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Conference Call Transcript

ADM - Q3 2011 Archer Daniels Midland Co Earnings Conference Call

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CORPORATE PARTICIPANTS

Dwight Grimestad
Archer Daniels Midland Company - VP IR

Patricia - Pat Woertz
Archer Daniels Midland Company - Chairman, President, CEO

Ray Young
Archer Daniels Midland Company - SVP and CFO

John Rice
Archer Daniels Midland Company - Vice Chairman, Office of Chairman

CONFERENCE CALL PARTICIPANTS

Vincent Andrews
Morgan Stanley - Analyst

Christine McCracken
Cleveland Research Company - Analyst

Christina McGlone
Deutsche Bank - Analyst

Jeff Farmer
Jefferies & Company - Analyst

Robert Moskow
Credit Suisse - Analyst

Ken Zaslow
BMO Capital Markets - Analyst

Ryan Oksenhendler
BofA Merrill Lynch - Analyst

Diane Geissler
Credit Agricole Securities - Analyst

David Driscoll
Citigroup - Analyst

Ian Horowitz
Rafferty Capital Markets - Analyst

PRESENTATION

Operator

Good day, ladies and gentlemen, and welcome to the Archer Daniels Midland third quarter earnings conference call. My name is Chanel, and I will be your operator today. (Operator Instructions) As a reminder, this conference is being recorded for replay purposes. I would now like to turn the conference over to your host for today, Mr. Dwight Grimestad, Vice President of Investor Relations. Please proceed.

Dwight Grimestad - ***Archer Daniels Midland Company - VP IR***

Thank you, Chanel. Good morning and welcome to ADM's third 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.

For those following the presentation, please turn to slide 2 of 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

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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 to 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 statements as a result of new information or future events.

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

Patricia - Pat Woertz - ***Archer Daniels Midland Company - Chairman, President, CEO***

Thank you, Dwight. Good morning, everyone. Welcome to our third quarter conference call.

I'll begin, as always, with safety. Through the third quarter, we reduced our lost workday injury rate by 4% and our total recordable incident rate by 13% compared to the full fiscal 2010. We will continue to make -- we have continued to make very important progress on safety.

Turning to our financial results, this morning we reported net earnings of $578 million or $0.86 per share on a fully diluted basis, a 32% improvement over last year. Segment operating profit was $1 billion, a 45% improvement, and excluding LIFO charge and other specified items that Ray will talk about in a moment, ADM earned $0.92 per share. The ADM team performed very well against a backdrop of volatile commodity prices, a challenging margin environment and geopolitical instability in the Middle East, North Africa, and Cote d'Ivoire. Our team worked smart and hard and delivered strong results.

Since our last call, we continued executing our strategy to drive profitable growth. In North America, we announced expansions at a barge loading terminal and elevators in Missouri and Illinois. These expansions totaled 1.7 million bushels of storage. At our Lloydminster, Alberta canola processing plant, we are doubling our storage capacity. We announced plans to construct a shuttle loader elevator in Hebron, North Dakota. In Decatur, Illinois, we began production at our propylene ethylene glycol plant, and we announced the acquisition of a soybean crush plant and biodiesel facility in Deerfield, Missouri.

In South America, we announced plans to begin originating and processing sustainable palm, expanding our crop base in that region, and in Europe, we announced the construction of an additional warehouse at our joint venture grain terminal on the Baltic port of Gydnia in Poland. After that addition, the facility will have a total storage capacity of 90,000 metric tons, making it the largest grain terminal in Poland. And also during the third quarter, Fortune Magazine named ADM the world's most admired food production company for the third consecutive year. We appreciate this recognition and believe it speaks to the passion and commitment of our 29,000 employees.

As we look ahead, we are monitoring the planting and growing season in North America and Europe. Overall global demand for crops and agricultural products remains relatively strong. In these conditions, ADM will use our unique global asset base, our strong balance sheet to serve vital needs, efficiently connecting the world's growers with the world's buyers and delivering value for our customers and our shareholders.

Now I will hand the call over to Ray, who will review our financial results. Ray?

Ray Young - ***Archer Daniels Midland Company - SVP and CFO***

Thank you, Pat, and hello to everyone on the call today. I'm happy to be with you to share our third quarter results.

Slide 5 lists our financial highlights for the quarter. We will discuss the quarterly results. We also listed cumulative 9-months results for your reference.

Overall, financial results this quarter were solid. Segment operating profit was $1 billion, up $310 million or about 45% from year ago. In a moment, I'll review our results on a segment-by-segment basis. Quarterly net earnings were $578 million, up 37% from last year's third quarter, and earnings per share were $0.86 on a fully diluted basis compared to last year's $0.65.

Looking at our effective income tax rate for the quarter, we recorded taxes at 28%, 6% higher than the third quarter last year. Last year's third quarter tax rate benefited from updated estimates to bring the cumulative rate in line with the lower yearly forecast. On a year-to-date basis, we have brought our effective tax rate down from 27.6% in 2010 to 27.2% in 2011. This rate is significantly lower than the 2009 and 2008 effective tax rates, up approximately 30%.

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I also want to highlight that our return on invested capital on the 4-quarter trailing average basis was 10%, an improvement from the prior year percentage and over 3% above our 4 quarter trailing average -- weighted average cost of capital for the quarter. We've called out a few items in the waterfall chart at the bottom of the page. We recorded a LIFO charge of $27 million after tax, or approximately $0.04 per share, compared to a $0.04 credit in the same period last year. Also, we had net charges for other specified items of $10 million or $0.02 per share. These were comprised of start-up costs this quarter of $14 million after tax related to our bioproducts plants in the corn segment in mark-to-market gains on interest rate swaps that contributed $4 million after tax. For simplicity, these specified items are grouped together here on the waterfall chart, and we've broken them out for you in the appendix. Adjusting for the specified items, ADM earned $0.92 per share.

I also want to highlight that our diluted EPS calculation was impacted by the accounting for the equity units issued in 2008. These 4 purchased contracts will result in an additional 44 million common shares on June 1. Our remarketing in March of the debt associated with the equity units effectively triggered if-converted accounting, resulting in a $0.05 per share negative impact for the quarter for the diluted EPS calculation.

Turning to slide 6, this slide shows the breakdown of our segment offering profit. Let's turn to slide 7 to begin a review of each segment in greater detail. Slide 7 - Oilseeds operating profit in the profit in the quarter increased $107 million to $512 million. Crushing and origination operating profit increased $133 million to $405 million for the quarter. [April] ownership in strong North American results offset a decline from South America.

European results increased significantly, principally due to the reversal of approximately $100 million of mark-to-market timing effects that occurred in the first half of the fiscal year. Refining, packaging, biodiesel and other generated profit of $89 million fourth quarter, up $23 million from last year, as low results from Europe were offset by increases from North and South America. Oilseeds results in Asia declined $49 million to $18 million for the quarter, principally reflecting ADM's share of the weaker results from our equity investee Wilmar International Limited.

Looking at the crop, harvest of the soybean crop in South America is nearly complete. The crop is estimated at a near record 133 million metric tons and is a sufficient supply to meet near-term global requirements. The projected US soybean carryout remains as the 140 million bushels, which is a tight supply. Dry conditions are raising concerns about the size of the rapeseed crop in some regions of Europe. As we look at the current oilseed processing market conditions, global demand for all protein meal is projected to grow by 4% to 6% for the 2010 / 2011 crop year although high prices may temper demand. There has been little [pork] buying by protein meal customers, and US vegetable oil inventory levels are currently high, although biodiesel production will increase demand and help reduce inventories.

