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ADM - Q1 2012 Archer Daniels Midland Co Earnings Conference Call

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PRESENTATION

Operator

Good morning and welcome to the Archer Daniels Midland first-quarter 2012 earnings call. All lines have been placed on listen-only mode to prevent background noise. As a reminder, this conference call is being recorded.

I would now like to introduce your host for today's conference call, Mr. Dwight Grimestad, Vice President, Investor Relations for Archer Daniels Midland Company. Mr. Grimestad, you may begin.

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

Thank you, Christy. Good morning and welcome to ADM's first-quarter earnings conference call. Before we begin, I would like to remind you that we are webcasting this presentation on our website, ADM.com. The replay will also be available at that address.

For those following the presentation, please turn to slide 2, the company's Safe Harbor statement, which says that some of the comments constitute forward-looking statements that reflect management's current views and estimates of future economic circumstances, industry conditions, company performance, and financial results. Statements are based on many assumptions and factors, including availability and prices of raw materials, market conditions, operating efficiencies, access 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.

Please turn to slide 3. On today's call, our Chairman and Chief Executive Officer, Pat Woertz, will provide an overview of the quarter. Our Senior Vice President and Chief Financial Officer, Ray Young, will review financial highlights and corporate results. And our Executive Vice President and Chief Operating Officer, Juan Luciano, will review our operations and outlook. Craig Huss, our Senior Vice President and Chief Risk Officer, will join Pat, Ray, and Juan during the question-and-answer portion of the call. And I will now turn the call over to Pat.

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

Thank you, Dwight, and welcome, everyone, to our first-quarter conference call. This morning, we reported first-quarter net earnings of $460 million or $0.68 per share on a fully diluted basis. Adjusted EPS, which excludes LIFO, was $0.58 per share, 13% lower than last year's first quarter. Segment operating profit was $699 million.

It was a difficult and challenging market environment this quarter. Margin conditions in our global oilseeds segment were generally weak and net corn costs were high.

We, however, offset some of these pressures with first, good management of our commodity positions and also by capturing opportunities across our broad and diverse portfolio. Looking ahead, we see the margin environment modestly improving and we are optimistic about the long term.

During the quarter, we focused on driving shareholder value by optimizing our existing asset base, expanding our core model, and by buying back shares. We improve the productivity of our facilities, consolidated operations and continued our safety improvements. We acquired oilseed facilities in Poland and India and expanded our Agricultural Services operations to support exports. And we returned capital to shareholders through dividends and share buybacks of $347 million. Now, I will turn the call over to Ray.

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

Thanks, Pat, and good morning, everyone. Slide 5 provides some financial highlights for the quarter, which I will run through briefly.

As Pat noted, segment operating profit was $699 million, down $66 million or about 9% from a year ago. Quarterly net earnings were $460 million, up 33% from last year's first quarter.

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Looking at our effective income tax rate for the quarter, we recorded taxes at 30% based on the forecast geographic mix of earnings for our fiscal year 2012. This is consistent with our guidance of 28% to 30% for the full year.

Our earnings per share were $0.68 on a fully diluted basis compared to last year's $0.54. We recorded a LIFO credit of $126 million pretax, or approximately $0.11 per share compared to a $0.12 charge in the same period last year. Adjusting for specified items, ADM earned $0.58 per share compared to last year's $0.67 per share.

On chart 19 in the appendix, you can see the reconciliation of reported earnings to adjusted earnings for the first quarter of fiscal year 2012 and first quarter of fiscal year 2011.

And our four-quarter trailing ROIC of 8.6% exceeded our weighted average cost of capital by 220 basis points. Chart 20 in the appendix provides a historical look at our ROIC performance.

Turning to slide 6, slide 6 provides an operating profit summary in the components of our corporate line. Juan will talk about the business segment results in his update. Let me touch on a few items of significance in the corporate line.

I talked about LIFO earlier. Market prices for our LIFO-based inventories fell in the quarter resulting in a credit of $126 million compared to a charge of $123 million last year. Our interest expense is lower due to lower interest rates. Unallocated corporate costs are slightly higher due to the absence of a one-time gain that was in last year's results.

Last year's results was also negatively impacted by a loss on interest-rate swaps.

I also want to comment on our outstanding share balance. Our EPS calculation this quarter was based upon an average of 674 million shares outstanding compared to 641 million shares last year. Based upon the pace of our buybacks, I would expect our average outstanding shares for the fiscal year to be about 665 million shares.

Turning to the cash flow statement on slide 7, we generate $782 million in cash from operations before working capital changes. Working capital was a source of cash to us of $1.3 billion as commodity prices fell in the quarter versus last year's first quarter when it was a large use of cash. We made capital investments and acquisitions of assets of $455 million for the quarter, including $443 million in purchases of property, plant and equipment, which Juan will discuss further.

Our net debt decreased $746 million in the quarter, and we returned $347 million to shareholders through dividends and share buybacks.

In this quarter, we bought back 8.6 million shares. We will adjust the pace of our buybacks based upon our stock price and our forecast liquidity requirements. In the first quarter, we had a more accelerated pace of buybacks.

