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Conference Call Transcript

ADM - Q1 2011 Archer Daniels Midland Company Earnings Conference Call

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PRESENTATION

Operator

Good day ladies and gentlemen. Welcome to the first-quarter 2011 Archer Daniels Midland earnings conference call.

At this time, all participants are in listen-only mode. We will have a question-and-answer session at the end of the conference. (Operator Instructions). As a reminder, this conference is being recorded for replay purposes.

At this time, I would now like to turn the call over to Mr. Dwight Grimestad.

Dwight Grimestad - ***Archer Daniels Midland Co. - IR Director***

Good morning and welcome to ADM's first-quarter earnings conference call.

Before we begin, I would like to remind you that we are webcasting this presentation on our website, ADM.com. The replay will also be available at that address.

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For those following the presentation please turn to Slide 2, the Company's safe Harbor statement, which says that some of the comments constitute forward-looking statements that reflect management's current views and estimates of future economic circumstances, industry conditions, company performance and financial results. Statements are based on many assumptions and factors, including availability and prices of raw materials, market conditions, operating efficiencies, access of capital, and actions of government. Any changes in such assumptions or factors could produce significantly different results. To the extent permitted under applicable law, the Company assumes no obligation to update any forward-looking statement as a result of new information or future events.

Slide 3 lists the matters we will discuss on our conference call today. I will now turn the call over to our Chairman and Chief Executive Officer, Pat Woertz.

Pat Woertz - ***Archer Daniels Midland Co. - Chairman, President, CEO***

Good morning everyone. I'm turning to Slide 4. I'll begin, as always, with safety.

During the first quarter of our fiscal year, we reduced lost workday injury rate by 27% and total recordable injury rate by 14% compared to the fiscal 2010. As we focus on personal safety, we are also making improvements in total process safety. This is the approach we take to help minimize the risk of major incidents at our facilities. In 2010, we issued new total process safety guidelines to ensure that production equipment and controls are designed and installed, operated and inspected, tested and maintained so that process incidents do not occur.

Turning to our financial results, this morning, we reported quarterly net earnings of $345 million or $0.54 per share, including a LIFO charge of $0.12 per share. Steve will discuss LIFO and some unusual items in a moment as he reviews the quarter.

The ADM team performed solidly in both corn and oilseeds, with both businesses well positioned to meet demand. Agricultural Services results were impacted by crop supply shifts early in the quarter.

On our last call, we announced our intention to grow oilseeds crush volume by 7% to 10% on a compound annual basis. As we pursue that goal, we are pleased to announce today that we are constructing a second biodiesel facility in Brazil to complement our existing facility in Rhononopolis. The new facility will be adjacent to our soybean crush plant and oil finery in Joacaba, Santa Catarina, and we will have a capacity of 164,000 metric tons per year. Construction will begin in 2011 and expected to be complete in 2012. The plant will be the only biodiesel facility in Santa Catarina and will help to meet Brazilian government's B5 mandate. As we continue to invest in growth, we are also pursuing opportunities to enhance our storage and handling capacity, both in the US and globally.

Also in this quarter, actually in the current quarter, last Thursday, we announced a realignment of our senior leadership in support of our commitment to growth, growing earnings, growing shareholder value. We named John Rice Vice Chairman. John will focus on extracting value from existing assets and he will continue to lead commercial and production. We also named Steve Mills Senior Executive Vice President of Performance and Growth. Steve will work to accelerate and enhance value from new investments. Ray Young will be joining our team as a Senior Vice President who will assume the role of CFO on December 1. Ray brings a breadth of operational and financial experience in both mature and emerging markets, particularly Brazil and China. He also brings a passion for growth and improvement that will be important as we move ahead. We have a great team that's focused and we are excited by the challenge.

As we look at markets today, global demand is generally strong. This presents ADM with the opportunity to grow shareholder value by doing what we do best, use our assets and our acumen to connect crops from regions where they are available to markets where they are needed.

Now, I'll hand the call over to Steve who will review our segment results.

Steve Mills - ***Archer Daniels Midland Co. - EVP, CFO***

Thanks. Good morning everyone.

Turn to Slide 5 please, where slide five lists are financial highlights for the quarter. Segment operating profit was $765 million, down $9 million from a year ago. In a moment, I'll review our results on a segment-by-segment basis.

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Quarterly net earnings were $345 million, down $151 million from last year's first quarter. Net earnings per share were $0.54 compared to last year's EPS of $0.77. You'll note that the variance in our LIFO inventory reserves was the most significant factor in this change swinging from a $0.07 credit in the year-ago quarter to a $0.12 per share charge in this quarter, a swing of $0.19 or $124 million.

Looking at our effective income tax rate for the quarter, we recorded taxes at 26% compared to 30.7% in the first quarter of last year, due princely to changes in our geographical mix of earnings. This current-year rate of 26% is comparable to the rate we used for our full 2010 fiscal year.

As you can see from the waterfall chart for the quarter on the bottom of the page, we've called out a few items. Again, LIFO had a negative impact this quarter of $77 million after tax, or approximately $0.12 per share due to rising commodity prices, and we have incurred startup costs this quarter of about $20 million after tax, or $0.03 per share, relating mostly to our new Cedar Rapids dry mill, our PHA facility, and our propylene and ethylene glycol facility.

Slide 6 shows the summary of our operating profit by segment.

Let's now turn to Slide 7 to begin a review of each segment in greater detail. We'll start with Oilseeds Processing. Oilseeds operating profit was $308 million, up from last year's first-quarter operating profit of $284 million. Crushing and origination results increased $41 million to $176 million for the quarter. Crushing volumes increased more than 6% over the year-ago quarter, though volumes were down sequentially.

Margins improved overall. North American margins benefited from good raw material positioning. South America gained from better origination margins and strong fertilizer results in advance of the planting season. Europe saw strong soft seed margins.

