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ADM - Q2 2012.5 Archer Daniels Midland Company Earnings Conference Call

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OVERVIEW:

ADM reported qtr. ended 12/31/12 net earnings of $510m and fully diluted EPS of $0.77.

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PRESENTATION

Operator

Good morning, and welcome to Archer Daniels Midland Company conference call for the quarter ended December 31, 2012. All lines have been placed on a 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 call, Ms. Ruth Ann Wisener, Vice President, Investor Relations for Archer Daniels Midland Company. Ms. Wisener, you may begin.

Ruth Ann Wisener - *Archer Daniels Midland Company - VP of IR*

Thank you. Good morning, and welcome to ADM's second-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 two, 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 efficiency, 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 three.

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

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

Thank you, Ruth Ann, hello, and welcome, everyone, to our second-quarter conference call. As you may recall, we moved our fiscal year to align with the calendar. So to accommodate that shift, we had a six-month fiscal year. The quarter we are reporting today is the second and final quarter of that abbreviated fiscal year.

This morning, we reported second-quarter net earnings of $510 million or $0.77 per share on a diluted basis. Our adjusted EPS was $0.60 per share. Segment operating profit was $808 million.

The ADM team managed very well despite challenges from the US drought and from persistent negative margins in the ethanol industry. Our results in Oilseeds and Agricultural Services demonstrated the ability of our people to use our global asset network to prepare for and to manage in a wide range of conditions.

In North America, we fully utilized our Oilseeds' crushing capacity to meet strong global demand. And we adjusted our transportation and origination network to move goods efficiently, despite constrained river traffic and a smaller corn crop. In South America, we leveraged our origination and transportation and export facilities to move their record corn crop to world markets. And in Europe, we made some operational changes and the market responded to reduced imports.

During our abbreviated fiscal year, we drove meaningful improvements in capital, costs and cash to enhance our future competitiveness. We continued taking action to improve underperforming businesses. As part of our ongoing portfolio management, we sold $570 million of non-core investments. And through a companywide focus, we unlocked more than $1 billion in working cash. I am very proud of the work we've done, and I am confident we will see the results.

Now I will turn the call over to Ray.

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

Thanks, Pat, and good morning, everyone. Slide five provides some financial highlights for the quarter, which I will run through briefly. Quarterly segment operating profit was $808 million, up from last year's $342 million. This quarter's operating profit was positively impacted by $101 million in gains relating to our investment in GrainCorp and gains on various asset monetizations. Last year's second-quarter results were negatively impacted by the $339 million asset impairment charge related to our PHA business. So after adjusting for these factors, our segment operating profit this quarter improved by $26 million from the same period last year.

Looking at our effective income tax rate, our abbreviated fiscal year effective tax rate was 30%, in line with the rate for the same six-month period last year. We recorded taxes in the first quarter at a rate of 37.5%, so in order to average into the six-month fiscal rate of 30%, we recorded an effective tax rate of 27% in the second quarter.

Our earnings per share were $0.77 on a fully-diluted basis compared to last year's $0.12. Our adjusted earnings were $0.60 per share compared to last year's $0.51 per share. On chart 17 in the appendix, you can see the reconciliation of reported earnings to adjusted earnings for the second quarters of fiscal year '12.5 and fiscal year '12, as well as for the four quarters ending December 31, 2012.

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The largest adjustments this past quarter are related to LIFO inventory credits, a gain on the TRS structure related to our GrainCorp investment, some gains on asset monetizations and our pension settlement charges. I would be happy to answer any questions you may have on the reconciliation during the Q&A session.

Our LIFO adjusted four-quarter trailing ROIC of 5.7% was 40 basis points above our WACC of 5.3%. Excluding specified items, our adjusted four-quarter trailing ROIC of 6.2% was above our WACC by about 90 basis points. The 6.2% ROIC is an improvement from the 6.0% adjusted ROIC for the period ending September 30, 2012.

As Pat mentioned, we have moved from a June 30 fiscal year end to a December 31 fiscal year end, and the past six-month fiscal year was our half-year transition period. Our 2013 fiscal year began on January 1.

On slide six, I wanted to provide you with the financial highlights for the four quarters in calendar year 2012 in order to help you orient future comparisons to a 2012 calendar year. Segment operating profit for the four quarters ending December 31 was $2.8 billion. Net earnings were $1.4 billion. Reported EPS was $2.08. And adjusted EPS for the calendar year was $2.30.

