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# Archer-Daniels Midlands

4/13/2024

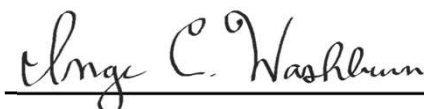
<b>Current Price:</b>	<b>\$60.97</b>
<b>Target Price:</b>	<b>\$75</b>
<b>Upside:</b>	<b>23% ROIC</b>

## Highlights

- I. Strong historical dividend yield and growth with an average growth rate of 6.5%
- II. Depressed share price due to recent lawsuit investigation. The lawsuit does not undermine ADM's core value and the price is not reflective of long-term damage
- III. Short time horizon on investment to account for negative macro headwinds

**Order Type:** Limit @ \$65

**Allocation:** 32 shares (~\$2,000)



PHIG President

PHIG Director

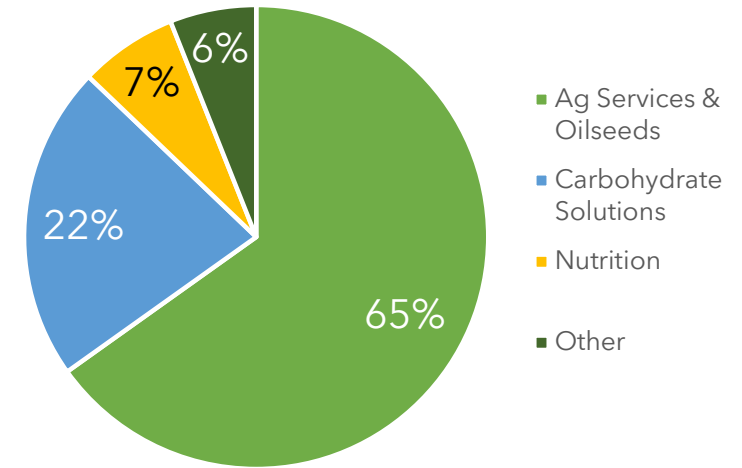
VP of Finance

# Company Overview

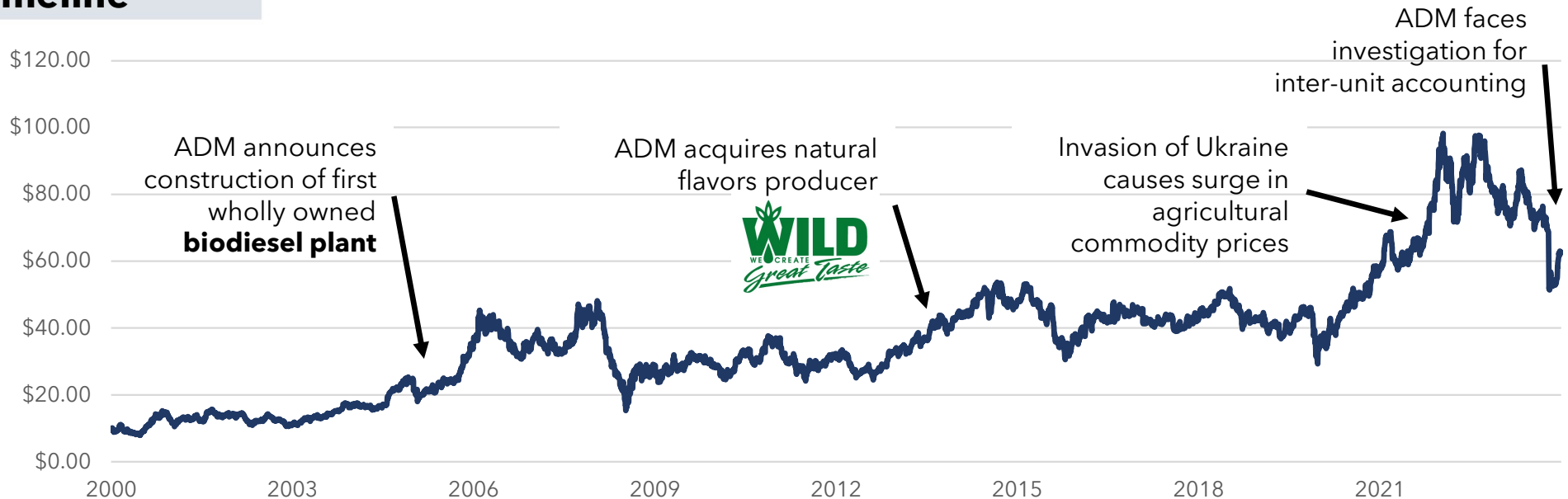
## Key Highlights

- **Archer Daniels Midland:** Global leader in human and animal nutrition and the world's premier agricultural origination and processing company.
- **Core Business:** ADM buys, stores, transports, and processes agricultural commodities like oilseeds, corn, wheat, and cocoa to produce ingredients for human and animal nutrition.
- **Strategy:** ADM's strategy is focused on expanding the volume and diversity of crops merchandised and processed, expanding global reach, expanding value-added product portfolio, and expanding sustainable agriculture programs and partnerships.
- **Robust Dividend:** Long term stock with consistently growing dividend