Slide 8 shows the highlights of our balance sheet. Through the first quarter, cash on hand increased approximately $400 million to $1.8 billion. Total debt was $9.5 billion, down from the $10.3 billion level at the beginning of the quarter.

We had no commercial paper outstanding, and we had available credit capacity of $4.6 billion in US commercial paper and $2.4 billion in other local credit lines, including our recent accounts receivable securitization facility.

I also want to note that of the $11 billion of inventories, about $6.7 billion is readily marketable. We believe this strong balance sheet provides us with the financial flexibility to manage our business in volatile markets and continue to invest for profitable growth. Next, Juan will take us through an operational review for the quarter. Juan?

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Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Thank you, Ray. Good morning to everyone on the call. Beginning on slide 9, I will take you through the highlights of each of our business segments, and then discuss our CapEx priorities. I will conclude with our current assessment of market conditions and their implications for ADM.

In Oilseeds Processing, our operating profit in the first quarter was $221 million, down $87 million from the same period last year. While margin conditions in our Oilseeds segment were generally weak, the diversity of our global oilseeds business mitigated some of these pressures.

Crushing & Origination operating profits fell $61 million to $115 million due to a weak margin environment and global soybean production and in European rapeseed crushing. That impact was partially offset by stronger results in our North American softseed businesses and South American origination.

Refining, packaging, biodiesel and other businesses generated a profit of $49 million this quarter, compared to $76 million in the same period last year.

Declines in South America and Europe offset gains in North America from strong demand for biodiesel and on strong volumes on margin of protein specialty products.

Results in Asia for the quarter were in line with last year, reflecting a stable result from Wilmar International Limited, our equity investee.

This quarter, in oilseeds, we purchased a majority share of Elstar Oil, a leading Polish manufacturer of refined vegetable oils, fats, and biodiesel. We expanded our operations in the growing Indian oilseeds market through the acquisition of two soybean processing facilities. We announced plans to grow our grain and rapeseed storage capacity through the construction of four new silos at Magdeburg, Germany. We shattered a soybean processing facility at Galesburg, Illinois, consolidating production to more efficient operations.

Please turn to slide 10. As you see, Corn Processing operating profit was $179 million during the first quarter, down $162 million from the same period one year earlier. Our processed volumes were up 5%, but overall net corn costs more than doubled from the first quarter last year.

Operating profit in Sweeteners & Starches was $28 million, a decrease of $118 million from the prior-year quarter. The decline was principally due to higher net corn costs, which offset higher average selling prices and sales volumes. Export demand for sweeteners remains strong. As we have discussed over the last few quarters, the net corn costs for sweeteners and starches were negatively impacted by corn futures hedging benefits recognized in prior quarters.

Bioproducts profit in the quarter decreased $44 million to $155 million(Sic-see press release). Lysine and spot ethanol margins in the quarter were good. Offsetting the margin benefit, ADM ownership gains were lower than the year before.

I would like to make a comment on the hedging of corn sweetener contracts going forward. We are in the midst of our calendar year 2012 sweetener contract negotiations. As we complete the contract negotiations, we plan to designate more of the hedges to cover the corn requirements of our sweetener contract. This should dampen the inter-quarterly earnings volatility we have seen in the sweeteners and starches line. We will progressively see this impact starting in the fiscal third quarter.

This quarter, in corn, we improved energy efficiency by merely 4% over the fiscal year 2011 baseline and ahead of our target improvement. Our energy usage [combined by] product mix. Nevertheless, we continued to aggressively pursue energy savings.

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We continued to improve the throughput of our corn wet mills as demand for their products remains strong. And our ethanol dry mills demonstrated another record production level, partially exceeding their nameplate capacity.

Turning to slide 11, you will see a review of our Agricultural Services segment. Operating profit in this segment increased 85% from $132 million to $244 million. Our solid performance in Ag Services was primarily due to stronger global merchandising results, including a strong recovery of exports from the Black Sea region.

Earnings from transportation operations were steady despite lower US grain export volumes. This quarter, in Ag Services, we acquired nine elevators in Wisconsin, marking our first origination assets in that increasingly productive state. And in October, we announced an agreement to purchase three Post-Panamax ships to improve ADM's freight position and our ability to efficiently connect supply and demand.

On slide 12, you can see highlights from our other businesses. In the first quarter, profits from this business was $55 million, up $71 million from the same period one year earlier.

In other processing, which includes wheat milling, cocoa, and our equity share of Gruma, profits rose $33 million to $59 million, driven by stronger cocoa press margins.

Wheat milling results remain strong. Segment results in the quarter were negatively impacted by $58 million in marked-to-market net timing adjustments in cocoa, similar to last year.

In other financials, we saw an increase of $38 million mainly due to reduced capital insurance losses. During the first quarter, we completed the sale of a majority stake of Hickory Point Bank. We also permanently closed our Mansfield, Massachusetts, cocoa plant and fully integrated its production into our Hazleton facility. We finished transferring operations from our North Kansas City flour mill to other ADM operations and sold the facility to City.