We believe the 2012 calendar year sets the base for future growth. There are more details to the calendar year 2012 and those four quarters in slide 21 of the Appendix, which also highlight the special items during the calendar year.

Slide seven provides an operating profit summary and 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 mentioned LIFO earlier, a credit of $113 million for the quarter due to the impact of declining commodity prices during the quarter on our inventory valuations compared to a charge of $59 million a year ago. Interest expense of $112 million for the quarter, higher than prior year, due to some interest credits last year related to favorable overseas tax settlements. Unallocated corporate expenses of $70 million were comparable to the prior year, with savings in corporate SG&A expenses offset by some one-time higher expenses related to our fiscal year-end changes.

We also had $68 million of non-cash pension settlement charges related to the lump-sum buyouts of terminated vested employees in the United States and conversion of a European pension plan to a multiemployer plan. On the US pension settlement, we had 67% acceptance rates on the buyout, resulting in the reduction of our PBO liability by $174 million.

Turning to the cash flow statement on slide eight, we present here the cash flow statement for the 12-month period ending December 31, 2012. We also show the two six-month periods for the 2012 calendar year.

We generated $2.4 billion from operations before working capital changes for the 2012 calendar year. Working capital changes were a strong source of cash in the second half of the year, in part due to actions taken by the ADM team. Juan will talk later about our focus on freeing up cash and working capital in our abbreviated fiscal year.

Total capital spending for the 12-month period was $1.2 billion, roughly equally distributed between the first and second halves. We monetized various assets during the year, with the largest being our investment in Gruma, as well as our investment in the Ag Bank of China. These monetizations funded a significant portion of our purchase of our 19.9% interest in GrainCorp.

After changes in working capital, investments and monetizations, our free cash flow was positive for the calendar year 2012 to the tune of over $1 billion, which I think is an excellent result given the challenging conditions we experienced in this calendar year.

We bought back stock at the beginning of the calendar year and we are currently planning to restart the modest share buyback program this quarter. In calendar year 2012, we returned more than half of our free cash flow to shareholders in the form of dividends and buybacks, and we used the remaining free cash flow to reduce our net debt balances. We finished out the quarter with average shares outstanding of 661 million shares on a fully-diluted basis.

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Slide nine shows the highlights of our balance sheet as of December 31, 2012. I also show the balance sheet as of June 30, 2012 in order to compare how our balance sheet has changed since we launched the challenge to the organization to free up cash from our balance sheet. Again, Juan will go through the details of this initiative, but I wanted to highlight the balance sheet impacts during the six-month period.

Cash on hand was approximately $2.3 billion, up about $800 million from June 30. Our operating working capital was about $13.5 billion, down from the $14.6 billion level as of June 30. Total debt was about $9.5 billion, resulting in a net debt balance -- that is debt less cash -- of $7.2 billion, down significantly from the June 30 net debt balance of $8.9 billion. The $7.2 billion net debt balance would represent our lowest quarterly net debt level since June 30, 2010.

Our shareholders' equity of $19 billion is about $1 billion higher than the level at June 30. Our ratio of net debt to total capital, excluding cash from gross debt, is 27%, much improved from the June 30 level of 33%. So we are reducing leverage and maintaining a strong balance sheet.

We had $2 billion outstanding in commercial paper, and we had available credit capacity of $5.7 billion at the end of December. We have a balance sheet strong enough to finance additional working capital requirements, strategic acquisitions and return of capital to shareholders.

Next, Juan will take us through an operational review of the quarter. Juan.

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

Thanks, Ray. Good morning to everyone on the call. Beginning on slide 10, I will take you through the highlights of each of our business segments.

Oilseeds' operating profit in the second quarter was $411 million, up $202 million from the same period one year earlier. Crushing & Origination operating profit was $261 million, up $140 million from the year-ago quarter on a strong improvement by all three geographies. Our US soybean operations ran at record capacity during the quarter and delivered very strong results amid good domestic and export meal demand.

In South America, the team was well-prepared to move the record corn harvest. And in Europe, we saw the impact of operational changes we made after last year's poor performance. I am very proud of the team in Europe and their efforts to turn things around. European results also benefited from lower imports as a result of the smaller South American soybean harvest.

Refining, packaging, biodiesel and other generated a profit of $50 million for the quarter, down $27 million due to weakness in biodiesel margins in the US and in Europe. It is worth noting here that the retroactive biodiesel credit in the US was not reflected in these results, as it was recorded in January.

Cocoa and other results increased $66 million. Weaker cocoa press margins were offset by the absence of last year's significant negative mark-to-market impact.

