, I do believe that it is important that the U.S. ethanol industry is strong, because that results in basically the U.S. agricultural industry being strong. And so therefore, we remain optimistic that we'll get toward some solution that will drive incremental demand and hence stronger ethanol margins in the future for our industry here.

Operator

Tom Simonich with JP Morgan. Your line is open.

Tom Simonich

So, just following up on ethanol, could you give us your expectations for U.S. ethanol exports in 2020 with and without China?

Juan Luciano

Yes, I mean I think that 2020 scenario excluding China will be very similar to this year, which is approximately 1.5 billion gallons. I think if you include China, again a lot of it to be a function of when you get toward a trade deal and how that is phased in. We've always talked about the fact that China if they move toward an E10 national villain for the country based upon our calculations, they could easily by 1 billion gallons from United States.

I mean, because the deficit is fairly significant in terms of China production relative to their overall demand. Now what number ultimately we'll get toward in terms of a trade negotiation. That's to be determined, based upon -- I suspect a phase in terms of a gallonage over time here. So again, we've always thought that the potential could be up to 1 billion gallons down the road here.

Tom Simonich

Okay. And on U.S. corn exports, volumes are down 60% in 2019, '20 marketing year-to-date. When do you expect competition to ease at current exchange rates? In the USDA projects, U.S. corn exports down 8% in this marketing year and clearly there is still a long way to go, but how realistic is that projection?

Ray Young

Well, I think that is true. Right now, U.S. corn is not that competitive relative to say, South America, I mean, we do expect that eventually U.S. corn will become competitive. Our thinking is when we get into the first quarter, it's probably a good period whereby at that juncture U.S. farmers will be looking probably to sell more of the corn, because as they start thinking about freeing up space and for next year.

So I think our assumptions right now in the fourth quarter, U.S. exports in general will be all the challenge. And that's reflected in my guidance commentary here. Getting the first quarter, you believe U.S. corn will become more competitive, so that'll probably be more movements of U.S. corn. I think the fact that you're not seeing that much pool of U.S. corn in the fourth quarter. It actually is a benefit for the processors like us because there is frankly a plentiful of U.S. corn for us to actually pull in order to put into our corn processing plants. And so, from a processing business that's a benefit for us.

Juan Luciano

Then also -- Tom also don't forget with these competitiveness over Brazil, we are exhausting the inventories in Brazil and due to the dryness, soybean was a little bit late in being planted that may make -- suffering been a little bit late as well. That may extend the window for the U.S. to be competitive when Ray mentioned in Q1. So that's another possibility there.

Operator

Heather Jones with Heather Jones Research Group. Your line is open.

Juan Luciano

Good morning, Heather.

Ray Young

Good morning, Heather.

Operator

Heather Jones, you line is open.

Juan Luciano

We can't hear you, Heather.

Operator

Michael Piken with Cleveland Research. Your line is open.

Michael Piken

Yes, good morning. Just wanted to dig a little bit deeper as we sort of think about the crushing environment in the U.S., I know previously you had said that potentially we could see something close to $1 margins, I guess on the board crush on the basis that if China has taken less soybean. If there is a lack of a trade agreement, I mean how do you see the market evolving, given that the U.S. pork production numbers are up and the chicken production numbers are up and yet the crush margins have been on the board at least a little bit weaker.

Juan Luciano

Yes, Michael, thank you for the question. Listen, we believe in the fundamentals of the crush margins business going forward. Of course, the market right now is trying to digest a lot of significant changes, whether it is Chinese soybean buying patterns and the U.S., the size of the U.S. crop. Some of the timing of the ASF impact that we will eventually see here. So I would say we've seen a decline in crush margins over the Q3, but we also see in that when crush margins decline, the industry react, because demand continues to be, as I said before about 3% and fundamentally sound. So we've seen already crush in Argentina taken down a little bit.