Refining, packaging, biodiesel and other results increased $6 million to $76 million for the quarter. South American biodiesel demand continued to improve, driving good margins and volumes in that business.

Oilseeds results in Asia were $56 million for the quarter, principally reflecting ADM's share of the results of our equity investee, Wilmar International.

Looking at the crop, the US soybean crop is estimated at 3.4 billion bushels with a yield of 44.4 bushels per acre. Projected soybean carryout is 265 million bushels, which is an ample supply. The soybean crop in South America is being planted, and acreage is expected to be similar to last year's. The canola and rapeseed supply will be tight, as both the Canadian and the European crops have declined from prior-year levels.

As we look at current Oilseeds Processing market conditions, global protein meal demand is projected to grow by 4% to 6% for the 2010/'11 crop year, led by growing demand in Asia. There has been little forward buying by protein meal customers and buyers remained hand-to-mouth. Global vegetable oil inventories remain plentiful and are adequate to supply all needs, including the growing global biodiesel market.

Moving to Corn Processing on Slide 8, for the quarter, corn processing results increased $153 million to a profit of $341 million on stronger bioproducts performance and was partially offset by weaker results from sweeteners and starches. Corn Processing volumes were up, reflecting the added capacity of our new dry mills.

Sweeteners and starches' operating profit decreased $48 million from the prior year to $146 million. This decrease reflects lower average selling prices that were only partially offset by lower net corn costs. Sales volumes were up due to strong export demand and improved demand for industrial starches.

As a reminder, our sweeteners and starches line is impacted by the transfer of starch at a market price to the bioproducts group. A year-over-year decline in this transfer price, while net neutral to Corn Processing as a whole, increased our reported profits and bioproducts while reduced reported profits in sweeteners and starches.

Bioproducts profit in the quarter was up significantly from last year's loss on improved ethanol and lysine margins, a more favorable corn ownership position, and increased ethanol sales volumes. Also in the quarter, bioproducts recorded $32 million in costs related to the startup of our new plants.

Taking a look at the corn crop, US corn crop is estimated at 12.7 billion bushels with a yield of about 156 bushels per acre. The corn carryout is projected to be tight at 900 million bushels.

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As we look at current market conditions, ethanol spot prices are $0.40 to $0.55 sense above unleaded gasoline. Spot ethanol margins remain positive, and the US ethanol industry exports for the first eight months of the year were 211 million gallons, which has helped help support overall demand. Lysine demand remains strong and industry corn sweetener volumes, driven by exports to Mexico and Canada, also remain strong. We are currently in contract discussions with our corn sweetener customers, and will provide a contracting update on our February conference call.

Let's now turn to Slide 9 and review the operating performance of our Agricultural Services business segment. Ag Services results were $132 million, down $43 million for the year-ago quarter. Merchandising and handling profit decreased over last year, due primarily to negative impacts from supply shifts early in the quarter as a result of drought conditions and government actions in the Black Sea region. These negative impacts were only partially offset by a $67 million insurance settlement related to our Destrehan, Louisiana export elevator and by increased volumes driven by the early US harvest. Earnings from our transportation operations improved on higher barge freight rate and volumes, which were also driven by the early US harvest.

As we look at current market conditions, the US corn crop is very large, even though it turned out to be smaller than the USDA previously projected. The US soybean crop is roughly in line with projections. World wheat production was 641 million metric tons this crop year, and global wheat ending stocks are projected to be 175 million metric tons, an adequate global supply, although we are seeing some quality issues and some dislocation. Globally, we see generally strong demand for crops, and we are handling, transporting, and exporting a large US crop.

Turning to Slide 10, Slide 10 is an operating profit analysis of our other business units. In the first quarter, we reported a loss of $16 million compared to the year-ago profit of $127 million. Our wheat, cocoa and Gruma results were down $81 million with improved results in our wheat milling business more than offset by lower results in ADM's cocoa operations and lower results from our equity investee, Gruma.

Other processing earnings for the quarter included mark-to-market losses of $55 million compared to gains of $17 million in last year's first quarter related to certain forward purchase and sales commitments accounted for as derivatives. Other financial results fell $62 million primarily due to losses in our captive insurance operations, principally related to the Destrehan settlement that I mentioned earlier in the Ag Services group. We are in the process of working with our reinsurers and expect to recover a significant part of these losses over the next 12 months.

Current market conditions show steady flower demand and margin structure. The cocoa bean supply continues to be sufficient, and cocoa processing volumes are up year-over-year with cocoa powder supply tight.

Turning to Slide 11, Slide 11 shows the major components of our corporate line. The effects of changing commodity prices on LIFO inventory evaluations resulted in a charge of $123 million this year compared to a credit of $76 million last year. Interest expense net is higher in the current year by $24 million, mostly due to lower capitalized interest. Last year, we were capitalizing interest on a significant amount of construction and progress, most of which has now been capitalized and put into service. We also incurred $31 million for unrealized losses on interest-rate swaps, which as we discussed in our fourth-quarter call, are related to the planned remarketing in 2011 of a portion of the $1.75 billion of debentures.

Turning to Slide 12, Slide 12 shifts to the financial statement view and shows statement of earnings highlights for the quarter. Net sales and other operating income increased 13% to $16.8 billion, due primarily to higher sales volumes. Gross profit decreased $165 million, or 17%, this quarter, mostly due to the effect of changing commodity prices on LIFO inventory valuation reserves that I've discussed earlier.

Selling, general and administrative expenses increased 8% to $381 million, due primarily to higher employee and benefit related costs. And other income decreased $63 million due to the unrealized losses on interest-rate swaps, the higher interest expense, and the lower equity and earnings of unconsolidated affiliates. I covered the changes in income taxes earlier in the call.