Oilseeds' result in Asia for the quarter were up $23 million from the prior year's second quarter, principally reflecting ADM's share of Wilmar results. Oilseeds segments' results include an unfavorable mark-to-market timing effect of about $50 million or about $0.05 per share compared to an unfavorable impact of about $110 million in the year-ago quarter.

As we look ahead in Oilseeds, we have been preparing our South American operations for large harvests. We brought online crushing capacity in Paraguay and refining capacity in Brazil, and we've been preparing our logistics networks to move the crops. As the South American harvests come in, global demand for soybeans and meal will move from North America to South America.

Please turn to slide 11. As you see, Corn Processing operating profit of $3 million represented a decline of $207 million from the same period one year earlier, when excluding the year-ago quarter's $339 million asset impairment. Sweeteners & Starches' operating profit increased $22 million to $97 million as tight sweetener industry capacity and higher corn costs supported higher year-over-year selling prices. We have completed almost all of our sweetener contracts for 2013. For our entire Sweeteners & Starches business, we expect our 2013 volumes and margins to be roughly in line with last year.

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Excluding last year's $339 million asset impairment charge, Bioproducts' results decreased $229 million to a loss of $94 million. Weak domestic gasoline demand and unfavorable global ethanol trade flows resulted in continued excess industry capacity, keeping ethanol margins negative.

This was a tough market, but we can do better. We have taken an even more aggressive look at all the aspects of our ethanol business operations, challenging every part. As a result of this, we have implemented a set of actions across the business that should improve our results going forward. This includes, among other changes, our decision to reduce production at some of our dry mills.

Turning to slide 12, you will see a review of our Agricultural Services segment. Operating profit was $317 million, up $17 million from the same period one year earlier. Results included a $62 million gain on ADM's investment in GrainCorp. Excluding the gain on GrainCorp, Merchandising & Handling earnings rose $23 million to $129 million. A solid US soybean exports and improved international merchandising results more than offset lower US corn origination and export volumes. I am really happy with the teams' work as they anticipated crop availability and optimized operations regionally to deliver a good result in a tough market.

Transportation results were solid, despite challenges from low water in the Mississippi River. Results decreased $5 million to $48 million as increased operating expenses at our ARTCO barge line were partially offset by higher freight rates. This is another impressive story of anticipation and preparedness in some particularly tough circumstances.

Milling and other results remained steady as the milling business continues to perform very well. Keep in mind that the US drought reduced the size of the corn and soybean crops, which led to higher prices and aggressive farmer selling. So as we move through the crop year, we are expecting lower-than-normal volumes to originate and handle. And, as I mentioned earlier, the South American harvest will begin the seasonal shift of global crop export from the northern hemisphere to the southern hemisphere, where our global export operations are reflected in the Oilseeds segment.

Turning to slide 13, I would like to update you on the work we've been doing to improve returns. I've already discussed some of the activities in the specific business units. Overall, our energy has been focused on the three C's, capital, cost and cash.

In the area of capital, we have continued to be disciplined. During the six months, we managed our capital expenditures to $615 million, and if we exclude our Brazilian port acquisition, which is treated as CapEx, the CapEx for the stub year would be $543 million. More than half of our gross capital spending was deployed outside of the US.

For the 2013 calendar year, we are forecasting about $1 billion in capital spending, excluding acquisitions. Also, we are in the process of scoping an enterprise resource planning project to improve business processes and analytics that could involve some capital spending beyond the forecast.

In cost management, we realized ahead of schedule more than $150 million in annual run rate savings from our global organizational restructuring and other cost actions. We achieved meaningful reductions in manufacturing costs and SG&A. Manufacturing costs compared to the same six months in the prior year were down nearly 5% in Corn, more than 7% in oilseeds. And Ag Services was up about 3% amid reduced throughput. These are some of the cost actions we've taken. I believe we have just scratched the surface on the potential benefits of operational excellence.

In cash management, as Ray mentioned, we focused the ADM team on achieving improvements. We call it our billion-dollar challenge, and over the past six months, they freed up more than $1 billion of cash. This was a true team effort across ADM. Some of our actions included monetizing nonstrategic equity investments and assets, improving how we finance and our margin requirements for future transactions, maximizing cash flows from our joint ventures and reducing inventories of certain crops, finished products and even maintenance parts. We continue to make meaningful progress in reducing the capital requirements of our business to help drive returns.

Now I'll turn the call back over to Pat.

