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Conference Call Transcript

ADM - Archer Daniels Midland Co at Deutsche Bank Securities Inc. Global Consumer Conference

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PRESENTATION

Christina McGlone - ***Deutsche Bank Securities Inc. - Analyst***

Okay. Why don't we get started? I would like to welcome back Archer Daniels Midland to the DB Global Consumer and Retail Conference. Presenting today we have John Rice, Vice Chairman; Ray Young, Senior Vice President and CFO; and Dwight Grimested, who is Vice President of Investor Relations. I'm going to pass it over to Ray. Thanks.

Ray Young - ***Archer Daniels Midland Co. - SVP & CFO***

Okay. Thanks, Christina. We are glad to be here today to talk to you about ADM and give you some more insights in terms of how we are working every day to drive shareholder value.

Before we get started, I should mention I know you noticed the name on the screen, Juan Luciano, our new Chief Operating Officer. He would have liked to have joined us today, but unfortunately as he is finalizing his US citizenship process, his international travel is somewhat restricted right now. So both Dwight, John and I are here to present to you today.

Just a reminder that our discussion today is covered by our Safe Harbor statement that is on the slide and available on our website.

Now just as an introduction for those who are not that familiar with us, ADM is the link between the world's supply of crops and its demand for crops and products made from them. We buy crops, move them through our global transportation network, and either sell them as crops or process them in one of our more than 240 processing facilities around the world.

Now ADM is truly a global company with over 60% of our sales destined for markets outside of the United States, led by substantial sales of a rapidly growing Asian market.

Recently we have been talking about how we will further drive shareholder value creation. This is a priority for the management team and the board. We believe shareholder value creation is driven by three factors each linked with each other. First, a clear and compelling strategy; second, strong future earnings growth; and third, solid returns on capital. These three drivers are inextricably linked. Today we will talk about the specific strategies in each of our businesses, we will elaborate further on ADM's earnings growth, and we will discuss our management of capital and returns.

But first on strategy, if you have seen us present in the past several years, you have seen this chart. Our strategy remains to expand the size and global reach of our core model, leveraging our experiences and resources in to new and growing markets, and we will expand the volume and diversity of the crops that we work with. We will expand the volume and diversity of our product portfolio as well. Towards this Companywide strategy, each of our businesses has a specific strategy, and I will go into some detail of each of these businesses.

First, our origination and transportation operations. Now each and every day we use our industry acumen at ADM to add value to our global asset network. I would like to give you an example of how this works. Here a customer in Egypt needs to buy feed for his poultry operations. The market price for the key feed ingredients at a port of Egypt actually determines the commodity values at various exports around the world. ADM

can supply these four major export terminals from our extensive origination network. The commodity values at each of our elevators are determined by the local supply and demand. For this particular example, we find that the best and highest value opportunity for ADM is to ship corn by rail from central Illinois to the St. Louis River terminal, then by barge into New Orleans, and then by sea onto Egypt.

On another day, this order could have come from the interior elevators in Brazil to the Port of Santos and then on to Egypt; or could have come from Paraguay through Nueva Palmira and onto Damietta in Egypt; or it could have come through central Europe through our Port of Odessa on to Egypt.

At ADM our operations span the globe and extend from crop sourcing through to customer sales, giving us great insights into the supply chain demand dynamics throughout the entire ag value chain. This global intelligence provides us with a competitive edge as our team uses real-time market knowledge to coordinate global processing and merchandising activities and to take advantage of market opportunities as they happen. And we are growing this network.

In terms of our strategy, as global production of grains and oilseeds increases to meet the ever growing global demand, we are expanding and improving our origination and transportation network. We are building on our origination and transportation leadership positions in North and South America. We are growing our origination footprint in Canada and in Europe, and in Middle East, Asia and Africa, we are expanding our destination businesses.

Over the last five years, we have been expanding our global storage capacity on an average of 3% per year. In the last six months, we announced plans to construct a shuttle train loader elevator in North Dakota. We announced expansions of the barge loading terminal and elevators in Missouri and Illinois. These expansions totaled 1.7 million bushels of storage. We began construction of a port terminal at Nueva Palmira in Uruguay. We acquired a grain elevator on the Elbe River in Riesa, Germany, and we announced the expansion of our grain warehouse at the Port of Gdynia in Poland, making it the country's largest grain storage facility.