On Slide 13, we are comparing selected balance sheet highlights at September 30 against our June 30, 2010 balance sheet. The item I'd like to call out on this slide is the operating working capital line which has increased $1.7 billion, principally due to higher receivables and inventories, with most of that increase financed with short-term borrowings.

Turning to Slide 14, Slide 14 shows the significant items impacting our cash flows for the quarter. Cash generated from operations before the impact of changes in working capital was down $220 million, mostly due to our lower net earnings. As I mentioned on the last slide, working capital increased due to generally increasing commodity prices and the timing of the US harvest. Investments in property, plant, and equipment were lower this year by $162 million, as we have finished up several of our greenfield projects over the last few quarters.

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Also, the marketable securities line for this quarter includes the $100 million cornerstone investment we made in the Ag Bank of China back in July to help advance our strategic growth plans in China.

We acquired approximately 1.1 million shares during the quarter. As of September 30, 2010, as a reminder, we had lines of credit totaling $6.1 billion of which $4.6 billion is still unused.

Turning to Slide 15, which depicts our financial return measure, we are comparing our historical four-quarter trailing return on invested capital against our trailing four-quarter weighted average cost of capital. As you can see, our trailing four-quarter ROIC was 9.4%, and our WAC is running currently a little over 7%.

At this time, I'll turn the call back over to Pat, and we'll be glad to take your questions.

Pat Woertz - ***Archer Daniels Midland Co. - Chairman, President, CEO***

John Rice will join Steve and me for the Q&A, so if you could please open the lines for questions.

QUESTION AND ANSWER

Operator

(Operator Instructions). Vincent Andrews, Morgan Stanley.

Vincent Andrews - ***Morgan Stanley - Analyst***

Thank you and good morning everyone. Pat, can I ask you -- your big-picture comment is that the operating environment or demand is generally strong. (technical difficulty) It may be related to the opportunities at Ag Services. I don't know if John wants to chime in.

Pat Woertz - ***Archer Daniels Midland Co. - Chairman, President, CEO***

I'll start and maybe John can chime in. As you kind of go around the segments, strong in global protein demand, we see actually maybe even stronger than we would have expected in both sweetener movements to Mexico and Canada, and strong ethanol demand, including ethanol exports, which kind of added to demand. So in a general sense, those three segments. John, do you want to talk a little bit about Ag Services as well?

John Rice - ***Archer Daniels Midland Co. - EVP Commercial & Production***

Ag Services are seeing very strong export interest out of the United States starting really with the last month. We expect that to keep going forward. Brazilian crop, there's too much rain in some areas, not enough rain in other areas. The crop is being delayed a little bit so we should see the export interest out of the United States go a little longer this year than normal. So right now, from Pat's comment, we're seeing better protein demand globally. It depends on the region. Also ethanol margins have been, on a spot basis, been fairly positive.

Vincent Andrews - ***Morgan Stanley - Analyst***

If I could just ask you a little bit about Ag Services in the quarter, it sounds like you guys were a little offsides when the Russian wheat crisis happened. So when I look at that $54 million reduction year-over-year in merchandising and handling, if we were to think about what the quarter would've looked like, maybe this is going to be hard to do, what the quarter would've looked like in Ag Services had you not been offsides, would we just sort of be adding back the $54 million, and that sort of would've been about what you could've done in the quarter, or is that not the right way to think about it?

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Steve Mills - *Archer Daniels Midland Co. - EVP, CFO*

This is Steve. I think, in general, that's a -- without getting into the specific numbers, your concept is correct. We are not going to tell you the exact numbers, but it was enough for us to call out that was the issue early in the quarter.

Vincent Andrews - *Morgan Stanley - Analyst*

John, as we look forward, I know there's a lot of questions about Ag Services and the overall environment, and how is it going to be relative to sort of that '07, '08 time period. I think everybody sort of understands the opportunity is elevated relative to the last couple of years but it's not as strong as it was. Is sort of if you X out that $54 million, should that be about the run rate going forward for a period of time?

John Rice - *Archer Daniels Midland Co. - EVP Commercial & Production*

We don't give guidance as you know. But when you compare this to 2007/2008, the market was really led by wheat shortages in many different areas around the world. This year, we had a smaller wheat crop in Russia, and with their ban on exports also in the Ukraine, that's had an effect on the markets. We are seeing good global demand going forward. We're just going to have to keep watching the crops right now.

Vincent Andrews - *Morgan Stanley - Analyst*

I'll leave it there and let others ask. Thanks.

Operator

Christina McGlone, Deutsche Bank.

Christina McGlone - *Deutsche Bank - Analyst*

Good morning. I guess there's a lot going on with at ethanol now, and I wanted to go into kind of if there is a possible any sort of update on the tax incentives, the import tariff, and then also, given that it expires within two months. Then also I think in January, there is a study due in California about greenhouse gas emissions and direct land use. I'm curious if you can kind of give any color about all of these things happening in ethanol.

Pat Woertz - *Archer Daniels Midland Co. - Chairman, President, CEO*

Let me maybe start with the status of VTech. As you know, it expires at the end of the year, and there are actually approximately 140 tax provisions or different tax provisions spanning a very wide varieties of subjects which are due to expire at the end of the year, in 2009/'10 timeframe, including the VTech and the biodiesel tax credit. So it's likely that these tax expirations in total or a large number of them will be addressed by what is often referred to as a lame-duck Congressional session. So we continue to educate members of Congress and their staff about the importance of both of these provisions, VTech and biodiesel. We are hopeful they'll be included in a final passage. But it's important to remember it's kind of an overall set of tax provisions and expirations that will probably be addressed, and this will be swept in with those.