We've seen some of the plants that are dedicated to export in Brazil, taking some of that capacity there. We've seen some shift in Europe also from soybean to rate, just because there is more profitability there. So I think that we see the industry adjusting. In the U.S., we continue to see our customers announcing production increases going forward, and if you think about what happened over the last two weeks, we've seen a recovery in crush margins of about $0.15 per bushel. So they are kind of climbing back to maybe the five year average. So again, I think that we knew that it could be a short term blip when China accounts for sporadic purchases of U.S. soybeans.

But the fundamentals are there. And we think all these blips are temporarily best. So we feel good about our Q4. We came into Q4 with a reasonable hedge book for crush. We also have some positions into Q1. So we have visibility into what's happening, and we are fundamentally believers in the crush environment for 2020, given 3% growth, outside China.

Michael Piken

Terrific. And then just shifting gears, I know I've asked this question before. But on the Readiness initiatives, do you have any more clarity on where we might see the accrued savings, which segments, like little bit of a breakdown in -- is Nutrition getting any of it or, currently how for it would be..

Juan Luciano

Yes, no, I will say, Michael, Readiness come in several buckets as I was describing earlier. But I will say, given that a lot of those savings are coming from operations, the big businesses that own the big assets is where you see most of the benefits. So you're going to see it in corn, you're going to see it in Oilseeds and Ag Services.

I would say Nutrition earnings are driven mostly from growth and the impact that our value propositions have some customers and those applications. So we are outperforming market rates and we continue to grow our EBITDA margin on sales on that and that's not readiness related. They are improving with Readiness because the whole company is get invested and executing. But it's mostly the success of our value proposition. I would say most of the Readiness efforts, you're going to see them in either corporate or corn and Oilseeds and Ag Services.

Operator

Vincent Andrews with Morgan Stanley, your line is open.

Steven Haynes

Hi, this is Steve Haynes on for Vincent. Just so maybe a quick question on CapEx since you mentioned that you found some more opportunity to optimize capital allocation, kind of what's the go-forward run rate for CapEx, as we think about 2020?

Juan Luciano

Yes. When we look at 2020, we're still going through the plan, but it will be in the range of maybe $800 million. So if you think about it -- that's why we've been trickling down to those levels from the $1 billion level. Depreciation and amortization, given Neovia these days is about $1 billion. So it will be a little bit under that. And we feel comfortable. We said it before that our five year plan doesn't have anything spectacular, put there is mostly harvesting plan.

So you will see our CapEx in that range and it may fluctuate that we do things like one ADM and all that, but it will not fluctuate more than just $50 million or $100 million up or down depending on the year, but putting something in the range of $800 million to $850 million is reasonable going forward for us for the few years ahead of us.

Steven Haynes

Okay. And then if I could just squeeze in a follow-up, any updates on the house to you, in terms of U.S. production and maybe some early thoughts on what's going on the Southern hemisphere.

Juan Luciano

The production of what, sorry, I couldn't hear a word.

Steven Haynes

Just U.S. corn production, U.S. soybean productions and then just kind of the house view.

Juan Luciano

Yes, well, the crop is late and now harvest started and then wet conditions make it stop. And I would say the farmer right now is shifting more to harvest in the beans, and they may come back to corn later. There has been rumors in South America about weather. I will say it has rained in Argentina recently that has benefited the crops. So I wouldn't put lot of issuing to Argentine weather. Brazil, we're talking about dryness, but I live three years in Brazil, Brazil is a tropical country, it always rains. So it will catch up with that. So I would say, I wouldn't put a lot of weather into South America yet.

South America, weather is more important into January, February, we will. I guess here, I think the farmer will deal with this weather and will harvest the crop -- whether the crop initial results in terms of yield, you have your favorite numbers out there, may be coming a little bit softer in terms of yield that may be initially expected but too early to tell probably, Steve.

Operator

Vincent Anderson with Stifel. Your line is open.