ADM Operating Segment Profits



## Timeline



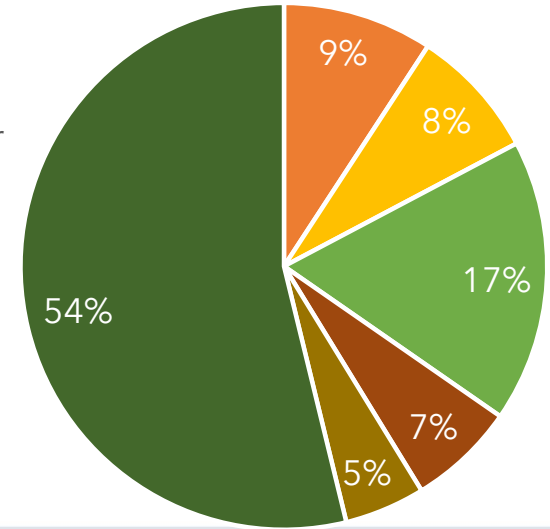
# Industry Overview

## Industry Overview

- Agricultural products companies procure, transport, process, and store crops. **66.2%** of the agricultural industry is driven by seeds, cocoa, and grains
- Agriculture, food, and related industries contributed **5.5%** to U.S. GDP and **10.4%** of U.S. employment in 2022
- The U.S. is the world's leading agricultural exporter, with foreign sales totaling **\$179 billion in 2023**.

## Agricultural Processing Market Share: Key Players

- Archer Daniels Midland
- The J.M. Smucker Company
- Cargill
- Wilmar
- Louis Dreyfus
- Remaining