You asked about the California market as well. 2011 is slated to be what is called a compliance year in California, which means that the automotive fuel will need to meet the new specified low carbon fuel standards. While we are supportive of California's efforts to lower the environmental impact of any fuel, we do continue to discuss ways to make their measurements more accurate, in fact most notably in the area of indirect land-use. Some of the recent studies, in fact the studies that the data is based on today, or the low carbon fuel standards based on today have been actually updated and calculated those emissions with respect to indirect land-use. We work with them. The trade associations work with California to make sure they are using the most updated and correct science.

But to your point, January 1 will start a compliance year. John, anything you want to add that?

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John Rice - *Archer Daniels Midland Co. - EVP Commercial & Production*

No, I think you covered that very well.

Christina McGlone - *Deutsche Bank - Analyst*

Thank you. I guess talking about the changes you made in the leadership with Steve's position focused on new ventures, is that -- I notice you bought back stock in the quarter. But is that kind of a signal that maybe ADM is leaning more towards investment in acquisitions versus share repo? Then how should we think about the dilution from the convert next year?

Pat Woertz - *Archer Daniels Midland Co. - Chairman, President, CEO*

Let me start and then maybe Steve can add in here. First of all, growing shareholder value is our objective, and we have several quivers, if you will, in our -- arrows in our quiver, so to speak. I think going after profitable growth with good projects, be they organic or acquisitions, or even getting the most out of the assets we have -- I mean, this whole column of opportunities are our first objective. We do have the opportunity to buy back shares. We're sort of opportunistic buyers, so to speak, and we'll keep that as one of our tools.

Steve, maybe you want to talk about the mandatory remarketing.

Steve Mills - *Archer Daniels Midland Co. - EVP, CFO*

Two things -- one, and as Pat mentioned, we have a lot of flexibility with our balance sheet structured the way it is for share repurchases, growth opportunities and to handle working capital changes like we've seen recently. As far as the mandatory convert, they will convert in the spring of next year, and we are evaluating the remarketing process there. So we're certainly aware of all that's going to happen here, and taking that into consideration as we do our capital planning.

Christina McGlone - *Deutsche Bank - Analyst*

Thank you. Last question, there's a lot of one-time issues, and it's hard to know what's going to continue. So for example you talked about a favorable corn ownership position that North America had -- oilseeds had good raw material positioning. Then there's also this whole Destrehan settlement where it looks like you're getting reinsurance proceeds. So maybe can you talk about kind of what continues or what reverses, so we can think about how to model going forward?

Steve Mills - *Archer Daniels Midland Co. - EVP, CFO*

I'll start with the easy one. That's the insurance. We did have an insurance settlement that was basically intercompany between the captive and Ag Services. We will be working with our reinsurance companies to get reimbursed for that over the next 12 months. Again, most of that loss that I mentioned, which I think was about $62 million in the insurance group, will come back over the next 12. We'll book that, we think maybe even some of it this next quarter, but certainly most of it before the end of the fiscal year. One of us can draw the straw to say that we won't talk much about our position with any of the groups, as you can appreciate. So John wants to (multiple speakers).

John Rice - *Archer Daniels Midland Co. - EVP Commercial & Production*

On oilseeds, we are seeing better demand, protein demand globally. It depends on region. Asia has the largest growth. We still have a little bit of overcapacity still in the world in certain areas, but crush margins are holding in and biodiesel growth in South America and Europe will help the margins, we feel.

In corn, we are seeing very good demand in the export for high fructose corn syrup, and we are seeing good exports just to take enough of the edge off the market in our ethanol.

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Ag Services, like I mentioned before, we are seeing very good export interest coming out of the United States. With some dislocation on the quality issue on wheat, the United States should have -- we have a very good transportation terms right now, we're looking at two with the barge rates higher and transportation fairly tight in the United States.

Christina McGlone - ***Deutsche Bank - Analyst***

Great, thank you. I'll pass it on.

Operator

Christine McCracken, Cleveland Research.

Christine McCracken - ***Cleveland Research Co. - Analyst***

Good morning. I just wanted to go back to your comments on the USDA corn balance sheet. Specifically I guess what I'm looking at is the current run rate on ethanol. It appears to be a little ahead I guess of where USDA is now. Exports seem to be a little slower surprisingly, given your comments on export demand. So I'm wondering. As you look forward, obviously it's still early given where we are in the harvest, but can you talk about how you think about the overall carryout at year-end, given where we are today?

John Rice - ***Archer Daniels Midland Co. - EVP Commercial & Production***

The current carry out the USDA has is right around 900 million bushels which is a fairly tight carryout. Now, we have the crop reports, or the stocks report has had some variance on -- I can't remember exactly. It was this month or the previous month was a 300 million bushel swing. They will update the yield here shortly I think next Tuesday. So we still have more information coming on what the stocks, what the yields are going to be. We are competitive in the world on corn exports right now, but there's other areas of the world that are taking some of our corn export sales. But right now, it looks like we could have a fairly tight corn balance sheet here by the end of the year. We still have some moving targets. It depends on what ethanol demand is going to be, but we have a $12.6 billion mandate as long as we are about $0.20 a gallon cheaper than Brazil when it comes to exports. So there's another 5 billion bushels. So right now it looks like we could have a fairly tight balance sheet.

Christine McCracken - ***Cleveland Research Co. - Analyst***

Just in terms of ethanol, you've brought a new plan online here recently, and it seems like there's still some construction underway. I'm wondering how much additional capacity do you expect could still come on, given kind where current returns are and given some of the volatility maybe we've seen in corn pricing?

John Rice - ***Archer Daniels Midland Co. - EVP Commercial & Production***

That's a good question. We hear of some plants starting up, but we haven't heard of anything out of the ordinary that we are not expecting. Some plants have been delayed. Volatility will definitely have a major -- will be a major factor going forward, and working capital, as Steve has mentioned.

