

Independent Investment Research Focused on Public Company Interactions with the SEC.

Newly Disclosed SEC Investigation

More Bad News Likely From ADM



The Facts: ADM issued an unusual press release over the weekend, on Sunday, 21-Jan-2024.

The CFO was put on administrative leave with related news of an SEC inquiry. Earnings report to be delayed.

From the *Wall Street Journal*, 21-Jan-2024 –

Agriculture company Archer Daniels Midland placed its chief financial officer, Vikram Luthar, on administrative leave as it investigates accounting practices at the company.

The Chicago grain merchant and commodity trader said that the continuing investigation centers around ADM's nutrition business and that it follows a voluntary document request by the U.S. Securities and Exchange Commission.

As of 06-Nov-2023, our work found no signs of undisclosed SEC investigative activity. We do have records from three older SEC investigations (2013-2021), including one into real estate assets and; separately, impairments at a unit of the company. Based on what we know about today's exposure, these older matters appear unrelated.

Before the news, ADM had a market cap of about \$36 billion, with \$97 billion in revenue in the past year.

DI's Take: Companies rarely issue press releases announcing CFO changes and SEC inquiries on weekends.

Six Flags (SIX) announced the abrupt departure of its CEO over a weekend in Nov-2021. The stock was about \$42 then. It's been stuck in the mid-20's since Jan-2022.

Now let's look at the timeline: Our work tells us this SEC inquiry didn't start until after 06-Nov-2023. That suggests the events leading up to this weekend's news took place in a compressed timeframe, measured in weeks.

Think about it: Big companies typically don't move that fast. When they do, it's usually because of some kind of crisis. This implies ADM found something big – and they found it fast. What they found was enough for them to abruptly put their CFO on "administrative leave."

Btw, administrative leave? What's that even mean? This former CFO's career is torched by this news. That alone is a tell this is serious.

Here's another tell: The delayed earnings release. Even ADM management no longer trusts their own numbers.

At minimum, here's what we suggest you need to know to better analyze this exposure –

- When did ADM first receive the document request from the SEC? You always want to know this.
- What did it seek? ADM told us some things, but did they leave anything out? We've seen it a lot more than many might think.
- Have there been follow-up requests or subpoenas since? If so, when, and what did they seek?

Note, there's no SEC rule or regulation that would prohibit a company from answering these basic questions.

In short, the set-up here says we're likely not done yet. Expect more bad news. At minimum, a restatement.

– John P. Gavin, CFA

From the ADM 8-K filed 22-Jan-2024:

On January 21, 2024, Archer-Daniels-Midland Company (the "Company") announced that the Board of Directors of the Company (the "Board") has appointed Ismael Roig to serve as the Company's Interim Chief Financial Officer.

The appointment follows the decision of the Board on January 19, 2024 to place Vikram Luthar, the Company's Chief Financial Officer and Senior Vice President, on administrative leave, effective immediately. Mr. Luthar's leave is pending an ongoing investigation being conducted by outside counsel for the Company and the Board's Audit Committee regarding certain accounting practices and procedures with respect to the Company's Nutrition reporting segment, including as related to certain intersegment transactions. The investigation was initiated in response to the Company's receipt of a voluntary document request by the Securities and Exchange Commission (the "SEC"). The Company is cooperating with the SEC.

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Important: The SEC reminds us that its assertion of the law enforcement exemption should not be construed as an indication by the Commission or its staff that any violations of law have occurred with respect to any person, entity, or security. In its responses, the SEC did not disclose the details on investigative activity referenced herein. All we know is that they somehow pertain to the conduct, transactions, and/or disclosures of the companies.

New SEC investigative activity could theoretically begin or end after the date covered by the latest information in this report, which would not be reflected here. The FOA data reflected in this report are only current as of the dates indicated for each individual company. Similarly, public company activities and/or disclosures made since the dates indicated herein could impact your analysis.

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