## Porter's Five Forces

### Competitive Rivalry

**Low**

- Global vegetable oil processing industry dominated by just 5 companies

### New Entrants

**Low**

- Significant capital requirements for infrastructure

### Power of Suppliers

**Moderate**

- Highly fragmented suppliers - thousands of individual and commercial farms

### Power of Buyers

**High**

- Narrow economic moat and low switching costs
- Dependence on commodity prices

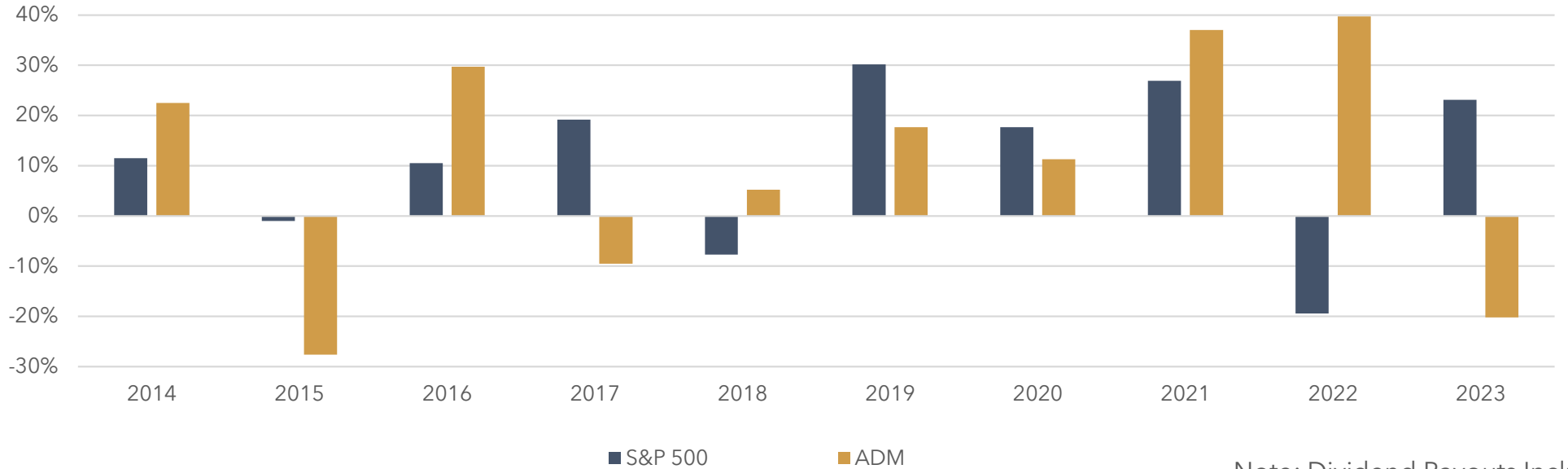
### Substitutes

**High**

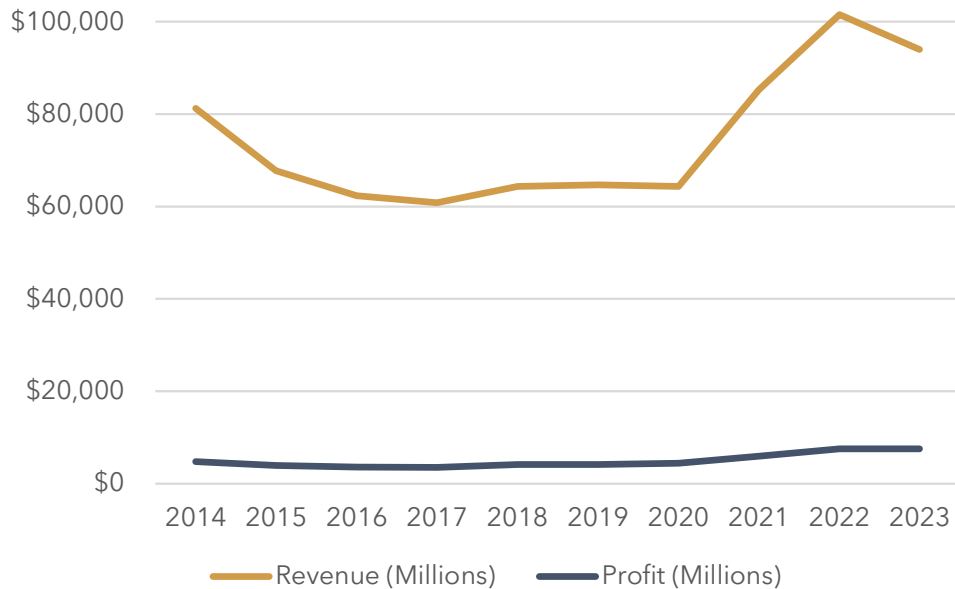
- Consumers can switch to other oil alternatives (palm oil, avocado, etc.)
- For products like animal feed, consumers will always use the cheapest commodity.

# Financial Overview

## Historical Performance



## Revenue and Profit



## Summary

- ADM is **stable** even amidst global economic disruption and has generally benefited from increased demand for food products caused by macro-economic disruptions and market volatility
- 2020-2022:** War in Ukraine heightened demand for agricultural products produced distributed by ADM. ADM capitalized on this opportunity leading to an increase in revenue and profit.
- Beginning in 2022, agricultural commodity prices began to fall as heightened demand from the Ukrainian war began to normalize.

# Sustainable Competitive Advantage

## Generic Business Unit Strategy

<input type="checkbox"/> Product Leadership Leapfrog of New Products: Innovation	<input type="checkbox"/> Operational Excellence Unmatched Focus; Quality, Price & Ease	<input type="checkbox"/> Customer Intimacy 1:1 Bonding; Specific Customer Needs
<input type="checkbox"/> Product Differentiation Unique Features, Product, and/or Service	<input checked="" type="checkbox"/> Operational Competency Std Product, Good Quality, Capable Delivery	<input type="checkbox"/> Customer Responsive Loyalty thru Broad Marketing/Service Focus

## Advantage - Strategic Dimensions & Distinctives *(Economic Moat)*

ADM's competitive strategy focuses on driving productivity improvements, innovation, and building a high-performance culture to support its strategic pillars of sustainable growth.

**Supply Chain/Operations** - ADM has a comprehensive global transportation network to efficiently move commodities and products worldwide, including trucks, rail, barges, and vessels. This efficiency adapted to fulfill global demand despite supply shocks during the COVID pandemic and Russia-Ukraine conflict.

