

ARCHER-DANIELS-MIDLAND COMPANY (NYSE: ADM)



BUY. HOLD. AND PROSPER.®

(as at May 31, 2020)

Business Description:

Archer-Daniels-Midland Company (“ADM”) processes oilseeds, corn, wheat, cocoa and other agricultural commodities. The company operates through the following segments: Ag. Services and Oilseeds, Carbohydrate Solutions and Nutrition. The Ag Services and Oilseeds segment includes activities related to the origination, merchandising, crushing, and further processing of oilseeds such as soybeans and soft seeds, cottonseed, sunflower seed, canola, rapeseed and flaxseed into vegetable oils and protein meals. The Carbohydrate Solutions segment engages in corn wet milling and dry milling activities; and converts corn into sweeteners, starches and bioproducts. The Nutrition segment provides customer needs for food, beverages, health and wellness, and more. ADM was founded in 1902 and is headquartered in Chicago, IL.

Investment Thesis:

- **Global market leader position in nutrition.** ADM has demonstrated an industry leading commitment to nutrition, meeting the needs of both emerging and developed markets. In addition, ADM is a global leader in corn processing and diversified oilseeds, allowing the company to add value to many points of the supply chain.
- **The company has shown exceptional return of capital to shareholders.** ADM has consistently conducted share repurchases and has grown dividend payments per share for the past 10 years. Historically, the dividend payout ratio has ranged from 20-40%, which we believe demonstrates exceptional ability to return free cash flow to shareholders.
- **ADM has demonstrated strong innovation and developed improved solutions for customers.** Through 50+ innovation centers, the company has customized different blends of ingredients for specific food and nutritional applications. ADM has also developed processes to streamline the customer’s ordering, testing, and manufacturing operations.

Industry Drivers/Trends: Food & Nutrition:

- The largest driver of growth within food nutrition is the changing population demographic in the world. As the tastes of the global population change, the demand for different food products also shifts to match the population.
- Another driver of growth is within emerging markets in Asia, Africa and Latin America. Many of these emerging markets are growing rapidly and require larger volumes of food and nutritional products. ADM has made tremendous strides in Asia with its production capabilities to serve this demand.

Competitive Advantages:

- Diversified global presence
- Commitment to corporate responsibility
- Robust portfolio of products and solutions
- Economies of scale and other size-based efficiencies

Competitors:

- Tyson Foods, Inc., Ingredion Incorporated, TreeHouse Foods, Inc., MGP Ingredients, Inc.

Customers:

- Food, feed, fuel, industrial enterprises and companies.

Barriers to Entry:

- **Regulatory Requirements:** The food and nutrition space is heavily regulated in terms of hygiene and health standards which will be difficult for new entrants to meet.
- **Economies of Scale:** Food and nutrition companies rely immensely on operations management. Companies that have a large presence within the space rely on efficient operations, which are difficult for new entrants to develop.

Officers and Directors:

Juan Ricardo Luciano, Chairman & Chief Executive Officer; **Donald E. Felsing**, Lead Independent Director; **Raymond G. Young**, EVP & Chief Financial Officer; **Christy J. Folkwein**, Chief Information Officer & Senior VP.

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Financial Summary:

Income Statement (USD millions, years ended December 31st)

	2015	2016	2017	2018	2019
Revenue	67,639.0	62,421.0	60,839.0	64,300.0	64,691.0
COGS	(64,237.0)	(58,553.0)	(57,698.0)	(60,116.0)	(60,554.0)
EBIT	1,347.0	1,894.0	1,163.0	1,969.0	1,679.0
Profit before Tax	2,284.0	1,822.0	1,609.0	2,060.0	1,588.0
Net Profit	1,849.0	1,279.0	1,595.0	1,810.0	1,379.0
EPS (Diluted)	2.98	2.16	2.79	3.19	2.44
Dividends per Share	1.12	1.20	1.28	1.34	1.40

Balance Sheet

Total Assets	40,157.0	39,769.0	39,963.0	40,833.0	43,997.0
Long-Term Debt	5,779.0	6,504.0	6,623.0	7,698.0	7,672.0
Total Equity	17,899.0	17,173.0	18,313.0	18,981.0	19,208.0

Statement of Cash Flow

Cash Flows from Operations	2,481.0	1,475.0	(5,966.0)	(4,784.0)	(5,452.0)
Cash Flows from Investing	(21.0)	(1,211.0)	7,291.0	6,582.0	5,259.0
Cash Flows from Financing	(2,649.0)	(579.0)	(1,028.0)	187.0	(660.0)

Key Ratios and Figures (%)

Operating Margin, EBIT	2.0%	3.0%	1.9%	3.1%	2.6%
Return on Equity	10.3%	7.4%	8.7%	9.5%	7.2%

Source: Archer-Daniels-Midland 2019 Annual Report; Wall Street Journal



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