Turning to slide 13, our CapEx program for fiscal 2012 is underway. We are targeting approximately half of our growth capital investment outside the US. And a significant portion of our US investments will be to serve export markets.

In the first quarter, we deployed $455 million in capital spending and acquisitions. Over 75% of this capital was deployed to support growth and efficiency improvements. And more than 70% of our capital spending was in the oilseeds and Ag Services segment, where we are targeting more aggressive growth, particularly outside the US.

Turning to slide 14, we want to provide some perspective on current market conditions and their implications for ADM. Oilseeds margins are currently up versus depressed levels that impacted our first-quarter results. And we are expecting a modest improvement in the oilseeds environment moving forward.

Longer-term, as global protein meal demand continues to grow, driven by emerging economies, improved capacity utilization should improve industry margin structure over time.

In Corn Processing, we are seeing a strong demand for our corn wet milling portfolio, which we expect to continue.

We expect good ethanol spot margins to continue in the near term, although some smaller plants may restart.

With industry high fructose corn syrup volumes up 15% in 2011, we are optimistic about our calendar-year 2012 prices and margins for that business. We have concluded contracts with some of our sweetener customers and continue to talk with others.

The US harvest is nearing completion with a smaller crop than last year. Level supply is adequate for soybeans and wheat, but tighter in corn. More of the world's demand for agricultural commodities will be met from non-US supply.

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And as always, ADM will use our global origination and transportation network to help serve growing global demand.

Now I will turn the call back to Pat.

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

Thanks, Juan. Before we take your questions, just let me recap. Difficult market conditions in the quarter. We had weaker results in corn and oilseeds. More solid results in Ag Services and our other businesses. We continued to expand our core model. And this quarter, we returned $347 million to shareholders through buybacks and dividends.

Looking ahead, we see the landscape improving.

And now, Craig will join Juan and Ray and me for the Q&A, so Christy, would you please open the line for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions). Jeff Farmer, Jefferies & Company.

Jeff Farmer - *Jefferies & Company - Analyst*

Good morning, everyone. As you mentioned, your Merchandising & Handling profit more than doubled in the quarter. And again, you pointed out that the export recovery in the Black Sea region, but I guess my question is, how big a driver was that? I guess what else was going on? And should we see more of the same in coming quarters?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Yes, good morning, Jeff. This is Juan here. As I said before, we had very strong results in merchandising, both in the US and in global operations. Global operations -- or international operations include Europe and also South America. So certainly the increase in exports from the Black Sea was very good for us, and also the exports in Argentina -- from Argentina. As I look today, the conditions for this quarter seems to be pretty similar to the conditions we have in the first quarter.

Jeff Farmer - *Jefferies & Company - Analyst*

Okay. So I would imagine the Black Sea sort of issue would continue. And then again in terms of exports out of Argentina, it looks like more of the same in coming quarters. Is that fair?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

I would say the current rate seems similar to the previous quarter.

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Jeff Farmer - *Jefferies & Company - Analyst*

Okay. And then just next question, final question for me -- on the last call, you pointed out that tight corn supplies had resulted in some idle ethanol capacity, I guess which in turn benefited your spot margins. Did the industry see more of the same in the September quarter? And what's happening now in terms of idle capacity on the ethanol side?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Yes. Our view, Jeff, was that during this quarter, probably between 400 million and 600 million gallons of ethanol capacity was down. We continued to see strong margins in corn -- in ethanol corn at the moment, and our expectation is that these margins will probably move with the rate at which capacity will come back. Some capacity will come back as we have the harvest, and we probably expect some of that to happen over the next two or three months.

Jeff Farmer - *Jefferies & Company - Analyst*

Okay. Thank you very much.

Operator

Christina McGlone, Deutsche Bank.

Christina McGlone - *Deutsche Bank - Analyst*

Good morning. Thank you. I guess first question, when you talk about the outlook for oilseeds and you say you will grow into capacity over time, I'm wondering with the fact that Paraguay -- your Paraguay plant is coming on in mid-2012. Do things get worse before they get better?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Thank you, Christine. This is Juan again. We have this quarter an environment of very weak margins in crushing in general. The situation in Paraguay is slightly different, as I will say.

Paraguay has increased dramatically the amount of soybean process. And Paraguay has some issues in exporting soybeans per say. So we think that crushing in Paraguay will open markets for Paraguay for oils into India and for meal markets into the rest of South America. So we feel pretty confident that that's a new stream of earnings that is going to come our way, and will not put a lot of pressure into our global system.

Christina McGlone - *Deutsche Bank - Analyst*

And Juan, how much was the Galesburg capacity?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

I think it was 40.

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

40.

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Yes, it was a small volume; it was like 40. It was -- to be honest, it was down since May. We just confirmed the permanent closure of it.