Now moving on to oilseeds where we have a geographically diverse integrated value chain with strong sourcing capabilities of all oilseeds and the ability to produce a wide variety of products that serve the food, feed, fuel and industrial markets.

Now just a reminder to those who don't follow us regularly, it is important to note that the segment results of most of our origination and export operations in Europe and South America are reported in our oilseeds business and not in the ag services business segment. We do this because in Europe and South America the oilseeds and the origination operations are integrated operationally.

Now our oilseeds processing operations cover the globe with crushing, refining, packaging and biodiesel operations in all major regions. The core of our North American oilseeds business model is in crushing a variety of oilseeds into protein meal and vegetable oil for the food and feed markets.

In Europe we also have a leadership position in oilseeds crushing and refining. The model is a bit different here as we need to import soybeans from either North or South America, often using our own port facilities, and we also use our inland European elevators to source locally grown rapeseed and sunflower seed.

Our South American oilseeds operations not only process soybean into protein meal, vegetable oil and biodiesel, but also manage our origination and distribution activities for the region.

Now our participation in Asian oilseeds markets is primarily through our strategic partner in the region, Wilmar International Ltd., in which we have a 16.2% equity interest. Wilmar has a very strong position in Asia and also in China, and ADM is a major provider of agricultural products such as soybeans for their processing operations.

Our oilseeds strategy is centered on enhancing the value of our existing footprint, increasing plant efficiencies and to regionally expand our business model. In North America we are growing our value-added business. In South America we are expanding our crop input businesses and origination assets to support producers and to increase our raw material supply for domestic and global use. In Europe we are continuing to expand our footprint, specifically looking into Eastern Europe, and we look to build up our businesses in India to meet the growing demand.

As an example, in the last six months at our Lloydminster, Alberta canola processing plant, we are doubling storage capacity. We announced the acquisition of a soybean crush plant and biodiesel facility in Deerfield, Missouri. We announced plans to begin originating and processing sustainable palm in Brazil, expanding our crop base in that region. We began operations at our fertilizer blending plant in Paraguay, and we acquired the remaining 50% interest in Golden Peanut, the largest US handler, processor and exporter of peanuts.

This is a business that fits well within our US existing oilseed and export operations and will support our growth objectives in the global oilseeds business.

Now turning to corn processing, where we have a competitive advantage with our large, integrated and efficient plants and where our leading market position in our major product lines, is supported by strong grain origination and logistics capabilities.

We have seven major corn processing plants in North America, as well as a joint venture plant in Mexico and joint venture plants in Eastern Europe. Our corn processing operations are very flexible. Today ADM can produce more than two dozen products from a single kernel of corn, and while a large percentage of the corn we process is used to make either sweeteners or ethanol, each additional product we manufacture leverages the entire corn processing facility and enhances the total value of these operations.

That is why we continue to strive to find new products that we can produce from corn such as propylene ethylene glycol and isosorbide. We are the leader in both corn wet milling and corn dry milling, and we use co-generation at our large integrated corn processing plants, giving us a cost advantage over many of our competitors.

Our strategy in corn processing is to continue to diversify our product portfolio and to optimize the flexibility of our processing operations. Over time we will expand the number of products in our corn portfolio, and we are currently focused on expanding our carbohydrate processing capabilities globally.

In the last six months in the corn processing area, we began construction of a sweetener product transfer terminal in Chattanooga, Tennessee. We expanded feeding ingredient production and packaging capabilities at our plant in Southport, North Carolina, and began production of propylene glycol at our Decatur, Illinois plant.

Now turning to our next segment, cocoa and the wheat milling business, in each of these businesses, we are industry leaders. We are a premier supplier of cocoa and chocolate ingredients worldwide with a global origination footprint and a cocoa processing and chocolate manufacturing presence in key consuming countries. We're one of the largest flour millers in the world and a supplier of high quality flowers, blends and baking ingredients to the food industry.

Our strategies in cocoa and wheat are focused on improving our utilization and efficiencies. We recently expanded our global cocoa operations with the acquisition of a chocolate business in Europe, and we have constructed a new origination and processing facility in Ghana, and we have built a new plant in Hazleton, Pennsylvania.