Vincent Anderson

Yes. Thank you. I appreciate your earlier commentary on African swine fever, but I was hoping you could talk about maybe what has surprised you the most in terms of how the situation has played out over the course of 2019, and how you're positioning yourself now and specifically, have you continue to see feed mills closing in China, given the somewhat more sustained demand that we've seen in feed than maybe we initially expected.

Juan Luciano

Yes, Vincent. I would say the thing that surprises the most probably is, maybe we -- without the acceleration of growth of production outside China was going to be faster its taking some of these countries, whether it is Brazil and all that, a little bit of time to grow their chickens and all that. So I would say, we didn't see right now the extra impact you now we're crushing compounds about that extra demand that we are expecting. We think we're going to see that in 2020, but it didn't happen in the second half of the year.

I still maintain, what I said in the second quarter of our earnings call that second half for us will be stronger than first half. And we have line of sight on that and I can say that with confidence. So that hasn't changed. I would say in China, we see this structural shift into more professionally driven farms and productions.

That as I said, is going to be a positive for us. We have not shut down any of our plans, and we are planning to, because we think that sophisticated feed rations and sophisticated feed producers like us will be seek to help the industry getting out of these. China will have to produce again and certainly we will not do it in the same conditions that they've done it today because that had broaden ASF.

So we feel there is a lot of work to do and we're working closely with our Chinese counterparts in that. I would say outside China, I think that given the conditions are different, although the disease has spread. I think that the ability to discount is to control the disease is better than what China has. So, the disease can impact your country and you're going to still continue to produce and continue to be an export that we have seen it with Europe for many years. So we are a little bit more positive about that.

And as I said at the beginning is that there is magnitude between what happened in South East Asia versus the amount of pork that is produced in China. It makes it just a China discussion at least from my perspective.

Vincent Anderson

Great, thank you. And just staying on the topic of ASF we've read studies showing that the virus has a pretty decent half-life and contaminated feed, how exposed is your global feed network right now to potentially being part of the viruses spread. Are you situated now in any countries with ASF in terms of your feed production assets or are those assets really only moving feed, between other infected areas?

Juan Luciano

Yes, that's a very good question, because we need to be very vigilant. So it makes for that nobody contributes to the spread of this disease. We see the spreads, because people move either pork, people move food around countries. I would say in the feed side, I mean we have extreme care in making sure as I said that feed doesn't grow into areas where, from areas with disease to areas without the disease, and without the proper care. So I would say we have extreme measures on that. As we have a extreme measures on everything we touch, I mean we are a food company, so quality and preservation of the value chain and value integrity, if you will, is paramount to us. So very much on top of our agenda.

Vincent Anderson

Thanks. And actually if I could sneak in just a real quick follow-up, how strong would you say your feed mitigant portfolio is right now and is that a place you see yourself making incremental investment if a vaccine is truly years off, like some experts are saying.

Juan Luciano

We expect our feed business is part of our growth in the Nutrition division. Of course, so you saw our investment in Neovia, significantly expanding our footprint in Asia. So we have very big prospects for that. And we understand, as you're pointing it out at the ASF will be a multi-year impact in the industry. So we think we're going to have to work together with our Chinese counterparts to bring new technologies and more sophisticated feeds and systems into the country and we are ready to do so.

Operator

Robert Moskow with Credit Suisse. Your line is open.

Robert Moskow

Hi, thanks. I wanted to do a little checking on the Neovia acquisition. And just a math here like you paid $3 billion for WILD, and it looks like the returns are good on that acquisition. It's $360 million of operating profit or so, but Neovia you paid $1.8 billion. It looks like maybe $30 million of operating income per year right now. I think when you bought it, it was earning over $100 million. Can you please correct me if my math is wrong and if not maybe tell us again, is there, has there been a step backward on this business in year one after the acquisition?