Christine McCracken - ***Cleveland Research Co. - Analyst***

Then just finally, any impact from Prop 23 here in California impacting maybe the issue or the ethanol use in this market I guess going forward, assuming I guess -- depending on which way you think that's going to go?

Pat Woertz - ***Archer Daniels Midland Co. - Chairman, President, CEO***

Help us. Prop 23? I don't know them by prop numbers.

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Christine McCracken - *Cleveland Research Co. - Analyst*

Sorry. Just on the low carbon fuel standard, whether or not essentially they're going to maintain the -- we can talk about it off-line later. It's a little bit complicated to explain. But generally it's just ethanol -- or the move toward carbon emissions here in California.

Pat Woertz - *Archer Daniels Midland Co. - Chairman, President, CEO*

We will talk about that off-line. I think part of the low carbon fuel standard discussion, as I mentioned earlier, is how much ethanol California will be able to absorb from the US to meet these low carbon fuel standards. What we're looking for is the advancement in the better science, particularly in the indirect land use.

Christine McCracken - *Cleveland Research Co. - Analyst*

Thanks so much.

Operator

David Driscoll, Citi Investment Research.

Cornell Burnette - *Citigroup - Analyst*

Good morning everyone. This is Cornell Burnette in with a question for David Driscoll. I just wanted to know when you look at some of the issues that negatively impacted Agricultural Services out in the Black Sea during the quarter, are there any lingering effects from that expected to occur in F2Q '11?

Steve Mills - *Archer Daniels Midland Co. - EVP, CFO*

At this president time, no. We went through a period here where we had a very large, very good wheat harvest here in the United States. What happened with the intense heat and drought situation, and then the ban on exports in Russia, it just came a little quicker than what we expected.

Cornell Burnette - *Citigroup - Analyst*

Then if I can turn it just quickly to the Corn Processing segment and in particular corn sweeteners, could you give us an update right now on how tight that market is and perhaps where utilization rates are at in the US for corn sweeteners? Then secondly, what are the impacts do you think from higher sugar prices heading into contracting season?

Steve Mills - *Archer Daniels Midland Co. - EVP, CFO*

Utilization rates in the industry are very high, just because of the exports we are seeing into Mexico. We are seeing very good spot demand on that. Mexico -- in the United States, you tend to see a little bit of a slowdown during the winter months as opposed to summer months. In Mexico, we tend not to see that. We are seeing better industrial starch demand, but the whole portfolio is tight. We have good ethanol margins, we have good margins in lysine, so we are running our corn plants as hard as we can.

Cornell Burnette - *Citigroup - Analyst*

Thanks a lot.

Operator

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Ken Zaslow, BMO Capital Markets.

Ken Zaslow - ***BMO Capital Markets - Analyst***

Good morning everyone. This may be an odd-ball question, but I actually read through your compensation structure, and one of the things that came out is clearly you guys have EPS (inaudible) RONA targets. My guess is -- what I'm trying to figure out is for 2011 and beyond, how do you change them? Is there a growth component to the EPS structure or the RONA? Can it stay within that range? How does it go year-to-year and how do you guys kind of figure that out?

Pat Woertz - ***Archer Daniels Midland Co. - Chairman, President, CEO***

I'll take that one. We have a process that we have developed over a couple of years that is actually what you might call the NACD best practice, the National Association of Corporate Directors best practice, that the comp committee uses that provides quite a bit of input to what a set of targets, so to speak, or a set a range of targets should be. It includes everything from the Company's past performance, highest levels of performance, business plans and assumptions associated with that, and then also maybe some external perspective, including growth rates, earnings growth rates, expectations from our shareholders, our current weighted average cost of capital, what our objectives are above that, and what they should be. So, it's a set of data that feeds into a discussion that allows you to range out a threshold, so to speak, of any type of payout through a set of what we might call our challenge objectives. It is, again, a best practice. We work through it at a time period before the beginning of the year, and it's competitive comp. It's also based on a set of what you would hope the outcomes would be that would allow you to be in a competitive range.

Ken Zaslow - ***BMO Capital Markets - Analyst***

But in EPS, you put out $1.89 to $3.38. Is that some significance to something we should be able to look at. Is that a base level? Is there something I should be thinking about in that number?

I mean it is the first time I've even seen you guys actually put an EPS number out there. so I just didn't know if that's something that, from the outsider's point of view, is that what you consider your base, is that what you consider what you can grow off? I'm just trying to figure out what that actually means to a layman like myself.

Steve Mills - ***Archer Daniels Midland Co. - EVP, CFO***

This is Steve. That range of numbers has really been derived from a historical performance level over time, and then the comp committee then has put kind of book ends on that. so it's more of a historical looking. It's not necessarily anything more than that, and it's really, as Pat said early, designed to make sure we have a competitive compensation program.

Ken Zaslow - ***BMO Capital Markets - Analyst***

Then my other question on fundamentals. What do you think the key underlying drivers were for the higher ethanol margins? Are they sustainable? Will lay ebb and flow? How do you think about them for the next call it 12 months?

John Rice - ***Archer Daniels Midland Co. - EVP Commercial & Production***

That's a good question. Right now, we have very good spot demand, I think there's a few reasons. We are not seeing any other competitor in the world markets. The United States is the cheapest (technical difficulty) price. We are seeing very good spot demand. Plus, we are seeing the incentives there. We're blending over the mandate. The industry is running right at about 13.3 billion gallons with exports. So there's incentive also to [plan]. It's going to come down to what the price of gasoline is, and then also what the price of ethanol is. But we will blend at least 12.6 billion gallons next year.

Ken Zaslow - ***BMO Capital Markets - Analyst***

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Okay. My last question is how does ADM's export as a percentage of Ag Services compare to the industry? Can you give us some parameters, how to think of that? Are you guys over index in-line with the industry or below the industry in terms of your export business as a percent?