Now, moving to slide 8. For the corn processing segment for the quarter, corn processing operating profit increased $100 million to a profit of $204 million. Process volumes were up 13%, reflecting strong production across ADM's corn processing plants, including our new ethanol dry mills in Cedar Rapids, Iowa and Columbus, Nebraska. Sweeteners and starches operating profit of $46 million was essentially flat as higher average selling prices and volumes were mostly offset by higher net corn costs. Sales volumes were up as export demand for sweetener remains strong and US demand for industrial starches improved.

Bioproducts profit in the quarter rose $99 million to $158 million, driven by favorable corn ownership and strong demand for our value-added food and feeding ingredients, particularly lysine. Looking at the crop, 13% of the US corn crop is currently planted, the low 5-year average planting progress at this time of the year. The 5-year totals range from 10% to 66% with the average around 40%. The USDA projects the US corn carryout at 675 million bushels, a tight supply. As you look at current market conditions, yesterday wholesale ethanol spot prices were $0.60 to $0.90 below unleaded gasoline. The excise tax credit adds another $0.45 per gallon benefit to the blender With these attractive economics, customers generally will blend ethanol to the maximum allowable levels.

Spot ethanol margins are near break-even due to over-capacity in the US ethanol industry. Lysine demand remains strong, and industry corn sweetener volumes, driven by exports to Mexico and Canada, also remain strong. Industry corn sweetener export volumes to Mexico were about 1.5 million metric tons in 2010 and are projected to grow around 10% in 2011.

Now, let's turn to slide 9 and review the offering performance of our agricultural services business segment, where profit increased $6 million to $171 million for the third quarter. The global merchandising and handling team delivered good results comparable to last year amid a challenging environment of significant volatility in agricultural commodity markets, regional instability in the Middle East and North Africa, and the earthquake and tsunami in Japan. US export volumes and margins remained strong in the quarter. Earnings from transportation operations improved on higher barge freight rates.

As we look at current market conditions, we continue to have a tight supply in several of the crops we source and transport and are using our global network to meet our customer demands. Regional crop supply imbalances are resulting in elevated prices and significant volatility. Health

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America is harvesting a near record soybean crop and has sufficient supply. In North America, the carryouts of corn and soybeans are projected to be tight, and farmers are beginning to plant. The global wheat supply is ample, and canola and rapeseed supplies vary by region.

Slide 10 did not bring profit analysis of our other business units. In the third quarter, profits increased $97 million to $119 million. In other processing, profits in the wheat milling and cocoa operations were at $96 million, up $87 million from last year's third quarter, which included mark-to-market charges of $63 million in our cocoa operations. Other financial increased $10 million, mainly due to improved results of our captive insurance subsidiary and ADM Investor Services. Looking at current market conditions, sanctions pertaining to exports of cocoa beans and products from Cote d'Ivoire have been lifted. The overall situation in the country seems to be improving day by day, our operations have resumed on a limited basis, and we're managing the situation daily.

Turning to slide 11, slide 11 shows the major components of our other -- of our corporate lines. Market prices for our LIFO-based inventories rose in the third quarter, resulting in the charge of $43 million compared to a credit of $42 million last year. Interest expense net is higher in the current year by $8 million during last quarter's -- during last year's quarter approximately $19 million of our interest cost was capitalized in connection with construction projects in progress. This has declined significantly this year, as most of the acts have now been put into service. Helping to mitigate this effect, interest costs on our long-term debt was down approximately $12 million as a result of debt retirements. We also recognize $6 million of unrealized gains on interest rate swaps, which were related to the debt remarketing at the end of the quarter. Our corporate costs were up for the quarter in part due to higher administrative expenses, including the accrual for some previously announced multi-year corporate grants.

Slide 12 shifts to the financial statement review and shows statement of earnings highlights for the quarter. Net sales and other operating income increased 33% to $20 billion due to generally higher average selling prices associated with higher costs for underlying commodities. Gross profit increased $269 million or 30% this quarter due to higher average selling prices, favorable commodity ownership, and a partial reversal of certain Oilseed mark-to-market losses. Largely offsetting these items were $43 million of pretax LIFO charges discussed earlier.

Selling, general, and administrative expenses increased 11% to $395 million due primarily to higher administrative expenses, including the accrual for some previously announced multi-year corporate grants, which I talked about earlier. On a year-to-date basis, our SG&A cost increases, when adjusted for unique items, are in line with volume growth. The change in other income expense was due to lower equity earnings from affiliates, higher interest expense, and the absence of a $75 million debt extinguishment charge. And I've covered the changes in income taxes earlier on the call.

Turning to slide 13, we're comparing selected balance sheet highlights at March 31 against our June 30 balance sheet. We can clearly see the impact of elevated commodity prices on our balance sheet. Operating working capital has increased by nearly $8 billion to $17 billion, principally in inventories, about a $6 billion increase. Inventory includes approximately $8.9 billion of readily marketable commodities as of March 31, compared to $4.9 billion at the end of June. Total debt increased by $6.7 billion, mainly from borrowings of commercial paper and revolving credit lines to help finance the higher inventory balances. Additionally in the third quarter, we issued a $1.5 billion of floating rate notes. In March, we remarketed $1.75 billion in debt originally issued as a component of the equity units in June 2008. This will result in the receipt of $1.75 billion of proceeds by ADM on June 1 in exchange for the issuance of common shares under the forward purchase contracts. Therefore, for the third quarter balance sheet, there is no impact on the cash, debt, and equity accounts related to the debt remarketing.

Shareholders equity increased $2 billion during the past nine months. At the end of the quarter, we had in place a $6.5 billion US commercial paper program of which $3 billion was unused. In addition, we had $2 billion of other global credit lines, of which $1.1 billion was available. Although leverage has increased due to higher commodity prices, we continue to have good liquidity access and financial flexibility to support both our ongoing business in the elevated commodity price environment and growth initiatives.

Slide 14 shows the significant items impacting our cash flows for the past 9 months compared to the prior year's 9-month period. Cash generated from operations before working capital improvements was $2.2 billion compared to $2 billion in the prior period. Higher commodity prices drove the use of $7 billion in cash in our working capital accounts. This is a sizable outflow of cash over a 9-month period. But as you know, we have successfully managed through high commodity prices and sizable increases in working capital in the past. And as I've discussed in the prior slide, we were prepared for this elevated commodity price scenario and had bolstered our balance sheet to operate in this environment.

Investments and property plant inclement were $0.9 billion for the past 9 months, significantly lower than the $1.2 billion spent in the prior year period. This reflects the completion of the majority of our grain field projects. Acquisitions of $206 million are primarily related to our purchase of the remaining shares of Golden Peanut back in December. We expect fiscal year 2011 capital spending to be approximately $1.5 billion, including the purchase of our remaining 50% of the shares in Golden Peanut that occurred at the end of December. The increase in working capital and the capital expenditures investments were funded by a net increase of debt of $6.5 billion, primarily comprised of $5.3 billion of

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[borrowing] under lines of credit and $1.5 billion of borrowing through the issuance of the floating rate notes less some debt paydowns. Also in the 9-month period, we bought back 3.2 million shares for a total spend of approximately $100 million.

