

ADM probe raises questions about nutrition bet

Commodity trader's growth strategy hit after investigation leads investors to lose appetite

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Archer Daniels Midland expanded aggressively into nutrition and food ingredients in 2014, aiming to build a hedge against the volatility of the commodity trader's other businesses and shore up its income stream.

A decade later, the nutrition business has plunged one of the world's largest agricultural traders into turmoil.

The Chicago-based company's shares fell 24 per cent on Monday, their largest one-day decline since 1929, after announcing that Vikram Luthar, chief financial officer, had been put on leave during an investigation into the accounting practices and procedures of the nutrition business. Ismael Roig had been appointed CFO on an interim basis, ADM said late on Sunday.

ADM is a low-profile company that plays a pivotal role in global food supplies, buying crops from farmers for processing into bulk ingredients, animal feed and motor fuel, or shipping to customers around the world. Founded in 1902, it is the A in the so-called ABCD of global food commodities traders, along with Bunge and Cargill of the US and Louis Dreyfus in Europe. The business is volatile and typically operates on razor-thin margins, driven as much by the size of harvests and government policies as corporate management and strategy.

Under Juan Luciano, chief executive, ADM sought to diversify into the lower-volume but higher-profit margin nutrition business, supplying flavours, probiotics and other ingredients to industries including plant-based meat and pet food.

This week's news "damages ADM's growth strategy, it damages their credibility and their plan to shift away from just creating merchandising and crop trading into this more stable, higher-profit nutrition business", said Seth Goldstein, analyst at Morningstar Investment Service.

ADM said it had launched the probe after a request for documents from the US Securities and Exchange Commission. The company also said the release of its fourth-quarter earnings would be delayed as a result of the investigation, and revised down its expectations for annual adjusted earnings per share from \$7 to \$6.90.

Goldstein said the revised guidance suggested a 40 per cent fall in nutrition



Taste test: a scientist samples a dressing at ADM's science and technology centre in Decatur, Illinois. Below, chief executive Juan Luciano — (Daniel Ackel/Bloomberg)

profits from 2022 — "and that's even assuming we can trust the 2022 numbers". The market reaction this week is an indication that it "has lost confidence in [ADM's nutrition] story", he said. ADM declined to comment.

Just over two years ago, the company set a target for doubling profits from its nutrition segment to between \$1.2bn and \$1.5bn by 2025. "Aggressive, yes; doable, yes," Vincent Macciocchi, who led the division until 2022, told ADM's global investor day in December 2021. "I tell our team all the time, this is the opportunity of our careers to build the world's leading nutrition business inside of a Fortune 100 company, and there's never been a better time to be at ADM."

ADM's purchase of Wild Flavors, a Swiss ingredients manufacturer, for €2.3bn (\$3.1) in 2014 remains the

largest acquisition in company history.

The move led to the creation of a division that has grown with more deals, including for Neovia, the French animal feed maker, for €1.5bn (\$1.8bn) in 2018 and Revela Foods, the dairy flavours maker, along with FDL, the UK-based ingredients producer last year.

The Covid-19 pandemic and Russia's full-scale invasion of Ukraine, a grain and oilseed exporter, pushed up food prices and rates of hunger in many parts of the world but drove price swings that led to record profits for agricultural traders. ADM reported more than \$100bn in revenue in 2022.

The bulk of this came from ADM's trading-heavy agricultural services and oilseeds business, but the nutrition segment benefited too. As prices of animal feed crops rose, for example,

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demand grew for certain types of proteins, such as amino acids, used as supplements in feed mixes.

Overall profits slipped from their record highs last year as price volatility eased. The small wins for ADM's nutrition arm were also shortlived.

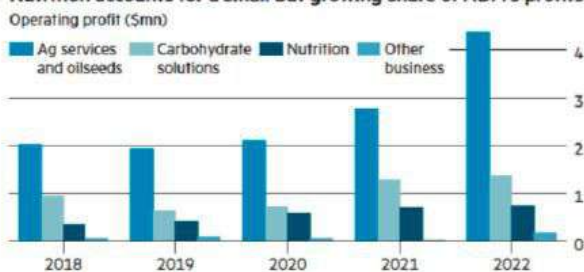
In 2022, the nutrition arm's operating profit rose 6.5 per cent, a far cry from double-digit growth rates touted by Luciano. The share of total operating profit from nutrition fell in the first nine months of 2023, to 10 per cent, as ADM has struggled with waning demand for plant-based protein.

Investors have never been convinced of the nutrition segment's value, said Dushyant Ailani, analyst at Jefferies. While ADM's management was "pretty optimistic about it", he said, for investors "it's always been a show-me story... if you can show consistent performance within the segment, then we'll give you credit for it". The investigation will not help, he added.

Goldstein disagreed. The stock sold off so much, even though the nutrition arm was a relatively small part of ADM's business, because the market had been "giving ADM some credit for moving into a more stable, higher-profit, downstream nutrition business".

But the inquiry and decision to put Luthar on leave suggested "the growth wasn't there", he added. "ADM wasn't ever able to grow the nutrition business and diversify from grain merchandising as quickly as it appeared."

Nutrition accounts for a small but growing share of ADM's profits



Source: ADM