Ray Young

I think, Rob, I think that when you look at soybean, Nutrition line, you could be careful because, lysine, as Juan indicated, which is part of the animal nutrition line, it's actually suffering from the impact of excess lysine, the world due to ASF. And so there is a negative number in the animal nutrition line which kind of mass -- kind of the benefits of Neovia.

So when we look at Neovia relative to our deal model, it's basically in line with our deal model in the first year. Again we closed one month later. We also had some adjustments due to inventory, due to PPA, but you take that out of the consideration. It's in line with their deal model right now. And so when we look out into the future, especially given that the cost synergies are coming in a lot faster than what we thought. We feel good about the acquisition in terms of the context of our financial objectives including return objectives right now.

Robert Moskow

Where your return objectives more stringent on Neovia or more liberal than for WILD?

Ray Young

They're consistent. I mean, we always said that's important on the strategic acquisitions that by the time we get to year three that we're earning in excess of our cost of capital.

Operator

Adam Samuelson with Goldman Sachs. Your line is open.

Adam Samuelson

Good morning. I was hoping you guys could comment a little bit on the outlook in starches and sweeteners. And just maybe any thoughts on how the contracting season is progressing and more broadly, the impact of some of the dislocations in corn basis, co-products and late harvest and how that's impacting kind of the business and how you think about some of the improvement from your own operations that you should be having going into 2020.

Juan Luciano

So, a lot to wrap up in the question. So I would say, let's start with the contracting season, I mean is going as expected. I think there is no, I mean, I think everybody wants to see what's happening with corn and how the planting goes. So it may be a little bit more, may be a little slower than other years, but is progressing along and is ongoing, so we normally comment as you know in our next earnings call. So when we talk at the end of January or February on this and the results of that is going OK.

I would say this quarter, it was a tough quarter for carbohydrate solutions in general. You saw that we have higher corn costs, higher corn costs than normally by this time of the year we will see a little bit more of a break -- given the harvest. And this year we see maybe a little bit better or may be basis break in a little bit more on the West than then maybe in East.

I would say the biggest drivers this quarter of the shortfall, if you will have been higher corn cost, which were offset a little bit by better manufacturing costs, given the improvements that we then indicated, but not completely. And then some issues that we have in Europe, we have a business in Europe that has been affected by the Turkey sweeteners quota. And that's probably something that maybe you didn't have that much visibility as you look at the numbers from the outside.

I think from a volumes perspective, volumes have evolved as expected I would say, sweeteners, remain consistent with what we've been communicated in which year-to-date, they are down less than 2%. When we look at starches, this is a better story and starches story is, our volumes were basically flat, because we are out of capacity, but we've been able to play with the product mix and shift time of that to the higher value margins. And so, we have expanded margins and of course, of our announcement of the repurposing of Marshall. So, to be able to shift some of our 42 capacity into starches, just because of the growth that, and the opportunities we seen in that, especially in the food area.

So all in all, we continue to be positive about this business. Sweeteners and starches or starches and sweetener is a very solid type of business and we get good returns here. So we are positive about it.

Ray Young

Adam, just to give a perspective, I know like on a quarter-to-quarter basis were down $38 million in starches and sweeteners compared to last year, but it's important get to context. I mean, milling last year we had some very strong procurement gains. This year, we have smaller procurement gains. And so the milling divisions were down about $10 million. And then on the corn starches and sweeteners, the majority of the other variance actually relate to European operations as Juan indicated. We're down in North America a bit due to just higher net corn costs.

But the majority of the variance is really attributable to more of the EMEA operations, which is again a lot of this deal in the Turkish quota situation, is just due to the European sugar prices, which by the way is starting to recover right now, so there is a lot of transitory issues that are in Europe, which are going to pass here.

Adam Samuelson

Okay. That color is really helpful. And then just second for me. Last quarter you had kind of talked about give or take $500 million of operating earnings improvement potential in 2020 from the readiness initiatives and normalizing of production at the Decatur and the absence of just the absence of some of the flooding in the North American weather, the spring, does that guidance or that view still hold, that opportunity still in front of you.