On June 1, our equity units will convert to about 44 million common shares. Consistent with our objective to increased shareholder value, our intent is to continue to buy back shares to offset, within 2 years of the date of conversion, the impact of the dilution. Subsequent to the equity unit issuance in 2008, we have already bought back 6 million shares in addition to the shares repurchased to offset benefit plant issuances, leaving 38 million more shares to repurchase. As I indicated in our second quarter earnings call, we will want to ensure our balance sheet remains strong enough to help drive strong business results in a period of elevated commodity prices as we did in this third quarter and to undertake significant strategic investments, and that could have an impact on the timing and number of shares we agree to purchase.

Turning to slide 15, which depicts our financial return measure, comparing our historical 4-quarter trailing on return of invested capital against our trailing 4-quarter weighted average cost of capital. As you see, our ROIC was 10%, and our WAC is currently running below 7% for a 3% positive return over our costs of capital. As you know, our longer term ROIC objective is to earn 200 basis points above WAC. In addition, we are reintroducing the return on equity metric as a gauge of our return performance as a compliment to our ROIC metric. This will help provide further focus on driving returns as a key contributor towards long-term shareholder value creation. For the third quarter, our ROE on a trailing 4-quarter LIFO-adjusted basis was 14.9%. Our long-term ROE target is a range of 12% to 14%. At this time, I'll turn the call back over to Pat.

Patricia - Pat Woertz - ***Archer Daniels Midland Company - Chairman, President, CEO***

Excellent. Thank you, Ray.

Before we take your questions, I thought I'd make a couple comments about our recent leadership additions at ADM. Last month, Juan Luciano joined ADM as our Chief Operating Officer, and we're very pleased to have him on our executive team as he brings global manufacturing experience and an excellent track record of profitable growth. I thought I'd take a moment to talk about how and why we grew our leadership team, bringing in Juan, and before that Ray, to ADM. Both of these talent additions were part of a purposeful, planned multi-year effort to add relevant expertise to our team, prepare for executive succession, and further develop our future leaders. Juan and Ray both broaden the perspectives of the ADM team with their extensive global experience, particularly in key growth regions for ADM, and with their valuable leadership development and process expertise as we continue to grow our company. These actions enlarge the group of people at the senior-most levels who are helping to develop the next generation of ADM senior leaders.

As Juan takes over the leadership of the commercial and production areas of the business, he's supported by our unrivaled team of business unit presidents. We have an excellent integration plan, and through the transition and beyond, John Rice and I will continue to provide Juan and the team with guidance and counsel on a range of matters including ADM's risk management strategies. John will have more time to develop and devote to supporting our growth initiatives around the world, including the Asia region, which continues to report directly to him. I think we have an outstanding group of strong leaders. I think it's the right team at the right time to lead ADM as we execute our compelling strategy, generate strong earnings, and deliver good returns, all toward the goal of driving shareholder value.

With that, John will join Ray and me today for the Q & A, and Juan will join the May 18 conference in New York city. So operator, at this time, if you could please open the line for questions.

QUESTION AND ANSWER

Operator

Will do. (Operator Instructions) Our first question comes from the line of Vincent Andrews of Morgan Stanley. Please go ahead.

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

Good morning, everyone.

Patricia - Pat Woertz - ***Archer Daniels Midland Company - Chairman, President, CEO***

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Good morning, Vincent.

Vincent Andrews - *Morgan Stanley - Analyst*

It would be helpful if you guys could give some very detailed commentary. What drove the sequential performance in oilseeds processing and ag services? I think most people were surprised to see ag services where's it was and were surprised to see oilseeds processing as strong as it was. So can you give us a sense of what drove those variances?

John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

Sure, Vincent. This is John.

On the ag services, we had a very good second quarter, and we also feel we had a very good third quarter. We tend to look at these businesses also on a year basis. You have to remember during the third quarter, at any given time we have over 100 ships going to different destinations throughout the world. We have the -- we had the period of unrest in the Middle East. You can easily have ships going over there, you have ships going over to Japan, so it really becomes a lot of logistics on where you want to offload, where you don't want to offload, where you want to have ships sitting. So it became a little bit more logistics involved in that period of time with unprecedented volatility also during that quarter.

Oilseed processing, we've had very good demand, we feel, in Europe with the biodiesel and the rapeseed margins. In North America, we're starting up the biodiesel demand right now. In South America, we're starting up the harvest. So we feel with the sales we add on forward and how we are purchasing our raw materials, our teams executed very well between the two. It's always a little difficult in time, when you take a point in time. At the end of March you have crop reports, at the end of June you have a crop report. So taking an absolute and coming up with market prices could have a little bit of variance between second and third quarters. But I feel very good about our third quarter results, and on a year-long basis, we should have a good year in ag services.

Vincent Andrews - *Morgan Stanley - Analyst*

So, John, as we think going from third quarter to fourth quarter, it sounds like some of the things that took place in ag services during the quarter were unique and hopefully won't recur in the fourth quarter. Is it fair to say the same thing about oilseeds processing? In other words, if we look sequentially going forward that ag services is likely to be better sequentially but oilseeds processing is likely to come down?

John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

Oilseed processing -- we have lower global oilseed margins right now. We have, with the crop coming on in South America, you have Brazil running ahead of last year. You have them exporting more meal, exporting more oil. But their biodiesel demand should help their oil situation down there, and the Argentine crush coming on will also affect North America. We're in the process of slowing down our North American crush. So it's really more of a balance.

And then, since you're coming into a period where you have a lower carryout of soybeans in the United States, and then also in Europe, watching the rapeseed crop, it's always a little hard to say exactly what's going to happen with the weather and other things, but we feel overall crush margins are a little down globally. And in ag services this time of year, we tend to export less out of the United States. It comes more out of South America, and exports out of Brazil are reported in the oilseed processing portion and not in ag services.

Vincent Andrews - *Morgan Stanley - Analyst*

Maybe just as a two last follow-ups, there was nothing that -- Bunge, for example, reports both these segments together. You provide in your disclosure where they're separate. So was there anything that we might have perceived as what might have showed up in ag services that actually belongs in oilseeds processing from an accounting perspective in this quarter that would also highlight the difference in the performance?

John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

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Nothing accounting-wise, but we do manage risk in this company as an overall on a company basis. We look at it that way. So at times, we may do things in one division that makes more sense than another division just because of how it's situated.

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

Was one of those times this quarter?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

It happens every -- it's a weekly decision. It's a very fluid operation.

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

Okay. Thanks. I'll get back in the queue.

Ray Young - ***Archer Daniels Midland Company - SVP and CFO***

Vincent, it's Ray here. Just a couple of other things just wanted to make sure we highlighted. I didn't mention that in this particular quarter, the third quarter, we did have a favorable timing effect here for the oilseeds group, approximately $100 million in the oilseeds division. And when we kind of think through the rest of the fiscal year, it's always difficult to estimate future timing impacts, because the impacts are a function of the changes in inventory levels and prices within the quarter. I recognize a lot of you folks would like to get some global visibility in terms of future quarters. So in order to help you directionally for the fourth quarter, because we believe that European inventory levels of certain oilseeds in (inaudible) would further decline. We could see some favorable mark-to-market timing effects also in the fourth quarter, roughly in the same order of the magnitude that we saw in the third quarter. So I think that's important for you to understand that perspective as well.