Christina McGlone - *Deutsche Bank - Analyst*

Okay. And then for biodiesel, this is the second or third quarter that you have called out weak South American biodiesel margins. And I know that you're aggressively expanding capacity there next year. So again, same question, does it get worse there before it gets better? And what's the rationale for expanding the capacity right now given the weak environment?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Yes, you know, Christine, the biodiesel -- Christina, the biodiesel industry in Brazil is pretty new, if you will. This is an industry that started in 2005. As we look for our long-term investments, Brazil is certainly a country that doesn't have a lot of rails, so a lot of the volume of the freight is going to be through trucks. So we foresee this industry to grow significantly over the years. If I see a diesel, for example, growth -- is growing at about 5% per year and biodiesel has grown like 17%.

So yes, there is overcapacity at the moment, but we think we are positioning ourselves well for the future in a country that is going to have a very, very significant industry in biodiesel.

Christina McGlone - *Deutsche Bank - Analyst*

Okay. And last question, just was wondering if you had any exposure to MF Global?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Not that I know of.

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

Christine, we do not.

Christina McGlone - *Deutsche Bank - Analyst*

Okay, great. Thank you.

Operator

Christine McCracken, Cleveland Research.

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Christine McCracken - *Cleveland Research Company - Analyst*

Thanks. Just one follow-up question to Christina's, just on the South American biodiesel demand -- is there any potential benefit from an increase in the biodiesel mandate in Argentina? Do you service that market?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Yes, we are -- both countries have declared their intentions to look at increasing from 5% to 7%, so certainly, that will improve the balances in the region. We don't know exactly where those discussions are, but as I said, both countries have expressed their desire to increase to 7%.

And even they have discussions on 10%, but obviously 7% will be the intermedian step. We expect those decisions probably to happen maybe next year.

Christine McCracken - *Cleveland Research Company - Analyst*

Fair enough. And then just secondly, relative to the ethanol outlook, now going into the end of the year, it seems like margins actually are fairly good today, but with the termination of the blenders credit probable I would say at the end of the year, do you expect any change in the way these plants operate in front of that, or how would that affect potentially your operations here going into the end of the year?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

We are very confident that we will see no impact or a minimal impact. The RFS is still in place, but also more important than that, ethanol is a great octane enhancer. And everybody is blaming them because of economic reasons. So there's not a credit reason for blending. Everybody's blending as much as they can for economic reasons. And we think that will continue.

Christine McCracken - *Cleveland Research Company - Analyst*

Do you know what that benefit is running as it stands today with your operations?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

What do you mean the benefit? The benefit for --?

Christine McCracken - *Cleveland Research Company - Analyst*

Sorry. The economics relative to ethanol.

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Well, ethanol, if you look at -- ethanol is trading around a parity with gasoline, if we look at the forward curve, even at a discount. And we think that ethanol could trade -- some people have said it could trade all the way to $0.50 over gasoline and it still be a good deal. So, we expect that to continue being favorable for blenders for the duration of at least 2012 as we see it.

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Christine McCracken - *Cleveland Research Company - Analyst*

Great. Thank you.

Operator

Diane Geissler, CLSA.

Diane Geissler - *Credit Agricole Securities - Analyst*

Good morning. Hi, I just want to clarify that statement about trading above parity because isn't it the blender credit that allows that economic incentive? So if the blender credit goes away, unless it trades at a discount, how do you get the incremental blend?

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

Diane, I think you are asking why does a blender use ethanol instead of, for example, another additive to boost octane. So it can be not only a component of the gasoline pool, but it's compared to other alkylates, other enhancers for octane. So depending on where that trades, it can also be economic for a blender to use ethanol compared to alternatives.

Diane Geissler - *Credit Agricole Securities - Analyst*

So if the blender credit goes away at the end of the year, you don't see ethanol needing to trade at a discount in order to get the discretionary blend?

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

No, not necessarily.

Diane Geissler - *Credit Agricole Securities - Analyst*

Can you talk a little bit about the longer-term outlook on ethanol? I mean there's been some legislation bandied about putting -- reducing RFS if stocks to use gets too low. Does that have any likelihood of passing?

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

Well, our effort is to look at anything that's introduced quite seriously of course, but the opportunity for legislators on both sides of the aisle to talk about things that actually cost the taxpayer versus the RFS, which isn't a taxpayer cost. It's merely a mandate in place that supports the production of both first-generation and then ultimately second-generation biofuels.

So I think the view that we hear from Washington that America needs all sources of energy and less dependence on oil and ethanol; and the support of the RFS supports American jobs, it reduces the price at the pump generally speaking, and it's more environmentally friendly than oil, etc. -- that some of these introductions are not necessarily what will come to pass.

Diane Geissler - *Credit Agricole Securities - Analyst*

Okay. All right, well, I appreciate your comments on that.

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I also wanted to ask about the quality of the crop this year. Sort of reaching I guess the tail end of it, and you have been processing both corn and new soy. Is there any difference this year versus last in terms of the quality of the crop in your view?

Craig Huss - *Archer Daniels Midland Company - SVP and President, Agricultural Services Business Unit*

Yes, this is Craig. I think the quality of the corn crop has come in drier than normal. And we are getting close to the end of the harvest and we are expecting somewhere around a 12-4 crop is the latest. A little disappointing in size, but the quality is fine.