**Robust Financial Position** - ADM prioritizes a strong balance sheet and returns to shareholders through dividends and buybacks. It targets maintaining an investment-grade credit rating. Low

**Growth Strategy** - ADM has three strategic pillars to drive growth:

- Productivity - Partnering across procurement, supply chain, operations, and commercial teams to optimize costs and volumes. Continued business transformation through standardized processes and technology/automation.
- Innovation - Improving customer experience by leveraging producer relationships and digital capabilities. Sustainability-driven innovation across products, solutions, and commitments. Growth initiatives through expanded capacity.
- Culture - Building capabilities through process standardization, digitalization, and diversity/inclusion to enable collaboration and agility.

**Slide 5**

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**EMO**

In the Strong Dividend section, mention the appendix which has a good graph to illustrate the point

Elijah L. Mendoza, 2024-01-26T06:42:14.125

# Investment Summary

## Investment Thesis

We recommend ADM as a **BUY** for 2 reasons:

- **Strong historical dividend performance and growth** - Since 2014 ADM's dividend has seen an average **6.5% growth rate**. ADM's current yield is **3.18%**. This yield is especially attractive considering ADM's low cost of equity (7.8%) which yields the high DDM valuation (see football field below).
- **Depressed share price** - In January, the Department of Justice began investigating ADM's inter-unit accounting processes. We believe that the resulting share price drop (which destroyed \$8 billion in market cap) was disproportional to actual damages to the company. While the price has partially corrected, we still believe there is upside to investing now. (See appendix slide 1.)
- **Short Time Horizon** - We anticipate exiting our position in ADM in the near term, as soon as the price corrects following the ongoing lawsuit.

## Historical Valuation

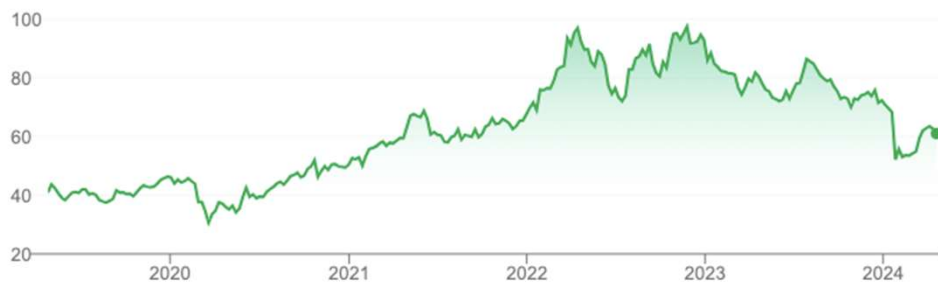
60.97 USD

+20.06 (49.03%) ↑ past 5 years

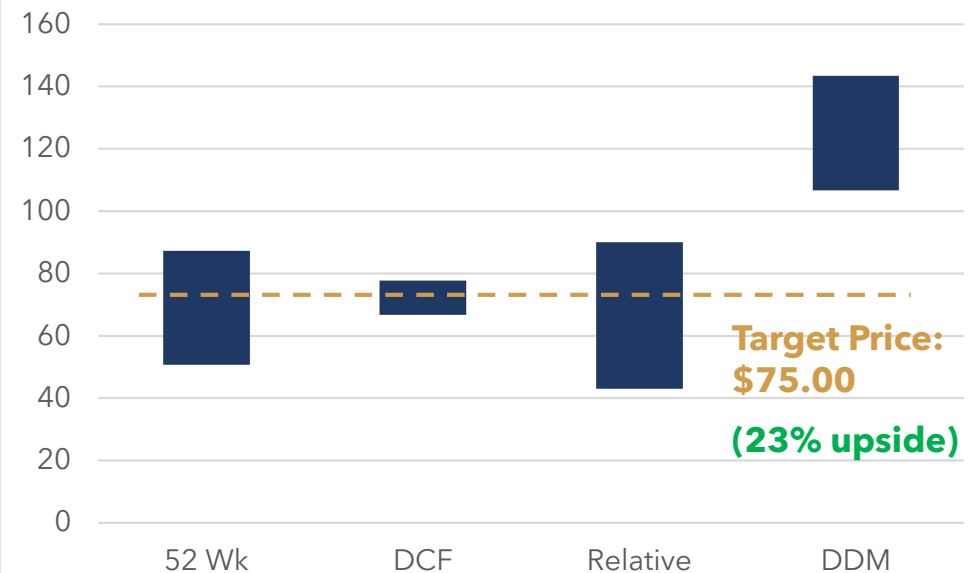
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After hours 60.50 -0.47 (0.77%)