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

Sure, thanks. But even as I take that $100 million out, the crushing and origination number looks like it was almost a record.

Ray Young - ***Archer Daniels Midland Company - SVP and CFO***

Again, I think a couple things. We did have, as we indicated in the press release, good ownership here, so that's an important aspect of it. And the last thing to do is, remember in ag services, the term I use for the second quarter, we kind of hit a home run there, right? We were, using an analogy, driving on all eight cylinders there on the second quarter. You don't drive on all eight cylinders necessarily in this business every time. So when I look at the historical performance, the recent performance of ag services, you look back in 2010 and 2011 excluding the second quarter, you see that in the ag services division, we run on an annualized basis let's say $600 million to $800 million. You take out the exceptional second quarter, which translates to the average like $150 million to $200 million on a quarterly rate. That's in the absence of significant market events or actions.

As John indicated, we do see inter-quarter volatility in the ag services division. When I do the comparison, and I did the same thing did you, Vince, compare second quarter to third quarter, and second quarter was an exceptional quarter. We've done that in the past. We have had quarters of plus $400 million operating profits in this company. So we know that when these opportunities present itself, we can take advantage of it. When I take a look at the third quarter, I say that we've had a very good quarter comparable to some of the recent good quarters that we've had within ADM and the ag services division.

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

Thanks so much. I'll let others ask.

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Operator

Your next question comes from the line of Christine McCracken of Cleveland Research. Please go ahead.

Christine McCracken - ***Cleveland Research Company - Analyst***

Good morning.

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

Good morning, Christine.

Christine McCracken - ***Cleveland Research Company - Analyst***

Just on ethanol, because you did mention the higher blending rates, and yet we're seeing break-even margins here. I'm just wondering, as we go into the summer season and with the fuel prices where they are, if you could give a little bit of color around what your expectations are around production levels for the summer and two, for that part of the industry that doesn't have its corn bought, if you are expecting some declines there?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

During the summer, we usually see the driving miles go up and gasoline usage also increase. But with the higher price of gasoline, you don't know if we'll see the normal summer increase. Right now, the industry's running about 13.5 billion to 13.8 billion gallons. With the corn situation this year and the steep backwardation and inverses, I don't know exactly how other people manage their inventory, so I don't know exactly how they're going to run, but I would assume people that can source their corn are going to keep running at close to fully break-even because of cash flows for them. It seems like once every other week we see another company go bankrupt, and then they get new financing. So I think it's still a situation that's going to take us a little bit of a while to go through this, but we still feel very strong about the ethanol business, and it's probably the most competitive fuel in the world right now.

Christine McCracken - ***Cleveland Research Company - Analyst***

With the advantage of ethanol in this current environment, it seems like they would be blending as much as they can. Are you seeing any progress moving toward E15 blends? What other hurdles are you seeing?

Patricia - Pat Woertz - ***Archer Daniels Midland Company - Chairman, President, CEO***

I think -- this is Pat, Christine. We have probably still, I won't say a concern, but a belief that until the regulatory outcome has E15 applicable to all cars that it really won't be widely accepted. I think your point is correct that we have -- the blenders have the opportunity and the economic driver to blend as much as they can and are doing so, but widespread use of E15, still some hurdles to overcome.

Christine McCracken - ***Cleveland Research Company - Analyst***

Thank you.

Operator

Your next question comes from the line of Christina McGlone of Deutsche Bank.

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

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Good morning. It's Christina. The question is on oilseeds, back to Vincent's line of questioning. You talked about favorable position and maybe some forward cells, and so I just want to understand the underlying strength of the market, because from what we see on the cash margin basis, it's very weak, and I'm curious why it's that weak give that utilization's low, and really, what makes it better? And do we need to see a plant in the US close to improve things?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

I think you'll see plants close down maybe for the summer. We're looking at a few of those right now to help balance a supply and the demand. Biodiesel will be better, like I mentioned earlier, but the meal demand, especially with Argentina and Brazil, exporting meal make it a little bit more -- put the US in a little bit of a disadvantage in the world market. So I think you'll see that happen. And on the overall basis, I think with just the large South American crops, we have a situation where all the world capacity can operate. But now, as we've said in the past, we've added capacity around the world, and I do not see much more capacity being added, so we should be able to grow out of this as meal demand keeps increasing around 4% here in the next year. And it doesn't take much when you have in these kind of markets, one ton too much or one ton not enough makes a big difference in global markets.

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

John it seems that the footprint is maybe off because the expansion of the US plants, the five plants a year or two ago, is I think one of the reasons that the market is in a state of overcapacity in the US. And then with Paraguay coming on, I guess the concern is, maybe is ADM too optimistic about forward demand, or should the Paraguay plant be there but maybe some US capacity come off, because between DDG inclusion rates, which is becoming more accretive, higher canola meal imports from Canada and a likely poultry production cut, it seems like it's going to take a real while to grow out. How long does ADM think it's appropriate to wait it out?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

I have a different view. I think the world's looking a little bit better than that. A big difference you have in the world right now is the EU, Brazil, Argentina all have very good renewable fuel programs. So they have a biodiesel industry that is -- elevates the price of their oil, which lets -- allows them to sell their soybean meal a little cheaper, let's say. What we have in the United States, we have this uncertainty in the biodiesel program, so as that's picking up, the price of oil's coming up. As plants are coming online, we should see that same situation. When you look at that on a global basis, then it comes down to energy and logistics and whatever, and I don't think the US is any more disadvantaged than Brazil or Argentina when it comes to competing in the world. It's just when you get those geopolitical situations that you can get those offsets. As long as we have a biodiesel program here in the United States, I feel very good about the US crush.

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

Then you mentioned to Christine's question, if plants would shut, you don't know how maybe they'll get their corn, given the corn situation, the inverse in the market. Can you speak to that, basically carrying corn down the inverse? How is ADM positioned with that respect? What does that mean for ADM and for results? How should we think about that?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

Well, it's -- we've done this before. We know how our team knows how to manage through these, but whenever you have big backwardations and big inverses, you don't want to carry much cash inventory, so you have to make sure you are managing your pipeline accordingly. We use our rail cars, we use our transportation, our truck assets along with our elevators, and we manage inventories as accordingly. That's really the July [DEES] that we see the big inverse. A lot can happen between now and then on what happens even on that inverse. That inverse has been going anywhere between $0.60 to $1.20, and when we get closer, we'll determine exactly how we want to manage our inventories. But we look at this on a daily basis.

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

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So when in bioproducts, you say you have a favorable corn ownership position in this quarter, should we assume that that starts to trail off ahead of July because of this inverse situation, and you're managing it?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

That is a good assumption. How's that?

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

Okay. And last question, on ag services, when you talk about there was dislocation with Japan and Middle East and Africa and commodity volatility, I felt that that's when ADM excels in ag services, so what am I missing?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

Nothing. We had an outstanding second quarter. We excelled very good. And in the third quarter, we also did very good. But as I mentioned earlier, when you cannot offload ships, you have them sitting out to sea, and determining when you're going to offload them, when you come down to valuations, it can make a difference. I don't know how else to answer that. We had an outstanding second quarter, and third quarter was still a very good quarter.

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

Okay. Thank you.

Operator

Your next question comes from the line of Jeff Farmer, Jefferies & Company.