On the bean side, we are also coming close to wrapping up. I think the protein -- early proteins are a little less than expected, but overall, it's coming in very dry and it's a very manageable crop.

Diane Geissler - *Credit Agricole Securities - Analyst*

Okay, great. Thank you.

Operator

Vincent Andrews, Morgan Stanley.

Vincent Andrews - *Morgan Stanley - Analyst*

Thanks and good morning, everyone.

I guess I have two questions. The first would just be -- when I think about the quarter, sort of big picture, there was a lot of all sorts of volatility in the quarter. There was political. There was macroeconomic. Ultimately there was some USDA volatility at the end of the quarter with the grain stock. So as we think about this quarter relative to maybe the next couple of quarters, how much -- to the extent that you can just comment on it, not numerically per say, but how much of all those different types of volatility affected the results in the quarter?

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

Well, I think we had very challenging conditions in the quarter. And I mentioned -- we all mentioned some of them in the comments, including tight US crops and record low carryout in soybean and corn. Always, markets can be volatile, but I think we did okay considering these challenging conditions.

Our financial condition is very strong. I think going forward, we see modestly improving margin environment, as we said. We remain focused regardless of the margin environment, frankly, on risk -- on good risk management, which I think we have the extraordinary acumen for; also on costs; and executing longer term.

So while we see things moderately getting better, of course, it is a seasonal business, so we are somewhat through the harvest here.

I might ask Craig to comment on managing through this inverse and so forth that we had through the summer. It might give you a perspective in your question about the overall picture of our risk management and how we see it going forward.

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Craig Huss - *Archer Daniels Midland Company - SVP and President, Agricultural Services Business Unit*

We had obviously tight supplies of both corn and beans coming through. When you're managing a complex that uses as much raw materials of both corn and beans, it's very difficult to take that ownership through an inverse because anything you carry through is detrimental. So our plan was to carry that ownership, get the ownership as small as we could and then bring it forward. And I think we've done a pretty good job of doing so.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay, that's helpful. Maybe, Pat, just as a follow up on the ethanol conversation, it looks like -- the two big things have happened in ethanol this year; one is the sort of tightness in the corn crop that might have made some of the smaller, poorer-located producers uneconomic. But also the huge step-up in exports and then going into next year where the RFS steps up again. Is one of the things that's happened that's made margins better that maybe also makes you more constructive on where ethanol will trade post the end of the tax credit, just that with high exports and with an RFS of 13.2 billion gallons next year, is supply and demand finally going to be tight in this business?

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

I don't think you never -- you never say what you -- going forward exactly what it could be, but I think the two forces, the two drivers you mentioned absolutely happened. And we're also -- you don't know about some of these smaller plants restarting or not, but it's been slow for corn supply to come into them. Maybe some of them have been challenged to get corn and they may start as corn is more plentiful now.

We also saw the discussion in the summer about the VTEC changes perhaps during the year, and that discussion stopped due to other discussions. And we expect it merely to expire at the end of the year.

So 2012 will be a -- 2012 will be an opportunity to see things perhaps come in line. And ultimately, 15 billion gallons by 2015 is an important milestone going forward that the industry will work towards.

Vincent Andrews - *Morgan Stanley - Analyst*

Okay. I'll leave it there. Thanks so much.

Operator

John Roberts, Buckingham Research.

John Roberts - *Buckingham Research Group - Analyst*

Thank you for the 2011 quarterly reconciliation of some of the unusuals.

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

You're welcome, John.

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John Roberts - *Buckingham Research Group - Analyst*

But we had a discussion at the end of August that you were trying to get us a better sense of the economic profits sort of in a quarter. There's still those prior-period economic hedge shifts that occur here. Any chance we can get something on that? I don't know if you want to lump it together with something else. I know you don't want to disclose too much, but I think we could use some more.

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

Yes, I mean as we have indicated in prior calls, we economically hedge our corn requirements for the sweeter contracts in the 2011 calendar year. We did that back in the second quarter of fiscal year of 2011.

We recognized the benefits of these hedges in the second quarter. It's tough for us to exactly estimate the number, but roughly, we would estimate about $100 million of the marked-to-market gain in the corn segment in the second quarter of fiscal year 2011 -- would have been from these economic hedges attributable to sweeter contracts in the fiscal year 2012.

Now, as Juan indicated, going forward, in order to dampen this inter-quarter volatility, we do plan to designate more of our hedges as what we call cash flow hedges. And this should allow for a better matching of the revenues from the sweetener contracts with the actual cost of the corn, including the hedge.

Now, I must caution you, we won't totally eliminate the volatility, and there's still going to be some volatility in that line, but I think this would allow for a better matching and dampen the volatility that we have seen particularly over the past few quarters.

John Roberts - *Buckingham Research Group - Analyst*

How about the ownership effect in the bioproducts segment? We had that in this quarter, for example; do you want to call that out?