Now, as we develop next to the strategies of our businesses, we are focused on profitable growth, and we have been delivering. This chart shows our earnings-per-share on an annual adjusted basis, backing out LIFO reserve adjustments in specified items such as asset gains and other specific gains and losses which we have highlighted in the appendix in our handouts. You can see that on an adjusted basis. ADM has attained an earnings-per-share CAGR of 21% over the past 10 years with adjusted earnings increasing from $0.45 per share in 2000 to $2.96 per share in 2010. All indications point to a very solid fiscal year 2011 for ADM.

And just as a reminder, our fiscal year ends on June 30. Excluding the $0.40 of LIFO charges through the nine months of fiscal year 2011, EPS is $2.95 per share on an adjusted basis. Barring any unexpected events or developments, we should finish up fiscal year 2011 solidly exceeding the prior record earnings excluding LIFO of $3.30 a share in 2008 and much higher than our 2010 fiscal year earnings excluding LIFO of $2.96 per share. And right now we are actually in the processing of closing our May results, and everything points towards really a solid year for fiscal year 2011 for ADM.

The chart also shows a moving average basis over a two-year period. The moving average line which smooths out the annual earnings may better reflect our underlying growth trends. It flattens out the shorter-term spikes and troughs in earnings such as what we saw in both 2008 and 2009. A solid 2011 fiscal year result puts our two-year moving average trajectory back towards a positive trend line for growth. So while history is not necessarily a predictor of long-term earnings growth, ADM has demonstrated an ability to grow earnings consistently through various economic cycles and commodity markets as evidenced by the trend lines.

In addition, our portfolio of businesses helps to balance our results, and you see this in our segment operating profit graphs. Segment performance can vary by year and is often offset by other segment's performance. Market dynamics that might negatively impact one area of our business can have a positive impact in another area, and our businesses are interconnected both operationally and in terms of our ability of customers to place

one ADM product with another. And while we manage our businesses into segments as reported, we manage ADM as one enterprise and look at our corporate results over the fiscal year and longer-term, and not just quarter by quarter.

We also manage risks on an enterprise business as opposed to just on a segment basis. We might at times offset exposure in one segment with positions in another within corporate risk management limits all to benefit ADM's bottom-line performance. I did want to make sure we get this message across today about managing as one enterprise and managing over a fiscal year and longer.

These graphs show where we have invested our capital during the last five fiscal years. Looking at spending by types, we had some projects that we called the big seven that represent over 1/3 of the spending, and I will discuss those a little bit later.

Overall more than 75% of our investments have gone to expanding capacity and improving operations. And 44% of the spending were non-big seven projects related to growth. Because of these projects, the largest amount of capital was invested in North America.

Now going forward you should expect to see more CapEx deployed outside of North America as we have completed the big seven projects and as we expand the geographic scope of our business model. For example, fiscal year-to-date to March 74% of our CapEx was North American-based, and of this amount, roughly 1/5 is supporting our export operations.

Now I would like to briefly review the big seven projects. Our largest big seven projects are the new corn dry mills, located in Columbus, Nebraska and Cedar Rapids, Iowa, representing a total investment of $1.3 billion. We have completed construction, and both mills are fully operational.

Ultimately the economics of these plants depend upon the relationship between gasoline prices and our corn costs. In 2011 the fiscal year to date, good corn ownership management has allowed our ethanol plants to deliver solid margins. We believe that so long as we focus on managing the plants to be low cost, driving operating efficiencies and maintaining a balance sheet to support our dry mills during the downcycles of the industry, we should earn reasonable returns on this investment over the long term.

We have also invested $700 million to build co-generation plants at our corn processing complexes in Iowa and Nebraska to increase steam production, while minimizing total energy costs, particularly purchased electricity costs. Both facilities are operational and reducing plant costs. We also have two bioproduct projects for a total investment of roughly $500 million. Their purpose is to diversify and add value to our product portfolio. The PHA plant and the propylene ethylene glycol plant are both operating right now. We see PHA as a long-term strategic play in the developing bio plastics market and [PGEG] is an attractive drop-in alternative to petroleum-based chemicals.

Finally, at our Hazleton, Pennsylvania cocoa processing plant, it is fully operational, a $200 million project to improve efficiency and rationalize our US capacity footprint by consolidating two older plants into a newer facility. This plant is running at the planned capacity, and we're beginning to see the operating efficiencies that we had expected.