1D | 5D | 1M | 6M | YTD | 1Y | 5Y | Max



## Target Prices





# Appendix: Archer Daniels-Midlands (ADM)

- 1) Lawsuit Timeline
- 2) Seed Oil Processing Supply Chain
- 3) Discounted Cash Flow
- 4) Relative Valuation
- 5) Dividends



# Lawsuit Timeline and Explanation

## Timeline

ADM's board ties performance metric to growth of Nutrition Segment

**Jan 2024**

ADM sued in class action lawsuit by shareholders

**March 2024**

**2020-2021**

Stocks drop 24% after ADM announced voluntary SEC investigation

Three employees subpoenaed

## Details

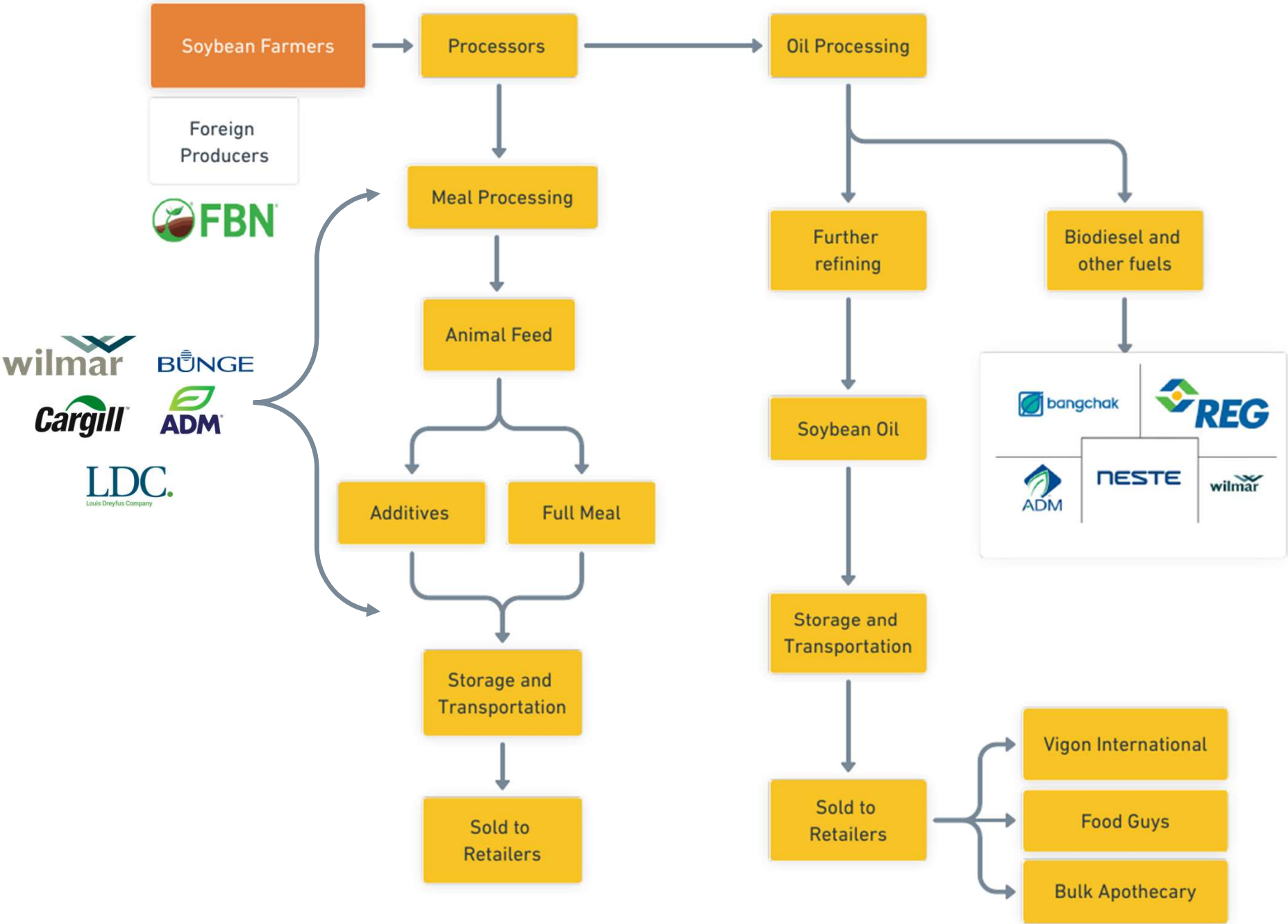
### Key Facts

- ADM's board changed one of performance metrics from adjusted earnings to the growth of average operating profit in the Nutrition Segment
- Executives would receive target payout if the segment's 3-year average growth >10%, and double share awards if growth was >20%
- Executives collected \$7mill from growth
- ADM investigating asset sales between segments at prices below market value