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

And the bioproducts segment, results were down, partly due to the fact that last year we did have some fairly good procurement gains. In this quarter, in the first quarter, we actually had procurement gains as well, but it just wasn't in the same magnitude that we had last year.

John Roberts - *Buckingham Research Group - Analyst*

We are not going to get that quantified or you're not going to try to smooth that somehow better in the future as well?

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

I think that's just on an order of magnitude, John. It was materially different in terms of procurement gains of last year's first quarter compared to this year's first quarter.

John Roberts - *Buckingham Research Group - Analyst*

Just lastly, what was the $130 million of cash in the deconsolidated entity?

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

This is related to Hickory Point Bank. We indicated that we basically deconsolidated our bank, and so that's basically the cash that went off our balance sheet.

John Roberts - *Buckingham Research Group - Analyst*

Thank you.

Operator

David Driscoll, Citi Investment Research.

David Driscoll - *Citi Investment Research - Analyst*

Thanks a lot. Good morning, everyone. Just simply wanted to go back over oilseeds --

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

David, hello? You there?

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

Good morning?

David Driscoll - *Citi Investment Research - Analyst*

Yes, I'm here. Can you hear me?

Operator

Mr. Driscoll, your line is now open. (technical difficulty). That question has been withdrawn.

(Operator Instructions). Robert Moskow, Credit Suisse.

Will Sawyer - *Credit Suisse - Analyst*

Good morning. This is Will Sawyer in for Rob. I wanted to talk a little bit about Ag Services.

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

We don't hear you, Rob. Good morning?

Will Sawyer - *Credit Suisse - Analyst*

Hello? Can you hear me? Can you hear me?

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Operator

Please ensure that your line is not on mute.

Will Sawyer - *Credit Suisse - Analyst*

Thank you. Again, this is Will Sawyer in for Rob. I wanted to talk a little bit about your implications for the Ag Services segment. You say here, a lack of dislocations expected, more demand from non-US supply. To me, that sounds like you're kind of giving us indication that 2012 may look a little more like your fiscal 2010 than 2011. I wondered what you guys were really thinking. Thanks.

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

This is Juan. I think we said last quarter that we expected our normal range for Ag Services to be between $150 million and $200 million. And I think that barring any significant dislocations or any significant events, that's kind of the rate that we are seeing, and that's what we're indicating.

Will Sawyer - *Credit Suisse - Analyst*

Okay. And I also wanted to ask about your CapEx expectation. I believe last quarter, you gave us guidance for $2 billion for fiscal 2012. I want to make sure that was still your expectation.

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Yes. That's the plan going forward. As you saw in the announcement in the first quarter, we spent $455 million, so that's in the rate of $1.8 billion. And in the plan we are favoring some acquisitions in these, so you're never going to have 100% of what you're looking for.

And certainly we are being very disciplined to look for other options on what to do with the money. So if some of those opportunities don't present itself, we will certainly not take them. But at this point in time, we continue to aim at $2 billion. There are enough good opportunities in front of us to deliver that.

Operator

David Driscoll, Citi Investment Research.

David Driscoll - *Citi Investment Research - Analyst*

Let's try again. Can you hear me?

Okay, so oilseed crushing, I just want to talk a little bit about the overcapacity situation globally. You've addressed it a little bit, but I want to be specific here. Can you just explain why we have seen such a significant improvement in the cash crush margin in North America since the harvest has come in? We'd seen three trailing quarters of very weak margins. And now we've gotten a fairly sizable improvement in the margin. Your commentary that margins I think overall in -- you said modest margin improvement in soybean and rapeseed crush. That might encompass global operations, but just want to get some context as to what's the mechanism here? Why has this margin improved so much? And then talk about the sustainability of it.

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Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Okay. Sure. So if you refer specifically, David, to North America, I will say there is a combination of both things. You get cheaper beans and you also get the fact that one of the things that really impacted Europe this quarter -- this past quarter was all the exports from Argentina. So Europe was weak demand and a lot of exports from Argentina.

What we are seeing now is that Argentina is basically getting to the end of the old crop so it's not that competitive anymore. So we see now a little bit more demand from -- in the US even for exports. So we've seen even some exports from the US to Europe, so you get that increased capacity utilization with better export demand. And then you see a little bit of lower soybean prices. And that's what you get basically, the margin expansion.

David Driscoll - *Citi Investment Research - Analyst*

In the sustainability of it?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

The sustainability of it is certainly when we're going to see another of this cycle is probably when Argentina and South America come back and being stronger with the new crop.

But I will say over time, meal and oil are growing at about 4% to 5% per year, so over time, we will be eating into that over capacity. And I think we've been very disciplined in managing capacity utilization to drive margins. You saw our announcement on Galesburg, and we will continue to dial it down, to much -- to sustain the margins. So I will say, an improvement, but it's still with a challenging environment until we grow into our overall over capacity.

David Driscoll - *Citi Investment Research - Analyst*

Do you feel that the industry has been rational in managing its capacity and capacity utilization at this juncture?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

I think, David, that when you have big players, global players that have a whole system integrated, those players adjust, like we do.