Over the past few years, we have not highlighted the significant number of smaller capital spending projects we have undertaken on a regular basis to support growth. For example, during the first nine months of fiscal year 2011, we approved 130 CapEx projects for growth-related initiatives for a total commitment of $863 million. This means the average size of the projects is about $7 million each. We project that these 130 projects will increase our annual operating profit by a total of about $264 million by 2015, and we undertake these smaller projects regularly in our business, which does not get much visibility outside of the Company.

During the first nine months of fiscal year 2011, our CapEx activities have included adding [eight] ongoing oceangoing vessels to our fleet, which helps us more efficiently connect global supply and demand as we meet customer needs, constructing additional vegetable oil tanks at our Hamburg oilseed processing complex to increase on-site storage capabilities. Last week our Alliance Nutrition operation announced plans to acquire a liquid animal feed business in the Western United States, which will expand our product offering and enhance our sales presence in this key beef producing region. And just yesterday we opened a new feed premix plant in Tianjin, China to serve the growing Chinese market for our animal nutrition products. These are the kind of projects that have historically been at the core of ADM's capital spending, and while they are small individually, they have delivered strong earnings growth over the past few years.

We show here a history of our adjusted return on invested capital, excluding specified items to our weighted average cost of capital on the four quarter showing average basis. This is a metric that we are very much focused on. As you can see, after 2003 we have earned ROIC in excess of our WAC. Our long-term target is 200 basis points over WAC, and we have been consistently meeting or exceeding that spread over WAC since 2006.

Now, as I mentioned in our earnings call in May, we are reintroducing the return on equity metric as an additional gauge of our return performance as a complement to our ROIC metric. This will help further provide focus on driving returns as a key contributor towards long-term shareholder value creation. For the third quarter, our ROE on a trailing four-quarter LIFO adjusted basis was 14.9%. Our long-term ROE target is a range of 12% to 14%, which would be consistent with our ROIC targets. We will continue to use ROIC to evaluate projects and investments within our Company. We will also look at ROE at the corporate level to ensure we are delivering adequate returns to our shareholders.

We recognize that there are opportunities for us to further improve upon our capital management and returns. We are particularly focused on beefing up our capital allocation and management process. In our prior presentations, we detailed some of the changes we are making. Here I will just note some of the focus areas. We are investing to drive additional growth both short-term and long-term. We are evolving our mergers and acquisitions approach. We are changing how we are evaluating projects, and we are improving our project and capital management processes.

Now ADM is actively working to create value for our shareholders. Shareholder value creation at ADM is based upon the foundation of a clear and compelling strategy of driving earnings growth and focusing on returns of capital employed.

As you heard, we have a clear strategy for each of our business units. We have had a good record in terms of strong earnings growth, especially taking account of unique items and looking at some moving averages. Our portfolio of businesses provide us with more opportunities to capture value from global markets. We have a strong balance sheet to drive growth while covering our higher working capital needs, especially recently. We're continuing investing to grow our businesses, and we have delivered a history of solid returns, and we are continuing to focus on continuing to deliver returns to our shareholders.

With that, let me just stop here, and now we will open up for questions and answers. Thank you.

QUESTION AND ANSWER

Christina McGlone - ***Deutsche Bank Securities Inc. - Analyst***

I guess I will start with one. John, there is a variety of crop issues going on ranging from canola in Canada to wheat in Europe and corn in the US. And I am curious if you can just go around the world and talk about the supply outlook for the crop and then what are the implications to ADM?

John Rice - ***Archer Daniels Midland Co. - Vice Chairman***

Sure, Christina. Starting in Europe, there was a very dry summer in Western Europe, and the wheat crop is supposed to be a little bit reduced. We are having harvest now, and we are getting a little bit of rainy weather. Canola acreage seems to be a little -- or I should say rapeseed acreage seems to be a little less also in Europe. But what we are seeing also is the Ukraine and Russia is going to be exporting wheat this year, which should help the global supply and demand base to offset some of this reduction in Western Europe.

And the plantings in North America are pretty much finished now. We have corn pretty much in the ground, and soybeans should be finishing up here shortly. It is all going to be weather-related and how the growing conditions come out through the summer. And with the latest USDA report, it showed that we have a reduction in corn acreage in the United States, which could tighten the balance sheet that much more depending on the weather.