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

Thank you, Juan. And before we take your questions, let me just briefly recap our second-quarter performance. Oilseeds, firing on all cylinders. We are taking actions to improve our ethanol business. Ag Services, very prepared and executed well in a tough environment. And great progress by Team ADM on the three C's capital, cost and cash. These are all important efforts to improve returns.

So operator, now we will have Craig join Juan, Ray and me for the Q&A. So would you please open the line for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Ken Zaslow.

Ken Zaslow - *BMO Capital Markets - Analyst*

I had a couple questions. My first question is you pointed out in a couple of the cases where you're actually taking actions throughout the organization. Can you talk a little bit more specifically about what you did in Europe, how you are changing your ethanol operations and what you did on the transportation and origination, and how much that is going to be able to push your numbers going forward?

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

In Europe, we made several changes after last year's disappointing performance. We made changes in our organization. We made changes in some of our processes and the way we handle the year, if you will, and the seasons. So we are happy to see those results showing up this year.

In Corn, we've been actively managing this. We've been unhappy, obviously, with the results and the margins in Corn for the last year. But I would say we have a rough December. We sat down with the business, and we have a deep review of every aspect of our operation. We have restructured a little bit our leadership team. We have looked at our commercial operations and what do we do there. We continue to drive cost improvements.

We made the decision we thought the timing was right for us to reduce capacity. We have slowed down two of our dry mills. And so we have a set of actions that makes us believe that we will manage the business even better going forward in this tough environment.

In Ag Services, it was slightly different; it was a matter of anticipation. We knew we were going to be dealing with a small crop. We didn't know the magnitude of the Mississippi River issues, and that was more like improvisation and probably good teamwork from the business. But in Ag Services, I think I mentioned before, we have been trying to reduce our breakeven point and make sure that we make an impact in our cost position to handle their throughput. I think that came through this quarter. So all in all, very happy the way we've been reacting and also anticipating the problems.

Ken Zaslow - *BMO Capital Markets - Analyst*

My follow-up, on the ethanol side, you said that you are (inaudible) -- you kind of reduced capacity. Are you looking at slightly better results than last quarter? Are you looking at breakeven margins? Can you just talk about what you're seeing in the ethanol markets now and how you kind of see that going forward?

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

Yes, Ken. We think that probably we touched the bottom of it in the last quarter. And I think it is going to be a combination of lower capacity being operated, and I think EIA reported like a billion gallons down since December. We are a significant portion of that billion gallons down. And we expect all of these and probably smaller imports to start driving hopefully margins up.

Ken Zaslow - *BMO Capital Markets - Analyst*

Okay, great. Thank you.

Operator

Ann Duignan.

Ann Duignan - *JPMorgan - Analyst*

It's Ann Duignan, JPMorgan. Just back to the ethanol question, we've noticed a number of facilities shuttering in places like Nebraska for lack of corn. Are you having difficulty sourcing corn for your ethanol facilities, or is it just the weak prices, weak margins?

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

No, Ann. This is Juan. Not at all. No, that's not the reason we have taken the facilities down. As I said, it is just more like an optimization of our overall footprint. We look at all the product mix and all the opportunities we have. And for us to improve margins, we thought that was the best decision. But it is not related to our ability to source corn to those facilities.

Actually, our sales continue to be flat, and we have committed to all our customer needs being satisfied. So that doesn't impact our service level at all.

Ann Duignan - *JPMorgan - Analyst*

Okay, thank you. And then on the Ag Services business, can you give us any indication of how the volumes are going to look there for the next couple of quarters before the crop is harvested in the US?

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

Yes, big picture, Ann, I think obviously we are going to see probably second quarter of calendar year 2013 or fiscal year 2013 now, as they coincide, for us is going to be lower volumes as we get to the end of the crop. I think still this quarter we are managing decent volumes, so maybe a small decline before we get into the US harvest.

Ann Duignan - *JPMorgan - Analyst*

A small decline. Okay, that's helpful. And then just real quick, are you seeing any impact of the change in policy for biodiesel in Europe on any of your crushing businesses in the US?

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

Not yet.

Ann Duignan - *JPMorgan - Analyst*

Not yet, but you would anticipate an impact at some point.

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

Yes.

Ann Duignan - *JPMorgan - Analyst*

Okay, I'll get back in line and follow up off-line. Thank you.

Operator

David Driscoll.

David Driscoll - *Citi - Analyst*

Wanted to ask just a little bit about the sweetener business and the effect of prices. So, as I understand it, the prices for high fructose corn syrup are now in a number of places in the US and Mexico much more comparable than they have been in the past. Do you think that there is any likelihood that we would see some amount of switching between HFCS and sugar in either the United States, and then, maybe more importantly, in Mexico in 2013?