### Impact and Moving Forward

- CFRA cuts its 12-month price target from \$76 to \$61
- Margins already thin due to the crop oversupply in recent years
- ADM is already adjusting sales prices between segments and placed the CFO on leave.
- Lawsuit does not undermine ADMs fundamental operations

# Seed Oil Processing Supply Chain



Sources: Usfarmdata.com, unl.edu, American Soybean association

# Discounted Cash Flow Model

## Archer-Daniels-Midlands Co.

### Discounted Cash Flow Analysis

(\$ in millions, fiscal year ending December 31)

Operating Scenario

Operating Scenario	1	Historical Period			CAGR (20 - '23)	Projection Period					CAGR (23 - '28)	
		2020	2021	2022		2023	2024	2025	2026	2027		2028
Sales	Y	\$64,355.0	\$85,249.0	\$101,556.0	25.6%	\$93,935.0	\$86,889.9	\$83,631.5	\$83,631.5	\$85,304.1	\$87,010.2	-1.5%
% growth		NA	32.5%	19.1%		-7.5%	-7.5%	-3.8%	0.0%	2.0%	2.0%	
Cost of Goods Sold		\$59,902.0	\$79,262.0	\$93,986.0		\$86,422.0	\$80,807.6	\$77,777.3	\$77,777.3	\$79,332.8	\$80,919.5	
Gross Profit		\$4,453.0	\$5,987.0	\$7,570.0	30.4%	\$7,513.0	\$6,082.3	\$5,854.2	\$5,854.2	\$5,971.3	\$6,090.7	-4.1%
% margin		6.9%	7.0%	7.5%		8.0%	7.0%	7.0%	7.0%	7.0%	7.0%	
Selling, General & Administrative		\$2,687.0	\$2,994.0	\$3,358.0		\$3,456.0	\$3,041.1	\$2,927.1	\$2,927.1	\$2,985.6	\$3,045.4	
EBITDA		\$1,766.0	\$2,993.0	\$4,212.0	54.4%	\$4,057.0	\$3,041.1	\$2,927.1	\$2,927.1	\$2,985.6	\$3,045.4	-5.6%
% margin		2.7%	3.5%	4.1%		4.3%	3.5%	3.5%	3.5%	3.5%	3.5%	
Depreciation & Amortization		\$976.0	\$996.0	\$1,028.0		\$1,059.0	\$1,042.7	\$1,003.6	\$1,003.6	\$1,023.6	\$1,044.1	
EBIT		\$790.0	\$1,997.0	\$3,184.0	100.8%	\$2,998.0	\$1,998.5	\$1,923.5	\$1,923.5	\$1,962.0	\$2,001.2	-7.8%
% margin		1.2%	2.3%	3.1%		3.2%	2.3%	2.3%	2.3%	2.3%	2.3%	
Taxes		\$101.0	\$578.0	\$868.0		\$828.0	\$499.6	\$480.9	\$480.9	\$490.5	\$500.3	
EBIAT		\$689.0	\$1,419.0	\$2,316.0	83.3%	\$2,170.0	\$1,498.9	\$1,442.6	\$1,442.6	\$1,471.5	\$1,500.9	-7.1%
Plus: Depreciation & Amortization		\$976.0	\$996.0	\$1,028.0		\$1,059.0	\$1,042.7	\$1,003.6	\$1,003.6	\$1,023.6	\$1,044.1	
Less: Capital Expenditures		\$(823.0)	\$(1,169.0)	\$(1,319.0)		\$(1,494.0)	\$(1,129.6)	\$(1,087.2)	\$(1,087.2)	\$(1,109.0)	\$(1,131.1)	
Less: Inc./(Dec.) in Net Working Capital							\$514.2	\$90.0	\$-	\$(46.2)	\$(47.1)	
<b>Unlevered Free Cash Flow</b>							\$1,926.2	\$1,449.0	\$1,359.0	\$1,340.0	\$1,366.8	
WACC		7.0%										
Discount Period							0.5	1.5	2.5	3.5	4.5	
Discount Factor							0.97	0.90	0.84	0.79	0.74	
<b>Present Value of Free Cash Flow</b>							\$1,862.1	\$1,309.2	\$1,147.5	\$1,057.4	\$1,008.0	