I think when you find there are smaller players that maybe have one unit, it's much more difficult to do so, and what happened is that these people may just run for cash flow. So they put a little bit of a ceiling if you will in that sense.

So I would say big players with a system, yes, we try to adjust. We move capacity to our more efficient plants and we do that.

David Driscoll - *Citi Investment Research - Analyst*

Now Pat, just on the VTEC $0.45 tax credit, I think the way I want to ask the question is simply that if the buyers of ethanol were receiving the $0.45 and that somehow percolated its way into the ethanol price, and on January 1, they lose the $0.45, certainly, it doesn't mean ethanol doesn't keep getting purchased, but it would seem like there would be definitive pressure on ethanol prices. Would you agree with that?

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

Well I think it depends on the blender, certainly. Bigger blunders that have different alternatives will have different economics. Smaller blunders that don't have a refining system behind them may have different needs for their blend, so we will see how January 1 occurs. But obviously when you have a -- if you have a credit expire, people will do things leading up to it, and you may have pressure on the back side as they line it out.

David Driscoll - *Citi Investment Research - Analyst*

All right. Final point is just on your current landscape statement. It basically seemed like you guys were giving a pretty positive outlook here with at least near-term ethanol, very strong comments on your sweetener operations and an improvement in oilseed and rapeseed crush. Bottom line, is it your judgment that fiscal 2012 looks like it's going to be an improved year over fiscal 2011?

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

Well, we don't give guidance, David, so I think what we were trying to do is talk about current conditions. And I think you categorized it fairly that we see some modest improvement in the margin outlook on the oilseeds in the longer term, working into the -- with demand growth working into the overcapacity situation on corn. As we suggested, when we get the new sweetener contracts in place and try to slot or align, assign, our hedging costs against those quarters, maybe we will see some dampened volatility there. And obviously with good demand for all of our portfolio in corn, that has some upside.

Ag Services is in the ranges that we have talked about. And we have a global asset base, and growing that global asset base to be able to support longer-term destination markets and more outside the US demand. And our other businesses, we talked about cocoa, for example, the press margins remaining healthy. So it's always our objective to grow year on year, but a full year is a long way off from now. But optimistically, we would say we always want to grow year on year.

David Driscoll - *Citi Investment Research - Analyst*

All of -- the only comment I would make is all of your statements seem directionally positive, so it's kind of hard to come to any other conclusion than it would be a better year, but I will leave it at that. Thank you.

Operator

(Operator Instructions). John Roberts, Buckingham Research.

John Roberts - *Buckingham Research Group - Analyst*

Pat, you have an overall target of growing your volume substantially faster than the industry. Is that target off the table here until you get the oilseeds supply/demand back into balance?

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

Well, John, you speak of the oilseed target of the 7% to 10% we talked about, which was greater than around the 3.5% or 4% globally. And that is a longer-term target, and I would say we are being very disciplined about that in specific areas that are important. And it's more about acquisitions, if you will, or being able to not build out more capacity but growing our own capacity.

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And if you take some of the acquisitions like we talked about this quarter, an Elstar Oil for example, in Poland, our Czech Republic earlier, a southern Germany plant where you can plug it into the system, bolt it on -- we've had two acquisitions this quarter in India. So these are opportunities to consolidate, not necessarily build on.

John Roberts - *Buckingham Research Group - Analyst*

Well your volume is down 1% here in the first quarter of the year. What do you think volume growth will be for the full year?

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

It's difficult to say. It depends on the environment. I will comment back to Juan's point of trying to work our -- adjust our supply, adjust our production to the demand of the region. So it will really depend on the region. I think it will be up outside of the US, but it's just difficult to tell. It's probably balancing S&D is the better question there rather than what will the total volumes be.

John Roberts - *Buckingham Research Group - Analyst*

And then secondly, I know it's still early, but how is the E15 ramp going in the Midwest?

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

Not in any significant way, John. I think that we are waiting for the government to register E15 as a fuel. And once the federal government does that, then the states can start their own implementation.

John Roberts - *Buckingham Research Group - Analyst*

I thought there was a Midwest coalition and that there actually had been some pumps started to go in, in Wisconsin and some other areas.

Juan Luciano - *Archer Daniels Midland Company - EVP, COO*

I think they have expressed their support and to be the first ones to adopt this. I'm not sure whether they have started yet.

John Roberts - *Buckingham Research Group - Analyst*

Thank you.

Operator

Bryan Spillane, Bank of America.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

It's actually Ryan Oksenhendler in for Bryan.

I just had a question on Ag Services. You talked about benefiting from exports and the Black Sea benefiting. I could see how that would drive some volume growth, but I thought that would have hurt your margins a little bit and your margins were

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actually on the higher side than I thought they would be. And one of your main competitors reported and talked about merchandising would be pretty tough this quarter. So could you talk about what you guys were seeing that drove some of that upside in the quarter and why it's sustainable?