Juan Luciano

Yes, I think Adam we like to present it that way because those are things under our control. And those are not forecast, but actually plans that our actions behind those things. So we continue our -- and probably with the exception of the weather that we hope that is not going to be as exceptional as it was this year. But part of that is to continue to fix the leakages of the issue that we have indicator on lysine that we work, we are finalizing that, but we're not going to have those issues in the 2020.

We're going to have the full run rate of some of the organizational changes we have this year and we are controlling that pretty tightly. So it's going to happen. As I described before, I think Readiness, we're going to have another $600 million of run rate increments. And we have those, we have the process, so we don't need to invent anything. We just need to move the project along. And then we have all the incremental harvesting from M&A and the growth and you saw the results of Nutrition this quarter.

And you're going to see similar jumps in Nutrition as we go forward, we look at Q4 even Q4 for Nutrition, we think the possibility of also about doubling the results of Q4 last year. So when you have almost two consecutive quarters of doubling. You can think of what is the potential for next year. So we feel very good about that number of maybe $500 million to $600 million improvements that are under our control come into the P&L next year.

Operator

Heather Jones with Heather Jones Research Group. Your line is open.

Juan Luciano

Heather?

Heather Jones

Hi.

Ray Young

Hi, Heather.

Heather Jones

Sorry about that, I had to go back and forth, between two calls at a time.

Juan Luciano

No problem.

Heather Jones

I know we're near the end. So I'll try to make this quick and I apologize if somebody has already asked you this. But you mentioned higher corn costs for the starches and sweeteners business, but was just wondering if you could give us any early color you have about, how you think basis is going to be trending for next year, given the late harvest and continued weather issues and all, like what are your thoughts on basis for next year?

Ray Young

Yes, I mean basis as Juan commented, basis is actually fairly high. I mean, particularly on the East Coast, the eastern part of United States, the western side has come off a little bit but again on a -- when you look at it from a seasonal perspective, we've got extremely high basis compared to historical norms. Our -- I mentioned that part of the reason why our third quarter and North American sweetener results were slightly down versus last year is just due to the fact that we had higher net corn costs, we normally hedge a lot of it, but there is a certain portion we don't hedge. And so for the unhedged portion we incurred some higher costs.

As we kind of look forward, we do believe at some juncture, corn will get commercialized. I mean the crop is out there, it's a late harvest. I mean remember only 41% of the U.S. corn has been harvested right now versus five year average of 60%. So it is the late harvest, but some juncture that the harvest will occur, there will be accumulation. And at some juncture there'll be commercialization, especially as U.S. corn becomes more competitive in the world markets. And so the timing of when basis will break. Is it going to be, latter part of the fourth quarter? Is it going to be the first quarter? To be determined, at some juncture we do believe that there will be a break in the basis here. And that will benefit the originators like us.

Heather Jones

And my final question is just ASF and one of the times when I was on the call I heard Juan mentioning that there, given the margins in China and all there is some producers that are trying to expand. And I was just wondering if you could add further color on that. Because like Vietnam, continues to have recurrent breaks China is having recurrent breaks. So it's like wondering if you could qualify the magnitude you're seeing there.

And then secondly if you could give further color on when you expect the benefit to show, and 2020 because of the trade issues, the impact on U.S. producers has been delayed and like do you expect that expansion start in early '20 or do you think that's going to happen more in late '20 and just if you could give us some more details on that.

Juan Luciano

So difficult to speculate in all these -- but I would say, given the information we have on the ground in China, we do know that producers are increasing the weight of the peaks before slaughtering. We do know that -- we certainly know we have data from our team that about one-third of the producers have shifted to poultry production given the opportunity there.