Jeff Farmer - ***Jefferies & Company - Analyst***

Great. Good morning.

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

Good morning, Jeff.

Jeff Farmer - ***Jefferies & Company - Analyst***

You continue to call out lysine in the bioproducts segment at least for the last two or three quarters. Can you give some sense of how meaningful it is as a profit contributor for the segment?

Ray Young - ***Archer Daniels Midland Company - SVP and CFO***

Let's put it this way. First of all, it's important to keep on diversifying our profit stream in the corn segment. And so it's actually an area where we continue to see volume growth, and we continue to see good margins driven by global demand. I don't necessarily want to highlight the exact number in terms of what lysine is contributing. The trend is actually a favorable trend here, Jeff.

Jeff Farmer - ***Jefferies & Company - Analyst***

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Just a little bit of a follow-up. Is it fair to assume that the margin is materially greater than the rest of the segment? How should I think about that?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

Yes. We are seeing good margins in lysine. Lysine values have been going up, especially with high world sugar prices and lower corn prices. Most other people's substrates are sugar based, molasses, so we do have an advantage during these times in the lysine markets.

Jeff Farmer - ***Jefferies & Company - Analyst***

Okay. And then just a follow-up on some of the oilseeds conversation. Just curious, as the crush shifts down to South America in the June quarter, how important would that be to your margin mix? Should I think about it like that in terms of looking at better South American margins, a larger percent of your crush coming from that part of the world? Shouldn't that be a nice tail wind for oilseeds in the June quarter?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

It's more of a global situation where you have supply globally, whether it's in China, Europe, South America. So it's the ability of all crushing plants - I shouldn't say all - most crushing plants throughout the world being able to operate. So I think it's just a little bit of an overcapacity situation right now.

Jeff Farmer - ***Jefferies & Company - Analyst***

Coming back to some of your competitors, talking about some pretty strong margins, specifically in Brazil. I would expect that you, at least in the June quarter, would see a decent benefit from that as well?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

If margins pick up from the present state, yes. The crush is running about 4 million tons quicker or harder than last year. With a good biodiesel program that could happen, yes.

Jeff Farmer - ***Jefferies & Company - Analyst***

Okay. Thank you.

Operator

Your next question comes from the line of Robert Moskow of Credit Suisse.

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

Ray, I was hoping could you help my understand the $100 million you called out of favorability and how that carries through to fourth quarter. Is that a function of just higher value vegetable oil on the balance sheet or are your positions -- can you just help me understand the mechanics of that?

Ray Young - ***Archer Daniels Midland Company - SVP and CFO***

If you recall, Robert, the first half of the year, actually the oilseeds group had some negative timing effects. And that's really brought about by the fact that we're building up inventory in Europe, and just due to certain GAAP accounting rules, we can't mark to market that inventory. We actually carry that at a lower cost of the market. But as you sell down that inventory, and that's just a seasonal pattern that we see, as we sell down

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that inventory, we actually then bring that into to market., as we relieve that inventory And that's what we're seeing right now in the second half of the year -- second half of the fiscal year as we bring down that inventory. So assuming the prices of these commodities remain at these elevated levels, as we sell down the inventory, we basically sell some of the negative timing effects that we had in the first half of the year. So I called out that in the third quarter. There was approximately $100 million of that reversing out into oilseed results, and then based upon what we're seeing in the fourth quarter with continued high elevated prices and the rate that we're selling down in our inventory, I could see an order of magnitude in the fourth quarter in terms of reversing the timing effects similar to what we've seen in the third.

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

And is that comparison sequentially from, say, the first half of the year, or is it a comparison from a year ago?

Ray Young - ***Archer Daniels Midland Company - SVP and CFO***

No, that's sequential. This is sequential here.

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

Okay, good. Secondly, on ethanol margins, it seems like that's the biggest question I get from investors, because you're talking about the industry being at break even. But this year, you're probably going to have record results in bioproducts, so do you think that your division here will continue to operate above industry norms into fiscal 2012, or are we going to see a pretty significant falloff in results for ethanol going forward?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

We feel we have a competitive advantage in the ethanol industry just because of our footprint, our plants, our locations, and how we handle our inventories, how we operate our assets around it. So to put a Delta spread on it, it's very tough, but we do look at that all of the time. But we feel we have a very good competitive advantage in the ethanol markets.

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

Okay. And then lastly, John, my questions is on the CapEx budget and also, Ray, it's up again this quarter. Can you give us a summary of how you're thinking of CapEx this year compared to what you might have thought about it six or nine months ago? What's really changed and driven that CapEx budget higher? Was it Golden Peanut, or were there just a lot of little things that you just kept adding as your expectations went along?

Ray Young - ***Archer Daniels Midland Company - SVP and CFO***

I think that one of the things we're focusing on is growing, growing our asset base, growing our earnings base around the world. I've highlighted at a prior conference, one of the things I know that this company does extremely well is actually making a lot of smaller investments, what we call below the radar screen types of investments, which really contribute a lot towards both returns in the bottom line.

And just to give some perspective, I just got the third quarter numbers. So we look at the first quarter to third quarter this fiscal year, we've approved about 130 smaller projects with a CapEx commitment of a little over $800 million. The average investment per project is about $6 million to $7 million, which is a pretty small investment and which, again, generally we don't highlight to the outside world, but we're doing a lot of these particular projects. These things generate good returns. These projects here on, a conservative basis, will generate plus 20% ROICs when they come online. So I think what we're seeing is there is a tremendous focus on growth around here. We continue to execute a lot of these smaller projects which are below the radar screen.

The other thing that I've noticed is just the CapEx footprint from fiscal year 2006 to fiscal year 2010, roughly 85% of the capital spending was in geographic North America, and when I take a look at what's happening in this fiscal year, fiscal year-to-date, the 85% has dropped to a little over 70%. And in the third quarter, only 63% was actually North America oriented. So I am seeing a shift, and I think it's a conscientious shift in order

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to make sure we are diversifying our global footprint, which is one of our key strategies right now, is to move our geographic model to other parts of the world.

The other thing to note is when you take a look at 2011, I think earlier in the year, Steve mentioned that we think CapEx will probably be in the neighborhood of $1.4 billion. With the Golden Peanut acquisition, you add that onto this particular list. We're basically in line with where we thought we were going to end up this particular fiscal year. So I guess we're not surprised in terms of the size of this capital spending. I think this is in line with what we're trying to do to grow the company. We have the balance sheet to support it. That's another critical element as to why we continue to bolster our balance sheet in order to support these types of investments.

Patricia - Pat Woertz - ***Archer Daniels Midland Company - Chairman, President, CEO***

Let me also add that, as we've talked earlier, we think shareholder value is created by the clear and compelling strategy, growing our earnings and the strong returns. And these projects that Ray highlighted, what you might call under the radar screen are, I think, the more explicit examples of very good returns that will grow earnings to the base that are, you might even call it cheap creep, the ability to add specifically to many of our assets that already exist, but having them become more efficient, more effective, higher volumes to add that profitable growth at very good returns. So it is conscious and purposeful but in line with what we said earlier in the year.

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

I'll follow up later.

Operator

Your next question comes from the line of Kenneth Zaslow of BMO Capital Markets.

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

Good morning, everyone.

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

Good morning, Ken.

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

John, what was your role in the positioning of the soybeans and the corn over the last couple quarters?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

What do you mean?