Steve Mills - ***Archer Daniels Midland Co. - EVP, CFO***

We're looking at each other here briefly. That's a good question, I don't think any of us has that number at our fingertips.

Pat Woertz - ***Archer Daniels Midland Co. - Chairman, President, CEO***

I think we have a strong system to allow for exports. We're one of the largest, but I wouldn't have a percentage for you.

Ken Zaslow - ***BMO Capital Markets - Analyst***

Would you say you're over indexed, in line with the industry or below industry in terms of just indexing. I just want to -- I get the sense that maybe you are in line with the industry. I just did not know if that was correct.

Steve Mills - ***Archer Daniels Midland Co. - EVP, CFO***

We are a large player in the export market. We have four elevators down in New Orleans that are exporting, one in Texas, one on the West Coast. But I guess we haven't looked at the capacities.

Ken Zaslow - ***BMO Capital Markets - Analyst***

I appreciate it.

Operator

Robert Moskow, Credit Suisse.

Robert Moskow - ***Credit Suisse - Analyst***

Thank you. I wanted to focus in on how you worded the Ag Services division weakness, because I think you said at the beginning of the quarter or early in the quarter that was when you had your biggest problems related to the crop shift or the Black Sea drought. I'm just wondering, John, the quarter kept going, and wheat prices and all grain prices kept rising. Is there anything your division could've done to kind of reposition itself differently during the course of the quarter to offset what I guess was -- I don't know what exactly it was. Was it you sold forward too low, or too much? Just curious.

Steve Mills - ***Archer Daniels Midland Co. - EVP, CFO***

I think we handled the situation -- the team, the group here at ADM handled the situation great. We're always looking at different markets, different situations. If one area gets caught or there's one area we see a potential problem, we may focus and help it out in another area too. So it's a moving target. To say we can always do things better, sure. We can always do things better. I think we handled the situation very well.

Pat Woertz - ***Archer Daniels Midland Co. - Chairman, President, CEO***

Let me add to that. I think that we were positioned well in oilseeds and corn; we talked about that. You did hear the word early in the quarter when we commented about Ag Services. I think our team is agile, it's nimble and it does things to -- that's sort we do every day to minimize the risk associated with a particular calls and handle it through the quarter.

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Robert Moskow - *Credit Suisse - Analyst*

Can you give us a little more specifics on what exactly it was? Was it a situation where you had maybe sold forward too early, too much, or not bought enough to satisfy forward sales? I think [Bungie] had a quarter like that and it was kind of one-time in nature.

John Rice - *Archer Daniels Midland Co. - EVP Commercial & Production*

I guess we don't want to go into specifics on things. There's many different things that can happen in a quarter and can happen in different regions. It's just not Russia. You have other areas in the world that [it affects the merge] and just even getting ships loaded.

Robert Moskow - *Credit Suisse - Analyst*

I'm going to ask one last thing. Just Pat, what does Ray Young bring to the table? What is it about his resume that was particularly important to you as you think about the next five years or ten years for ADM?

Pat Woertz - *Archer Daniels Midland Co. - Chairman, President, CEO*

Sure. Ray is going to be able to join our team on our next conference there in December. So you'll be able to ask him that a little bit yourself. His background and experience is definitely global. He has spent a lot of time in operations as well as a Chief Financial Officer in some of the emerging regions, like Brazil and China. I would even say he is a bit of an expert in running those operations. I think his aspirations associated with growth, or his experience associated with growth will be very much a fit with our team. We're looking forward to introducing him to the analyst community and others.

Robert Moskow - *Credit Suisse - Analyst*

Thank you very much.

Operator

Diane Geissler, CLSA.

Diane Geissler - *Credit Agricole Securities - Analyst*

Good morning. I wanted to ask you about your commentary in your press release last week where you said "We have committed to a new phase of profitable growth at ADM. We intend to grow shareholder value, grow earnings and grow the size of our company." Can you articulate for me please what your growth targets are?

Pat Woertz - *Archer Daniels Midland Co. - Chairman, President, CEO*

For the entire Company, we haven't noted external targets. You can imagine we probably have those discussions internally. But for oilseeds, for example, the 7% to 10% that we talked about over five years is something clear. I also believe that we will have further growth objectives for each of our divisions in total over time. That's one of the reasons we are putting the new leadership together, to kind of take the pieces of this growth potential apart and kind of assign it to the folks that are going to take it forward. But you could say that you could put it in the bucket of across the Company sort of baseline growth, organic growth, new product development growth, some acquisition growth, or you could take it by segment, Corn, Oilseeds, Ag Services, etc. So more to come on the specifics there. But as we have specifics and then the detail behind it, such as our Paraguay buildout or our biodiesel plant, we will add under each of those.

Diane Geissler - *Credit Agricole Securities - Analyst*

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So when you say grow earnings, do you intend, once your plan has been maybe a little bit more crystallized, to provide the Street with a growth target rather than just we expect RONA to be at a certain level or ROIC to be above a certain level above WAC? Are you going to give us an EPS growth forecast goal?

Pat Woertz - ***Archer Daniels Midland Co. - Chairman, President, CEO***

I think it's hard to do a forecast certainly by quarter, even a given year. But over the long term, I see much more specificity on that growth -- those growth objectives, absolutely.

Diane Geissler - ***Credit Agricole Securities - Analyst***

Terrific. I guess we kind of danced around the fructose export, etc., etc. What are your pricing expectations for 2011 on fructose?

Steve Mills - ***Archer Daniels Midland Co. - EVP, CFO***

We have contracting going on now. We'll just as soon wait until we get finished with them all. We'll update everybody in the February call, but we still see export interests, and with high sugar prices, we are still seeing good interest here in the United States.