And we do know that the incentive, that price is providing to some of these producers, especially for the more industrial ones, they are starting to rebuild the herd. Those were, they ones that were preserved the most, if you will, and less impacted and they have better sanitary conditions. Very difficult for me to put any numbers beyond these Heather in terms of what, what we know, because it's a large country with many operations like this.

In terms of the impact to us, I would say we're going to see the impact in 2020. We're starting to see the impact in Brazil or in Europe. I think the impact on the U.S., I mean, you see our customers haven't getting ready whether is getting rid of -- I mean or getting ready to export, it will depend on what's happened with the 62% tariff that China is imposing to that, if they want to get rid of with that, if they want to issue a tariff exemption, or is there is, this is part of the Phase 1 deal, we will have to see, it's difficult to handicap.

I would say we will see it in Europe and South America certainly started on the first half, whether we see in North America will depend on the geopolitics of all these which I want handicap at this point.

Operator

Your final question comes from the line of Ken Zaslow with BMO Capital Markets. Your line is open.

Ken Zaslow

Good morning. I know there's been a lot of questions asked about this, but just, is there a way to just frame how much the delayed harvest has actually impeded your profit in 2019?

Ray Young

I guess that's a complicated -- complicated question.

Ken Zaslow

I know, and someone have.

Ray Young

There is just other factor, right. Impact is whole, it's not just a supply issue, in terms of us procuring the crop. It is also demand since the China is not really aggressively in the market here. So it's a complicated issue, to say that just because of a delayed harvest, it has this much impact. I do think that, Ken, the way we kind of think about it is that eventually the harvest will occur, eventually we're going to be procuring all the products, eventually United States is going to be competitive in corn and soybeans. And so, eventually we will be moving the crop out to the world markets here.

Juan Luciano

I think, Ken, the way I tend to think about it is sometimes is not that much the volume or the delay in the harvest is, what that does to the farmers market in beef pattern, if you will. And I think what it does today, since they don't know the size they're holding to the grain. And that's where the impact comes, that's where we're having high basis today when we should -- basis should break more at the harvest, but the farmer doesn't know with 40% and at this time of the year being late, what kind of crop he has.

So I think as Ray said at the end, we're going to have a big crop. There are big inventories, all that will be moved to the market. We will move that. We will try a lot of that, because it's going to be with an early, but I think the main issue is how all these things, whether it is China trade or whether it is the delay impacts farmer commercialization. That's probably the biggest disrupt for us. And today you see it in our, in some of the impact, we are getting in basis in the U.S.

Ken Zaslow

Okay, but you do you think that over time, I mean it is profit but between the China trade deal as well as delayed harvest that you will regain somewhere in 2020 or 2021 that will come fully back to you that 2019 will be kind of aberrational in terms of the profit level. Is that a fair assessment?

Juan Luciano

It depends some -- so some will come back, because we will commercialize that and we have the assets to do that. So we will go through our assets. Some also will depend on the timing, because part of our previous years, Ag Services, great Q4s, remember counted on both having an export, simultaneous strong soy and corn export programs out of the goal. That's what made elevation margins pulp. So part of that will depend on that dynamics and we will have to see it in the Q4 of 2020 if you will.

But in the meantime, I think that our team has done well, look at this quarter. This quarter results product services given the lack of export volumes for corn, we're very significant. So I'm proud of how the team has been playing it. And I think the river getting back into navigation and normal rates has helped a lot that at the beginning of the year for the first half was almost impossible demand. So I think the team has done an outstanding job and ensure they will do the same in 2020.

Operator

I would now like to turn the call back over to Victoria de la Huerga for her closing remarks.

Victoria de la Huerga

Thank you for joining us today. Slide 11 notes upcoming investor events in which we will be participating. As always, please feel free to follow up with me if you have any questions. Have a good day. And thanks for your time and interest in ADM.

Operator

Ladies and gentlemen, thank you for attending the Archer Daniels Midland Company third quarter 2019 earnings conference call. We thank you for your participation. You may now disconnect.