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

Because there's a changing of guards, right, on the Chief Operating Officer's side. I'm just trying to figure out, where does the decision actually get made for positioning soybeans and corn? Just because it's been rather excellent, right, for the last three to four quarters, if not even longer than that. So I'm just trying to figure out where the decision is actually made on the positioning?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

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We have a very good group of people that work at ADM. We have constant communication of what should be done and what we feel we ought to be doing in certain markets, how we run our plants, how we don't run our plants, where we want to sell, what we don't want to sell. It's constant open communication. So it's a very good team. It's a team effort. We have -- and I feel confident about this team, and with Juan coming on board, Juan has a very good track record. I have the utmost confidence in the team that we'll support.

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

Okay, but how does, still how does the decision get made? Does it come from the bottom? Where is the role? Can you just talk about the role of how it's positioned? The risk management, what are the main decision makers on that process?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

I am in the middle of it, and as decisions are made, and as Juan seeks help or what have you, I can still be in the middle of it.

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

Okay.

Patricia - Pat Woertz - ***Archer Daniels Midland Company - Chairman, President, CEO***

Maybe I'll add a little bit to that from my perspective. We have a process and a reporting and a proactive effort that meets on a both weekly basis on certain elements and on a daily basis on certain elements and daily reporting processes on everything. So it's a very open communication and a process where everybody sort of knows their roles, if you ask -- and people can fill in for each other in knowing those roles. And we can do it virtually while the people are traveling or they're in Decatur. But everything does come together at this center, which I think is a bit of the nerve center that we think is a very proactive and good way to risk manage. So we've done that for a long time. We have a good view of how that works. We have a good view of the control processes around that, and it is a little bit of what makes us ADM.

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

Okay. My other question on high fructose corn syrup, this quarter, I know that you said last quarter that the pricing was high enough to recapture your margins from higher corn prices. Is that something we're going to see progressively over the last couple of quarters? This quarter was slightly a little lighter than I would have expected. How do you see the progression of the margin structure? Does the backwardation actually help you in this business? Does the high fructose corn syrup prices going forward, I know it takes a little bit to get them all in. How does it play out?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

Overall, fructose demand is very good right now. We see the industry running at very high levels. When you take a look at the corn sweetener and starch business, you have to look at that almost on a calendar year rolling basis just because of how corn is brought to market. So it's a little bit tough on that area to actually look on a quarter per quarter basis. But when I look at the fructose, demand is very good. We're still very -- we're $0.20 cheap to sugar in the United States. We're $0.10 cheap to world sugar. So we still see demand growing, especially in Mexico. More people around the United States, just because of the cost of sugar increases food costs then, more people are looking to switch back to fructose also. So to look on it quarter to quarter, it's a little bit tough, just because of how the corn flows through, but on the year long basis we feel very good about the fructose business.

Operator

Your next question comes from the line of Brian Spillane of Bank of America.

Ryan Oksenhendler - ***BofA Merrill Lynch - Analyst***

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It's Ryan Oksenhendler in for Bryan here. I just had a follow-up on Rob's question about ethanol margins. I get that you guys can outperform the industry, but John, the way you made it seem is that ethanol margins could hang out here in the break-even range for quite some time, and it seems like we almost have to grow into the over-capacity that we have, and the mandate isn't that up to 13.8 billion gallons until 2013? How do we break out of this break-even range before that?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

I think with the E15, if we get all the legislation cleared on that with such a price disparity between ethanol and unleaded gasoline, my personal feeling is we'll see some gas stations go to that. We'll have the label on it, and I think we'll increase a little bit of demand there. We are still the cheapest ethanol in the world, so we'll still keep going with the exports. But it's not going to take much and especially with the corn situation this year, if plants have to shut down just because of the backwardation, that could also give us some opportunity. But I think in the long term it's going to be the 14.5 billion gallons to be blended. And then also with the E15, that could make a change.

Patricia - Pat Woertz - ***Archer Daniels Midland Company - Chairman, President, CEO***

Ryan, the other thing to always look at is the overall gasoline consumption. And so, if prices would moderate in gasoline, of course, ethanol helps to moderate those prices because it's the cheaper component of the blend pool, but if prices would happen to moderate, and we did have higher driving, that would also be a little more room there.

Ryan Oksenhendler - ***BofA Merrill Lynch - Analyst***

Yes, but aren't we pretty close to -- it's already over $1.00 per gallon benefit. We're close to the blend wall here. Do you really expect to see, given where gas prices are, maybe if they moderate from here down to $3.50 a gallon, do you expect to see a major pickup in demand over the summer?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

It's just going to be the gasoline usage and the E15 which will cause that.

Ryan Oksenhendler - ***BofA Merrill Lynch - Analyst***

Okay.

Ray Young - ***Archer Daniels Midland Company - SVP and CFO***

Just some perspective, Ryan, on E15, the EPA actually indicated that cars newer than 2001 account for 74% of the current gasoline consumption. By 2014, that would be expected to increase to 85%. So getting the blend wall increase scores from E10 to E15 is going to be very, very important. And there is a lot of work being done on that right now. That's something -- we're fully monitoring that situation in order to see how that evolves.

Ryan Oksenhendler - ***BofA Merrill Lynch - Analyst***

All right. Do you know what percentage of retail gas stations offer E15 right now?

Patricia - Pat Woertz - ***Archer Daniels Midland Company - Chairman, President, CEO***

I don't have that number.

Ray Young - ***Archer Daniels Midland Company - SVP and CFO***

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I think it's very minimal, if any. Right now I think a lot of them are waiting for the EPA waivers to finalize their waivers at this point in time including the labelling for the E15 pumps.

Ryan Oksenhendler - ***BofA Merrill Lynch - Analyst***

Do you know when that's going to happen from the EPA?

Patricia - Pat Woertz - ***Archer Daniels Midland Company - Chairman, President, CEO***

Summer is the expectation.

Ryan Oksenhendler - ***BofA Merrill Lynch - Analyst***

All right. Great. Thank you, guys.

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

Thank you.

Operator

Your next question comes from the line of Diane Geissler of CLSA.

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

Not quite sure how to word this question, so here goes. When I look at your year-to-date results in your divisions, oilseeds is up a bit, corn processing flattish, ag services, if I take Ray's comments about the $150 million to $200 million, you did have a great second quarter, but that didn't really deliver in the third quarter like I think the market expected it to. I guess I'm just getting a little nervous when I look at 2012 versus 2011 and you hear from clients that you think 2011 earnings are peaking this year. If you could give some commentary about your expectations, do we need to see commodity prices drop in order for you to see demand pick up and margin expansion because we certainly didn't see the benefits of volatility in the ag services division in the third quarter, which is sort of the offset to margin compression in your operating units. We didn't see that in the third quarter. With your stock down the way it is today, I think you really need to address for your investor base where you see the growth coming from in some specificity. If you can't make it in ag services, and your margins are compressed because commodity prices are so high, how are you going to deliver the EPS growth you keep talking about? If you could comment on that, I'd certainly appreciate it.