China, you hear all kinds of different stories -- too wet, too dry. They are selling out some of their stocks. So right now, for the rest of the summer, we are going to need very good growing conditions I feel in the North America to help offset some of the issues we are seeing in Western Europe and then also in China.

Christina McGlone - ***Deutsche Bank Securities Inc. - Analyst***

And then in terms of implications for ADM?

John Rice - ***Archer Daniels Midland Co. - Vice Chairman***

Well, I will give you the answer to that. It depends on which crop and what area in the world. The corn crop, we are seeing very good demand in our sweetener business right now. The sweetener business in North America is very tight. So, as long as we have any type of corn crop, that business looks to be very good here, especially coming into the pricing next year.

Ethanol, that is margins are very tight right now is the best way to say that. We have an oversupply. We have an E15 ruling coming on the labeling from the US government here within this next month period, which should allow the industry to blend a little bit more, which should help the supply and demand balance. The size of the corn crop this year is very tight, and then the size of the corn crop will have big implications on that going forward this next year.

The oilseed harvest should be -- we have tight supplies in the United States. We are running our assets a little bit less, but we have larger crops in South America, and I think they just raised that another 7 million tons down in Brazil. So we should actually see more exports out of Brazil this year going in longer, which could create some different possibilities and opportunities in the US as we come into our harvest with crushing operations. Biodiesel is now operating in North America, which helps the returns in our assets there, and it is also tightening up the supplies.

Ag services, like always, we like to have large crops. This year does not seem like we are going to have very large carryovers. So our assets may not be used as much for carry-in crops. But, as long as we have some dislocations around the world, our team is very well attuned to that and should be able to reap some benefits in that.

Unidentified Audience Member

Good morning. I just saw most of your crop origination is located in Latin America and probably the biggest growth demand is in Asia. Is there a specific reason for that, and then what are your future -- how to say -- growth potential or where do you see the future growth potential, especially in Asia?

Ray Young *- Archer Daniels Midland Co. - SVP & CFO*

In Asia we are expanding in India. We have five processing plants now there in India. China itself imports most of their raw materials whether it is -- right now it is mostly oilseeds, soybeans. And, as a non-Chinese company, you can not expand the oilseed crushing in China. You have to be a Chinese majority-owned. But we are -- as Ray mentioned, in his presentation, we have other opportunities we are looking at, and right now the pre-mix business is one area which is not very large, but we are in the Chinese, and we are a very large importer of soybeans into China.

Unidentified Audience Member

How are you interested in expanding downstream and getting closer to consumer? Some of your competitors or peers in the industry have almost branded products in their portfolio. Do you see yourself developing a consumer franchise of some description or that will never happen?

John Rice *- Archer Daniels Midland Co. - Vice Chairman*

We do have a few consumer oil products. We have some down in Brazil. We have some in the Eastern Europe when it comes to vegetable oil. But beyond that, we -- that is not in our long-term strategy to get into the consumers business. We let our customers handle that. They understand the marketing aspect of that. We understand how to move crops around the world and process them into food and feed ingredients.

Christina McGlone *- Deutsche Bank Securities Inc. - Analyst*

John, today we have, on the ethanol front, we have, I guess, a vote on a bill that includes the Coburn Amendment and then which would remove the ethanol subsidies and import tariffs. But then a flip to that, we have a bill from Senator Thune that looks like they are just going to phase it out and transition it to infrastructure build. So I'm just curious what does ADM think about what is going on in the ethanol arena and the different politics involved, and what are the implications to the Company if the subsidy were to go away?

John Rice *- Archer Daniels Midland Co. - Vice Chairman*

There is a lot of answers to that question. I will try to hit them all. When it seems like now the subsidy goes away, it will not affect ADM's business since we are actually buying the raw materials and selling the ethanol. Right now ethanol is competitively priced in the market without any government blending subsidy to the blenders. So as that goes away, we still will be very competitive. So I don't see the margins changing. As long as we get an E15 ruling, I think as long as we pick up more demand, then we should be able to see some more positive blending to get us over the blend wall.