Craig Huss - *Archer Daniels Midland Company - SVP and President, Agricultural Services Business Unit*

We had a very difficult year last year in that they put export restrictions on in the Ukraine. This year we had very good crops not only in Romania, Bulgaria, but -- and in Ukraine, but also Soviet Union. And there were a lot of trading opportunities. Traditional markets such as Egypt that come from the States have come from those areas. And we're actually seeing some opportunities even into Asia from those markets. So, it's a contrast of last year to this year. Plus this year, margins are pretty good.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Okay. But I guess as we see more plantings globally, we've seen big plantings in Argentina and Brazil, do you expect those margins to come down over the back half of the year?

Craig Huss - *Archer Daniels Midland Company - SVP and President, Agricultural Services Business Unit*

Well, we also have a presence in South America, so it's the global network that makes it work. And you always look -- we have adequate world supplies, but you've got dry weather in Eastern Europe. You've got dry weather in Texas, Oklahoma. You've got potential dry weather in South America. And yet we are -- those are all trading against each other every day as we go. But I think we consider the outlook to be -- it's been good in Eastern Europe, and we're looking forward to see where that takes us.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Thanks. And then just on Corn Processing, in terms of the fourth quarter -- or the second quarter, I guess your calendar fourth quarter, now that you are doing a better -- I guess you're matching up the hedges with your contracts a little bit better, should we expect I guess below normalized or profit margin for the second quarter in Sweeteners & Starches?

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

Yes, it's Ray here. As indicated, we will start seeing the benefits beginning in our fiscal third quarter. In the second quarter of our fiscal year, we will still see the remnants of the marked-to-market impacts from last year. So I wouldn't expect any material changes in the second quarter, but starting in the third quarter as our new sweetener contracts come in line, and that progressively comes online over the course of the third quarter, we will start seeing a better matching at that point in time.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Okay. And then Ray, as you said, so if I look at year to date, you've reported about $83 million in profit in Sweeteners & Starches. You're saying about -- there's about $100 million that might have been captured in the second quarter and the year-ago period that should be spread out over I guess the calendar four quarters for 2011? Is that the right way to think about it?

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

(multiple speakers) over fiscal year -- the first quarter and second quarter of fiscal year 2012. So hopefully -- if you just -- rough numbers, say $50 million per quarter in the fiscal year -- first quarter and second quarter, rough numbers.

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Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Got it. Okay, thank you. Thanks, guys.

Operator

Christina McGlone, Deutsche Bank.

Christina McGlone - *Deutsche Bank - Analyst*

Great. You talked about last quarter potentially having $50 million in marked-to-market reversals in oilseeds. Did that happen this quarter? Or did we not get it because soybean prices fell at the end of the quarter?

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

Actually we saw a small amount of that. I think I did indicate about $50 million in timing effects in the oilseeds segment that would reverse itself out. We saw only a small amount of it reversed out.

Probably more importantly, we were able to actually arrive at a different valuation approach in some of our oilseed inventory over in Europe. And as a result of that, you're going to see going forward, a more minimized marked-to-market timing effects in our oilseed segment that we have seen in the prior fiscal year.

So again, this is not our example whereby we're going to try to better align our economic results with the accounting results going forward.

Christina McGlone - *Deutsche Bank - Analyst*

Okay. But we do have to lap going forward some pretty big marked-to-market benefits, right, that we saw?

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

No, most of that hasn't been unwound. And roughly, again, roughly, just $30 million of timing effects are yet to be reversed in the oilseeds segment right now.

Christina McGlone - *Deutsche Bank - Analyst*

Okay. But -- all right. I mean there were some benefits I think in the fiscal third and fourth quarter that now we have to lap.

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

But those benefits were really reversal of the negative impacts we had in the first and second quarter, right? So from what I'm saying is when you look at the cumulative effect, we are more or less unwound. There's about roughly $30 million left to unwind.

Christina McGlone - *Deutsche Bank - Analyst*

Okay. And then in cocoa, do we -- how do we see that unwind -- the marked-to-market hit this quarter?

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

It's actually a lot more complex. I wish it was simpler. I think -- unfortunately cocoa accounting is very, very complex.

This $58 million in negative timing effects was really caused by just differential movements in prices between cocoa beans and the -- in butters and also some of the derivatives.

Frankly, it's difficult to figure out how that's going to unwind over time. I'd just be cautious in terms of estimations. Don't make any assumptions on that.

Christina McGlone - *Deutsche Bank - Analyst*

Okay. Thank you.

Operator

There no further questions at this time. I will now turn the conference over to Pat Woertz for closing remarks.

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

Okay. Thank you, everyone, for your interest and your questions today. We do have some -- on slide 16, our upcoming webcast events. Later this month, we will be with Morgan Stanley global conference. And then December 1, we are hosting an analyst lunch in New York City. And please mark your calendars also for our global oilseed business review meeting in Hamburg, Germany, on March 28 of next year. So thanks again and have a good day.

Operator

Ladies and gentlemen, this concludes today's conference call. Thank you for your participation. You may now disconnect. Good day.

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