Patricia - Pat Woertz - ***Archer Daniels Midland Company - Chairman, President, CEO***

Let me start, Diane, and then maybe we'll go around the table here. I think we executed well across all of our businesses, but your point of asking about 2012 and the longer term objectives associated with earnings growth and doing it at good returns. Our strategy to add to the base of where it exists today and where it has the highest potential of margin expansion over the long term is generally in the areas where we are doing the investing, which again, we believe in global oilseeds. There's space and room to do that, and we are. The ag services piece that you ask about is more of a multi-quarter basis of the types of opportunities that can come at us, but we have added storage capacity, transportation capacity in order to have almost this run rate that we've talked about of $150 million to $200 million that wasn't -- didn't exist before that exists now, and the upside towards the 2X, 3X to that in times where it is strong.

So from the longer term perspective, both the investments we're making, and I think your point is a good one with more specificity all the time, that's what we're attempting to do in these larger analyst presentations, et cetera, is to dig down into each of the business units as well as the investments we're making and sharing where that comes through. On corn processing, obviously as things would improve with our bioproducts division or going from either negative or flat or zero spot margins in ethanol, for that to improve obviously the size of our business, we would benefit greatly when that happens.

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John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

Diane, I'd like to also say, with what Ray mentioned earlier, all the investments we're making globally on a daily basis, and you look at our earnings year-over-year. Last year, people thought the same thing, we had a great year. This year, our four major divisions have outperformed the previous year. Our footprint, our knowledge, our team, we can keep growing this business. As we keep finding more investments throughout the world, whether it's big investments or small investments, with our team, our footprint, we feel very confident about things moving forward.

Ray Young - *Archer Daniels Midland Company - SVP and CFO*

I guess just to complement what John indicated. We're working through our plans for next year right now, and what we're seeing is, our asset base is growing. We're actually putting the assets in areas whereby clearly we're going to have good return. There's a tremendous focus on this asset of returns. And so, in the ag services area, we're putting in a lot of assets regarding storage and handling, both North America to support the export markets as well as around the world. Those are important investments that will help us drive earnings in the future.

In oilseeds, same thing, reporting in capacity in critical parts of the world. That's one of the growth areas for us. Your aspect that we should not understate is that the team here does a very good job managing supply demand, and as you know in this business, it's all about managing supply and demand real time in order to drive margins, so that's going to be a very -- continue to be a very important factor for us.

And then, lastly, as you talked about corn to corn segment, I recognize the ethanol margins are, on a cash basis, pretty tight right now. The long-term trend with eventually moving towards E15, eventually the US economy is going to show some signs of recovery, and us having a very diversified portfolio of our both dry mills and wet mills, we believe that's a very, very good business for us longer term here.

Diane Geissler - *Credit Agricole Securities - Analyst*

Maybe I can ask the question this way. Your fiscal 2012 starts in eight weeks. I'm sure you must have been through a round, several rounds of budget planning. Is your expectation for earnings between up in fiscal 2012 versus fiscal 2011, based on your current plan?

Ray Young - *Archer Daniels Midland Company - SVP and CFO*

We won't provide any guidance here, so -- One thing that you should recognize is we're looking to drive long-term value creation. So therefore we're focused on long-term returns, and we're focused on earnings growth. So I think it's fair to say that as we look at our plans, and if you look at our history, Diane, in terms of -- our track record in terms of earnings growth, we've demonstrated a consistent track record over the past five years, past 10 years. And we're looking to continue to drive this long-term earnings growth trend into the future here.

John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

And Diane, like every year at this time, we're coming in. We still don't have much of the corn crop planted. We don't have the oilseed planted. We're always watching different weather throughout the world. What's the European weather doing? What's the China weather doing? How are our customers' businesses? There's so many different sets of assumptions that we're always monitoring and looking at. We feel we have an excellent team that's talking about this and managing our assets accordingly.

Patricia - Pat Woertz - *Archer Daniels Midland Company - Chairman, President, CEO*

Coming around full circle, Diane, if you think about looking at a 2012, you can imagine we probably have a range of outcomes that we're discussing. It's based on a set of assumptions that could fall into a particular range that looks like both where we are today, but moves to different directions, and how do we manage best in all those scenarios, but yes, we feel like every year of confidence like this year adds to our confidence that we can continue to grow those earnings.

Diane Geissler - *Credit Agricole Securities - Analyst*

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Okay. Thank you.

Patricia - Pat Woertz - *Archer Daniels Midland Company - Chairman, President, CEO*

Thank you.

Operator

Your next question comes from the line of David Driscoll of Citi.

David Driscoll - *Citigroup - Analyst*

Thanks for taking the call. I see the time. I'll try to make it succinct. Corn sweeteners, you mentioned to Ken's question here, but I'm not sure that I walked away with the right answer. $46 million in the quarter. Are these results indicative of what calendar 2011 will look like post- the pricing?

John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

We don't give guidance. A lot of that has to do with just on how the accounting handles with the corn and brought to markets. But demand is very good.

David Driscoll - *Citigroup - Analyst*

So maybe the short answer is, no, these results will improve over the course of time? Is that just generally fair?

John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

Most of our pricing are contracts. I think the last one came in, in February. So most of the contracts have been realized in this and going forward, I think we maybe picked up one or two contracts for a month in the last quarter that we'll realize for the rest of the year.

David Driscoll - *Citigroup - Analyst*

Oilseed processing, just to circle back on this one for just a moment. If I understand you right, the crushing marketing environment in the margins gives you some concern. John, I think you laid out the case that as time progresses, the demand growth is good, so margins should improve. And Ray, I think you pointed out that we get $100 million benefit in the next quarter or something of that magnitude because of the European oilseed purchases. So it sounds to me like in the short term, maybe we've got some benefits from how you bought the European crop. And then in the longer term, we should see utilization rates improve as demand continues to increase. Do I have that roughly correct putting everyone's comments together?

John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

Yes. Roughly. That's a good synopsis.

David Driscoll - *Citigroup - Analyst*

Okay, and then just a question on weather. So we are seeing flooding in Missouri and Mississippi, snow in North Dakota, drought in Texas. Are you concerned about production or not at all at this juncture of time?

John Rice - *Archer Daniels Midland Company - Vice Chairman, Office of Chairman*

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Well, not concerned is a little strong, but we've lived through this many times. Corn planting's behind, but we're still ahead of 2008 corn planting. We're always monitoring. It's a very fluid situation and yes, we have to manage and watch what our supply is. It gets reset twice a year around this place on raw materials and how you balance it and how you run your assets. I do think we'll get the crop in, and then you have to watch the weather and what the yields are. These are always very fluid and situations we have to watch. To say I'm not concerned, I don't know if I'm never concerned.

David Driscoll - ***Citigroup - Analyst***

Okay. That's fair. We'll let you get away with it. Last question is for both John and Pat. I think, the stock is down today, and I think a lot of people are just trying to understand the composition of numbers. I want to just ask you this question. Do you believe that this basic environment though is a good one? So whether the profits show up in oilseeds or show up in ag services, is this not fundamentally an environment where ADM should perform well across its various divisions? Is that the basic message you guys are trying to deliver today?

Patricia - Pat Woertz - ***Archer Daniels Midland Company - Chairman, President, CEO***

I think we did perform well frankly, so I think that is -- all environments are ones that I think our team has the ability to show different strengths. But I think volatility, and difficulties, and challenging logistics, et cetera, our team is unsurpassed and unmatched in terms of being able to perform well in difficult environments.

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

And I will look at the company as a whole. On the operating earnings and how we're doing, so I'm not as concerned as long as the businesses are performing well. One division's down and the other division's up. Because I actually know how we manage this -- the businesses and the assets.