When you come to some of the bills in Congress right now, if it ends today, the disappointment is that they pass a bill, they have it go through Congress, and then an industry is built, and as the US is looking for more jobs and more job creation, it just sends the wrong message I feel to the industry to all of a sudden cut that off in the middle of the year when it will especially go to the end of the year. But it does sound like with all the talk in Congress here in the next two or three years, we will see that subsidy go away. Which I mentioned earlier, I do not feel will affect ADM's business since we are buying the raw material and selling the end product there, and maybe the price of the raw material should come down if you lower the demand on that.

As far as the tariff goes, we are all for free trade globally as long as it is free trade. Here in this last year US ethanol was very cheap, and if we could have exported our product to Brazil, we would have had an opportunity to have very good margins compared to sugar ethanol. So I hate to see the tariff come off unless we really have a true free trade agreement with Brazil. But I understand it is also in one of the bills before Congress.

Unidentified Audience Member

Ray, can you update share repurchase activity and give us some idea of what capital spending levels will be the next few years?

Ray Young - ***Archer Daniels Midland Co. - SVP & CFO***

Sure. Right now on a fiscal year-to-date basis, we have bought back approximately 9.4 million shares and spent about $300 million buying back stock.

As I have indicated in prior earnings calls, our intent is to mitigate the impact of the equity unit conversion. If you recall on June 1, our equity units kind of converted, and 44 million common shares were issued. Our intent is to mitigate that impact over a two-year period after June 1 subject to us maintaining a strong balance sheet. So subject to how our working capital needs will evolve over the next two years, as well as whether there is going to be additional strategic investments that maybe we will have to use some of that funding.

But right now because of, frankly, some fairly attractive pricing from our perspective, we got a kick start in the month of May. I think I indicated that at my last call, but on a fiscal year 2011 basis, we bought back $300 million worth of shares.

In terms of capital spending, this year, fiscal year 2011, we will probably end up spending CapEx about $1.5 billion. This includes the spending associated with acquiring the 50% remaining interest in Golden Peanut that occurred in December.

In terms of a run-rate going forward, I mean clearly after we have gotten through the big seven project hump where our CapEx went up close to $2 billion, probably in a range of $1 billion to $1.5 billion as a run-rate, but subject to us looking at additional strategic opportunities. Our balance sheet, we believe, is strong enough to sustain additional CapEx above this range. To the extent that we discover projects, we find projects or opportunities that make a lot of sense for us in order to keep on growing and delivering the returns on capital that we are targeting.

Unidentified Audience Member

John, new crop corn is a lot cheaper than the corn that you will buy if you have to buy it over the summer. I'm not asking for your hedges and so forth, but to the extent you are in an environment where corn should be a lot cheaper in four or five months than it is now, how do you feel like the Company is positioned in this environment?

John Rice - ***Archer Daniels Midland Co. - Vice Chairman***

Well, I would say that, first of all, I feel the Company is positioned very well. But how you have to manage through in versus is definitely different than how you have to manage our inventories through carry. Because, as you mentioned, the raw material prices will be going lower.

There are two different things you have to watch. There is the flat price of the commodities and then also having basis on our ships. So you tend to operate with less ownership in the Company, but we are also when we buy corn, we are not only buying corn for our operations; we are buying corn for the poultry manufacturers, hog manufacturers that we can sell to or the export markets. So when we buy corn, we tend to look at it as the value that has a lot of different markets it can go to.

But you are absolutely right. In these type of markets, we need to run our inventories a lot lower than we did historically do.

Christina McGlone - ***Deutsche Bank Securities Inc. - Analyst***

John, you talked about growing, building or acquiring carbohydrate processing globally, that you are in the process, and it seems like when you did the presentation most of the corn processing is in North America. So I'm curious if it is a change or a change in strategy or what is driving this expansion outside in carbohydrates?

John Rice - ***Archer Daniels Midland Co. - Vice Chairman***

We have always looked at that. We just never have found the right opportunity at the right prices. But that has not really been a change in our strategy I don't feel over the last 10 years. We are just really more or less looking at the right opportunities when they arise. With high petroleum prices in the United States, we feel that the industrial chemical area probably fits here a little bit better with the cheap price of corn and the higher price of energy than any other place in the world, but we are looking at other places in the world.

Christina McGlone - ***Deutsche Bank Securities Inc. - Analyst***

Any other questions? Okay. Thank you very much.

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