Enterprise Value	
Cumulative Present Value of FCF	\$6,384.3
<b>Terminal Value</b>	
Terminal Year EBITDA (2028E)	\$3,045.4
Exit Multiple	11.0x
Terminal Value	\$33,498.9
Discount Factor	0.71
Present Value of Terminal Value	\$23,884.3
% of Enterprise Value	78.9%
<b>Enterprise Value</b>	<b>\$30,268.6</b>

Implied Equity Value and Share Price	
Enterprise Value	\$30,268.6
Less: Total Debt	10,241.0
Less: Preferred Stock	-
Less: Noncontrolling Interest	-
Plus: Cash and Cash Equivalents	-
<b>Implied Equity Value</b>	<b>\$40,509.6</b>
Fully Diluted Shares Outstanding	542.0
<b>Implied Share Price</b>	<b>\$74.74</b>

Implied Perpetuity Growth Rate	
Terminal Year Free Cash Flow (2028E)	\$1,366.8
WACC	7.0%
Terminal Value	\$33,498.9
<b>Implied Perpetuity Growth Rate</b>	<b>2.7%</b>
Implied EV/EBITDA	
Enterprise Value	\$30,268.6
LTM 03/21/24 EBITDA	4,057.0
<b>Implied EV/EBITDA</b>	<b>7.5x</b>

# Relative Valuation

## Relative Valuation

Company	Ticker	Market Data			Financials (LTM)			Valuation (LTM)		
		Share Price	Equity Value	Enterprise Value	Revenue	EBITDA	Net Income	EV/Revenue	EV/EBITDA	P/E
ARCHER-DANIELS-MIDLAND CO	ADM	\$ 63.89	32,574	60,743	96,896	4,775	3,483	0.6x	12.7x	10.0x
TYSON FOODS, INC. (XNYS:TSN)	TSN	\$ 58.17	20,729	27,405	52,940	1,939	648	0.5x	14.1x	
Bunge Global Ltd (XNYS:BG)	BG	\$ 107.64	15,094	21,549	61,264	2,612	2,243	0.4x	8.3x	7.2x
CAL-MAINE FOODS, INC. (XNAS:CALM)	CALM	\$ 61.51	3,016	2,580	2,669	644	758	1.0x	4.0x	10.9x
FRESH DEL MONTE PRODUCE INC	FDP	\$ 25.12	1,196	2,217	4,352	263	11	0.5x	8.4x	
Adecoagro SA (XNYS:AGRO)	AGRO	\$ 11.68	1,238	2,136	1,407	157	108	1.5x	13.6x	5.5x
High								1.5x	14.1x	10.9x
75th Percentile								1.0x	13.6x	9.1x
Average								0.8x	9.7x	7.9x
Median								0.5x	8.4x	7.2x
25th Percentile								0.5x	8.3x	6.4x
Low								0.4x	4.0x	5.5x

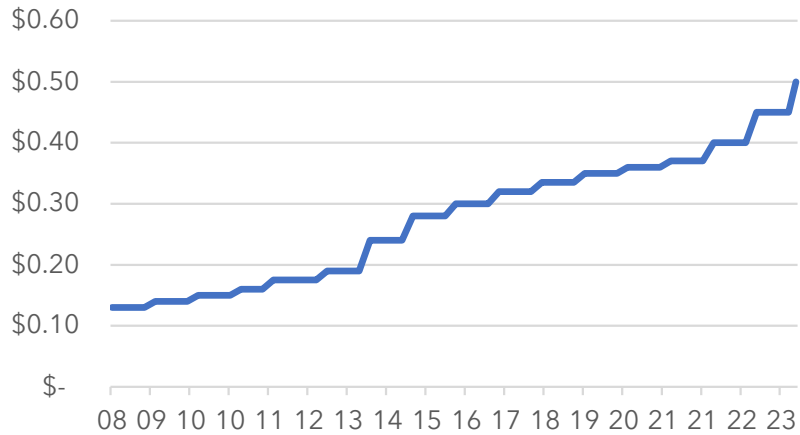
Valuation (Medians)	EV/Revenue	EV/EBITDA	P/E
Implied Enterprise Value	50,159	40,328	20,987
Net Debt	4,206	4,206	4,206
Implied Market Value	45,953	36,122	25,193
Shares Outstanding	510	510	510
<b>Implied Value Per Share</b>	<b>90.13</b>	<b>70.85</b>	<b>49.41</b>
Average:		70.13	