Diane Geissler - ***Credit Agricole Securities - Analyst***

Can you tell us how far you are in the contracting at this point for [HFCF]?

Steve Mills - ***Archer Daniels Midland Co. - EVP, CFO***

I'd just as soon not comment right now.

Diane Geissler - ***Credit Agricole Securities - Analyst***

Then I guess can we talk a little bit about what happened with cocoa? Your commentary suggested that prices are okay and supply is okay, so I guess I'm a little -- just wondering what's going on within your operations. Was it just the cocoa plant is new and you're still working out some of the issues, or is that a one-time thing, or is there kind of more to come on the negative side in cocoa?

Steve Mills - ***Archer Daniels Midland Co. - EVP, CFO***

I think that, over the past -- first of all, the operations and the business structure is good in cocoa. As we mentioned earlier, powder is tight, press margins have improved. The challenge that we've had here for several quarters now -- and we've reported this I would say at least for a year now -- that we've had a kind of a challenge to get the GAAP, US GAAP results to reflect what the underlying business is -- how the underlying business is performing. We had a roller coaster of ups and downs. You can appreciate, I think last quarter we had a big gain in this that was -- so at this point in time, we are -- we've been up and down and we're going to continue that to some extent as long as the market continues to move as significantly as it has. So this is one of the few areas that we have that we struggle to match up the underlying business economics and the accounting that we're forced to do. Most of it has to do with how we account for foreign sales contracts.

Sorry for the convoluted answer, but it's just hard to predict. The critical thing for us is that the business is getting better, the operations are running okay, and there's no real unusual operating item inside that.

Diane Geissler - ***Credit Agricole Securities - Analyst***

Okay. I guess if I could ask one last one? Obviously you've had a big working capital build, because commodity prices have run. Has that -- will you still be able to repurchase shares, given your cash position, or do you feel that, for the intermediate time, you're going to suspend share repurchases while you fund your higher inventory and receivable balance?

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Steve Mills - ***Archer Daniels Midland Co. - EVP, CFO***

We have plenty of capacity to continue to buy back shares. We'll -- as we always do, we will be opportunistic as we evaluate that.

Diane Geissler - ***Credit Agricole Securities - Analyst***

Thank you very much.

Operator

Ian Horowitz, Rafferty Capital Markets.

Ian Horowitz - ***Rafferty Capital Markets - Analyst***

Good morning everyone. Can you just talk a little bit -- I guess it's kind of similar to Diane's question regarding the cocoa situation -- the comments around HFCS, where the volumes were good in terms of exports, and we heard of a fairly tight summer market, but then we are seeing prices overall weak, and when that backs up against a very strong sugar market, I'm just not quite sure I understand why prices weren't really kind of able to follow, to some degree, sugar higher with such a tight and solid volume movement.

Steve Mills - ***Archer Daniels Midland Co. - EVP, CFO***

I'll start and maybe turn it over to John. From a year-over-year basis, the prices are going to be off because of prices that were set for the entire calendar year of 2010 compared to 2009, which we expected pricing to be down, as we've talked about all along. It's been down all quarter.

As we know when we went into 2010, the market conditions, especially for industrial starch, were relatively weak and helped influence the whole pricing for the period. So it's not something that, from an absolute sales price, is moving much during the calendar year.

John Rice - ***Archer Daniels Midland Co. - EVP Commercial & Production***

So when you look at 2000 -- last year at this time as opposed to this year at this time, we are seeing better demand across our whole portfolio in fructose, starch, lysine (technical difficulty) citric acid. So I think that's really the main difference as opposed to maybe the absolute price.

Ian Horowitz - ***Rafferty Capital Markets - Analyst***

So then we should be expecting a significantly -- a significant move in pricing as we go into the next contract season, given the run-up in both sugar and corn, correct?

John Rice - ***Archer Daniels Midland Co. - EVP Commercial & Production***

We will comment on that in February. We have come out with pricings, but we would just as soon wait until all of the contracting is done and comment on it in February.

Ian Horowitz - ***Rafferty Capital Markets - Analyst***

John, will you comment on what you think the Mexican market looks like nowadays in terms of overall market potential volume-wise?

John Rice - ***Archer Daniels Midland Co. - EVP Commercial & Production***

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We keep seeing more interest from more customers as the high price of sugar -- it makes sense for them to import more high fructose corn syrup and export the sugar up here, and they keep seeing that growing -- more interest from food manufacturers, and also bottlers.

Ian Horowitz - ***Rafferty Capital Markets - Analyst***

I think initially a couple of years ago, this was kind of a 2 million ton -- if I'm remembering correctly -- kind of opportunity. Is that kind of still where you see this market being?

John Rice - ***Archer Daniels Midland Co. - EVP Commercial & Production***

I had a little smaller than that, but it does take a little bit of time for people to switch out. A lot of it has to do with just setting up the market. We expect it to grow. Our numbers are closer to 1.4 million metric tons.

Ian Horowitz - ***Rafferty Capital Markets - Analyst***

Then biodiesel -- go ahead.

John Rice - ***Archer Daniels Midland Co. - EVP Commercial & Production***

In 2010, sorry.

Ian Horowitz - ***Rafferty Capital Markets - Analyst***

Biodiesel, going forward, here in the US, what -- how do you see us handling this RFS obligation? Is this going to be waived, or is your kind of efforts of expanding South American capacity kind of with the intent of possibly supplying a North American market with South American product, or --?

John Rice - ***Archer Daniels Midland Co. - EVP Commercial & Production***

No, we're looking at this as biodiesel really not an exportable product. Europe, our plants are focused on shipments to Europe. We are seeing the Brazilian government increasing more biodiesel mandates. Here in the United States, we have this mandate. There is a question -- a court case that is supposed to get an answer here in the next month about the biodiesel mandate. If that comes positive, we could see a very good pickup in biodiesel demand where they may have to start blending very heavy here in the next year.