Ray Young - ***Archer Daniels Midland Company - SVP and CFO***

Again, it gets back to John's comments, and I know, and we've talked about this, Dave, quarterly earnings are important for a lot of people. We recognize that, but again, we're trying to look at this business longer term. A lot of it's due to, again, how we mark to market things, how we book inventory, et cetera, et cetera. So I don't want to lose sight of the fact that looking at the first nine months of this year, segment operating profits are running at $3.1 billion. That's a pretty impressive performance. That's 28% higher than the same period in 2010.

So again, getting back to Pat's comment, we think that this year we are actually having a very, very good year this year. We've taken advantage of some opportunities that presented itself, and we executed it well. And as we head into fourth quarter, as John indicated, it's a dynamic situation. The team has been through these types of markets before, and we're going to continue to manage it. And then as we head into 2012 and beyond, we just -- we have a focus here in terms of making sure we drive value creation. And that's the reason why we're very much focused on long-term earnings growth, making sure that we're focused on driving returns, and that's part of the reason why we're going to bring in the return on equity measure here into the company as well. So we feel pretty good about where we're driving this company going forward.

David Driscoll - ***Citigroup - Analyst***

Thank you for the comments. Take care.

Operator

Your next question comes from the line of Christine McCracken of Cleveland Research.

Christine McCracken - ***Cleveland Research Company - Analyst***

Asked and answered. Thank you.

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Operator

(Operator Instructions) Your next question comes from the line of Ian Horowitz of Rafferty Capital Markets.

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

Good morning, everyone.

Patricia - Pat Woertz - ***Archer Daniels Midland Company - Chairman, President, CEO***

Good morning.

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

John, can you just talk a little bit on a macro level about the global feed supply situation? We hear you loud and clear on the demand side, and demand continues to grow at a pretty good pace, and you expect to see meal supplies being absorbed into this demand, but are we in a situation right now between very strong oil prices and therefore a lot of meal supply, DDGs and then the wheat situation, where we're kind of in an imbalance beyond just the traditional formulations? Are we seeing something unique here, something that's going to be -- is this a shift kind of in the way we should look at feed going forward due to these new larger entrances into the market?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

I wouldn't say it's a shift going forward. I think we've seen the shift here in the last three years or four years, and we brought more volatility to the market where many feed manufacturers and many poultry and beef and swine, people are looking at whatever the best cost formulations are, so whether wheat, corn, they're willing to switch in and out more now than they have been in the past. So it is more fluid, but I think it's been that way for about the last four to five years with the volatility in the market. And whether they are feeding DDGs or corn, it's really basically the same thing, except maybe the DDGs helps our lysine demand a little bit more.

So I think we do have a little bit of overcapacity in the world right now. This is nothing unusual. The South American crop three, four months ago, we were talking about a not very good crop in Argentina and the Argentine crushers wouldn't be running very hard. Now that's changed.

We're going to manage our assets accordingly and going forward. We have to plan for the long term in this business. That's what we're doing. We figure at periods we're going too have a little bit of overcapacity. But we're always managing supply with demand.

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

Put it another way, if we would have had a better condition wheat crop and DDGs are where they are in terms of supply. There's not a lot of new capacity coming online. Would a better wheat crop alleviate this oversupply in the feed situation? Would that be just enough to get it back into better balance?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

I guess I'd look at it different. I think what we're seeing is, we're going to see more wheat being substituted for corn on a global basis, depending on what happens with the tariffs coming out of the Ukraine and Russia, whether they're going to be exporting more corn or not ,and how Argentina's crop comes in. I think it's more of a wheat to corn situation than it is soy, but when you start blending more wheat, you also affect the soy. So I think it's very dynamic, and it's constantly moving. I think we really just need to have good crops in North America, and that will help alleviate part of the problems globally.

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

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Okay. And Pat, can you kind of talk to us about your thoughts and opinions on the current US situation policy-wise, whether it's the tariffs or the credits that are going to be back up for discussion? Where do you see those conversations sitting right at this point? How confident are you the blender's credits are even around to talk about it going forward?

Patricia - Pat Woertz - ***Archer Daniels Midland Company - Chairman, President, CEO***

Well, first of all, we're working with other ethanol stake holders and the Administration and Congress to think about policies that would continue to promote the industry, and it's not only through this year, but into next year and well beyond. And that could be discussions that include variations of V-Tech, which I'm sure you read about, that have opportunities to add to some of the discussions again in the long-term. I am confident that biofuels as a policy in the US and the RFS and what ethanol has already contributed to the mitigation of higher fuel prices, the offset to imported energy, be it at the oil level or at the refined products level, is a positive thing and supported by Washington.

Of course as you know, the discussion about where you have additional revenue come from, discussions about credits or a variety of opportunities for offsets to diminished revenue is part of the conversation. So I think that our industry will work with Washington to make itself known, and I feel over the long term biofuel have a real role to play, not in 100% replacement, but certainly a significant aspect to the transportation fuel pool in this country. I think both sides of the aisle understand and know that in Washington and want to try to find a solution.

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

Thank you.

Operator

(Operator Instructions) Your next question comes from the line of Robert Moskow of Credit Suisse.

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

Pat, just quickly, in the press release today under current market conditions, you've written that global economic conditions being impacted by significant geopolitical developments, rising energy costs, and involving monetary policies, and these elements have potential to temper global economic growth. Can you explain to me why you decided to put that in the release today? It sounds a little different from your typical strategy.

Patricia - Pat Woertz - ***Archer Daniels Midland Company - Chairman, President, CEO***

Thanks, Rob. We thought about a short paragraph that acknowledged not only some of our customers' concerns but just the overall economic conditions, which we always monitor and are always part of the risk factors, et cetera. In this current conditions, including the last quarter and even of course as we were writing this, even announcements about finding Osama bin Laden, et cetera, are impacted by geopolitical developments that have sort of been unprecedented. So we thought these confluences of events continue to be a current condition that always you should monitor whether it's the monetary and fiscal policies, certainly rising energy costs have been there alone. Sometimes there's one geopolitical event, but the fact that these were a group of events, the elements continue to be something that has the potential to affect economic growth. Again, our customers and others who read, this isn't any different than what you read in the Wall Street Journal every morning or any other paper. So it was an acknowledgement of that.

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

Lastly for John, is there any way to quantify the negative impact on your business of the North African kind of political problems and then the Japan earthquake? And can we look at that as kind of like a one-time negative in ag services that goes away?

John Rice - ***Archer Daniels Midland Company - Vice Chairman, Office of Chairman***

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I'd like to say that geopolitical situations throughout the world would go away, but we're always going to have different situations as time goes on. So yes, we had unprecedented volatility. We had people managing inventories different, many of our customers managing their inventories different, so I'd like to say that that goes away, but you know from quarter to quarter, it's always tough to say.

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

Thank you very much.

Operator

Ladies and gentlemen that concludes the Q & A session. I'd now like to turn the call over to Ms. Patricia Woertz.

Patricia - Pat Woertz - ***Archer Daniels Midland Company - Chairman, President, CEO***

Thank you very much for your interest in questions today and we'll talk with you on the call next quarter. Bye, now.

Operator

Ladies and gentlemen, that concludes the presentation. Thanking for your presentation. You may now disconnect. Have a great day.

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