EV/Revenue	EV/EBITDA	P/E
93,664	65,037	27,383
4,206	4,206	4,206
89,458	60,831	31,589
510	510	510
<b>175.46</b>	<b>119.31</b>	<b>61.96</b>
Average:	118.91	

EV/Revenue	EV/EBITDA	P/E
49,360	39,395	18,043
4,206	4,206	4,206
45,154	35,189	22,249
510	510	510
<b>88.56</b>	<b>69.02</b>	<b>43.64</b>
Average:	67.07	

# Dividend History

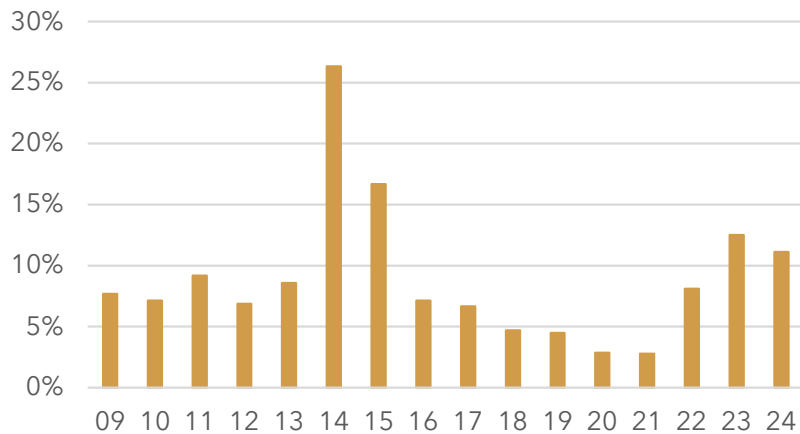
### Quarterly Dividend History



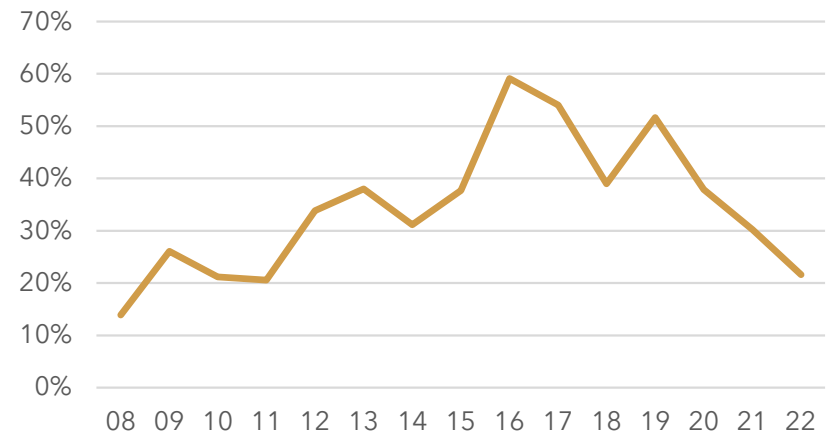
## A strong track record

- ADM's dividend has grown consistently every quarter over the past 18 years.
- The dividend payout ratio has been decreasing, which means that ADM's ability to pay its dividends is not particularly impaired given its current level of earnings.

### Y/Y Dividend Growth



### Dividend Payout Ratio



# Questions

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## **Health foods have become increasingly affordable and prioritized, particularly along the coasts. Have health trends impacted ADM? Will they?**

1. ADM sells oils and agricultural products to a wide range of customers/uses, including commercial husbandry, biofuels, and consumer food products. They also sell into more markets than just the U.S. While health trends may hurt some of their core products, we believe they are sufficiently diversified (both in products and geography) that they can withstand the pressure.
2. ADM is diversifying into more nutritional product lines, via their animal and human nutrition segments. Growth in these segments may help offset these downturns.

## **How will a potential end of the Ukraine war impact commodity prices?**

1. The market for agricultural commodity prices has already corrected since the beginning of the war. Additionally, there are few indications that the ongoing war in Ukraine will end in the near future.
2. Based on our pitch of ADM as relatively short term investment, it seems unlikely that a drastic decrease in agricultural commodity prices will occur and present a threat to ADM. In fact, over the next year or so, agricultural products such as soybean futures are expected to increase in price before decreasing again which is attractive towards a current investment in ADM.

# Questions

## How will a potential end of the Ukraine war impact commodity prices?

The commodity forward curve is an indicator of expected future prices. These are the forward curves for soybeans and soybean oil, which are highly correlated with ADM.