Ian Horowitz - ***Rafferty Capital Markets - Analyst***

Then last question and I'll get back in queue. Can you give us a little bit of -- what your thoughts are on why we are seeing such strong ethanol prices relative to gasoline so late in the season?

John Rice - ***Archer Daniels Midland Co. - EVP Commercial & Production***

Better demand? I think just with the exports, with people running a tight inventory situation and with working capital I think also comes into play when you have to -- it's very difficult to put on a margin very far forward. So when you're buying corn today for delivery in three days, you're going to produce your ethanol in another five days and it's a very spot market. It's very tough to go out and sell a margin or an ethanol margin in two weeks. I think that's part of the reason.

Ian Horowitz - ***Rafferty Capital Markets - Analyst***

Thanks, I'll get back in queue.

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Operator

(Operator Instructions). Christina McGlone, Deutsche Bank.

Christina McGlone - ***Deutsche Bank - Analyst***

Thanks for the follow-up. When you were answering Zaslow's question about ethanol, you said we will blend 12.6 billion next year. I was just wondering if you have ethanol trading kind of with gasoline plus the tax credit roughly and the tax credit the way it stands today at $0.45, and we have over 2 million gallons in (inaudible) for next year. How are you sure that you will -- that the industry will blend to 12.6 billion gallons?

John Rice - ***Archer Daniels Midland Co. - EVP Commercial & Production***

You're correct. I'm not totally sure just because you have the rents. But what I see of the gasoline markets and of the corn and ethanol markets, I (inaudible) sitting here today, I expect the industry to blend at least 12.6 billion.

Christina McGlone - ***Deutsche Bank - Analyst***

Thank you -- go ahead.

John Rice - ***Archer Daniels Midland Co. - EVP Commercial & Production***

Things can always change if all of a sudden something -- corn prices run way high or ethanol prices run way high, people could use the rents not to blend.

Christina McGlone - ***Deutsche Bank - Analyst***

Okay, thanks.

Operator

Bryan Spillane, Bank of America.

Unidentified Participant

It's actually Ryan (inaudible) in for Bryan. Pat, I'm just curious. I guess six months ago you talked about coming off this spending for -- to grow your business in terms of capital spending and focus more on acquisitions. I guess you've announced two plants being built over the last two quarters. Is the pipeline for acquisitions not what you thought it was, prices too high, can you talk a little bit about what's going on there and should we expect some acquisitions in the near to intermediate term?

Pat Woertz - ***Archer Daniels Midland Co. - Chairman, President, CEO***

Thanks for the question. As I talked about earlier, our profitable growth strategy will include acquisitions, but it also will include some organic, some build on to our current plants, and where the opportunities present itself. So acquisitions are still in the mix. In fact, we have I think a good pipeline. We talk about keeping it full and progressing, but when we have something to announce, we will definitely do so.

Unidentified Participant

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Thanks. Then I guess if you could comment on sugar ethanol in Brazil? I guess there was a report that you guys were considering selling your stake in a sugar ethanol plant down there. Is that still considered something you guys would like to get into, or is that going to be core business going forward for you guys?

Pat Woertz - ***Archer Daniels Midland Co. - Chairman, President, CEO***

As you know, our JV in Brazil currently has the capacity of 36 million gallons a year. We don't comment on rumors, but we are learning more about the Brazilian sugar and ethanol market, both with this JV as well as our folks in Brazil understanding all of the opportunities there. So yes, it's still in our mix as far as both a diversification of input portfolio and the product slate that can be made, and obviously that's a growing market.

Operator

John Roberts, Buckingham Research Group.

Gaji Vackaneesen - ***Buckingham Research Group - Analyst***

Good morning. This is actually [Gaji Vackaneesen] sitting in for John Roberts. I just had a series of possibly naive questions. But first of all, for a reminder, do you hedge out currency risk?

Steve Mills - ***Archer Daniels Midland Co. - EVP, CFO***

We hedge out our currency transaction risk. Bigger capital projects and big investments, we don't normally do that but transactionally we do.

Gaji Vackaneesen - ***Buckingham Research Group - Analyst***

Okay. Steve, I think when you're talking about the bioproducts, you've mentioned favorable corn holding positions. Can you explain what that means?

Steve Mills - ***Archer Daniels Midland Co. - EVP, CFO***

Well, as you can appreciate in our business, we have to buy a lot of corn in our business. Part of it has to do with the timing of when you but it. Especially when the market is moving, you'll get various results. So we are big buyers and that turned out to be beneficial this particular quarter.

Gaji Vackaneesen - ***Buckingham Research Group - Analyst***

Okay. I supposed you mentioned that the convertible should be converting in the spring. Is there any concern about financing working capital when it happens, especially if commodities continue to move upwards?

Steve Mills - ***Archer Daniels Midland Co. - EVP, CFO***

No, we feel comfortable with our lines of credit and our ability to have the flexibility to run our operations.

Gaji Vackaneesen - ***Buckingham Research Group - Analyst***

Okay. In other processing, the mark-to-market losses, were those on I guess derivatives just around wheat and cocoa, or does that include other commodities as well?

Steve Mills - ***Archer Daniels Midland Co. - EVP, CFO***

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That particular line item is principally wheat and cocoa, so that number references that particular part of the business.

Operator

At this time, there are no further questions. I would now like to turn the call back over to Pat Woertz for closing remarks.

Pat Woertz ***- Archer Daniels Midland Co. - Chairman, President, CEO***

Thank you, everyone, for your questions and comments and interest. Our Slide 17 does list our next investor conference. As I mentioned, Ray Young will be joining us, so we look forward to talking with you on our next call in February. Good day.

Operator

Ladies and gentlemen, this concludes the presentation. You may now disconnect. Thank you and have a great day.

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