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

I would say I agree with you that they are much closer than they've ever been. We don't foresee a lot of changes in the US. There may be some spot changes here and there in Mexico, where people still have logistics prepared to handle both liquids and solids.

At this point, we don't see any significant changes. It continues to be operational benefits provided by handling the liquids and seem to still offset the closeness maybe of the prices. So, if anything, so some minor impact maybe in Mexico, as you described, correct.

David Driscoll - *Citi - Analyst*

On the ethanol -- as my final question -- just can you guys talk a little bit about -- I think a lot of people perceive that it is the price of corn that is the problem. But it is my perception that it is really much more of an ethanol capacity problem, combined with declines year on year in gasoline finished motor fuel consumptions. What -- how do you describe kind of the structural problem in ethanol? And is E15 the solution, and where are we on that, if you can? Thank you.

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

Long question, David. Let me address it by parts. I would say clearly the correlation of ethanol margins is much more with supply/demand and capacity utilization than with corn prices. We have proven that and we have data to show that.

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Clearly, this industry was built for 150 billion gallons of gasoline consumption, with 10% was going to be 15 billion gallons. And gasoline has been declining to the point that now it may be 130 billion gallons. So that is the issue that we have, clearly, to which obviously there are two solutions, exports -- bigger exports and E15.

We said before that we didn't expect E15 having a positive impact yet in 2013, that we expected that to be more a 2014 gradual impact, and we maintain that. And in terms of exports, there has been good news in terms of Brazil increasing the blending rate back to 25% effective May 1. And we have to go through a disciplined market in which people will be taking down some capacity, or it will be the supply -- the balance of imports and exports that will manage the short-term dynamics of that business. So we still expect tough dynamics, but probably improving gradually from the low end of fourth quarter last year.

David Driscoll - *Citi - Analyst*

Thank you very much.

Operator

Farha Aslam.

Farha Aslam - *Stephens Inc. - Analyst*

Just continuing on the biofuels for a moment, when you mentioned that $1 tax credit for biodiesel, how does that work in ADM's P&L and operations?

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

Well, you're going to see that charge, that is the positive charge, I guess, that is reflected the 2012 results. And the decision was made in January going to be -- you're going to find it in 2013 first-quarter results under Oilseeds, North America in Oilseeds.

Farha Aslam - *Stephens Inc. - Analyst*

And then are you increasing your operations in biodiesel? Are you kicking them back up, given that you have the $1 tax credit for all of 2013?

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

I think this is a low-end season, if you will, because it's colder weather. So I think we are going to see the improvement over the year, but not just yet a big impact.

Farha Aslam - *Stephens Inc. - Analyst*

Great. And perhaps just one follow-up on Oilseeds. You are starting up that South American facility. Do you think the capacity there will offset any negative impact you will have as US crush tightens up because of lower soy stocks here in the US?

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

I think it will partially offset. I think -- we are very happy, by the way -- thank you for giving me the opportunity to talk about that facility. We are very happy the way we are bringing it onstream. It started on January 22; it is already operating at above 85% capacity as we fine-tune some of the

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equipment. But it is running very well with excellent quality. And we think it is going to be a very good source of earnings for us. I'm not sure if it's enough money to offset the big North American, but certainly it is very helpful and comes at the right time.

Farha Aslam - *Stephens Inc. - Analyst*

Okay, great. Thank you.

Operator

Vincent Andrews.

Greg Van Winkle - *Morgan Stanley - Analyst*

Greg Van Winkle standing in for Vincent. Our question is about South America's infrastructure and logistics constraints and the ability of Brazil to handle and transform what looks like is probably going to be a very large crop. We've already seen issues with this in the past, and then I guess lately I've been reading stuff about the new truck driver regulations in Brazil that restrict the hours that truck drivers are allowed to be on the road. So just hoping to get your thoughts on what kind of impact that could have in 2013.

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

Well, we knew with the high prices that Brazilian farmers were going to plant big crops. So we had plenty of time to prepare for this. We think that the efforts we made in railway, storage capacity and improving our ports are really paying off at this point in time.

So we spent the better part of the last year, or specifically the last six months, renewing our negotiations with the railway in terms of our contract for the 2013 season. We expanded our storage capacity, and we improved the throughput and the efficiency of our ports. We have a dedicated port in the Port of Santos that is -- we have benchmarked this, and it's more efficient in terms of the time that the vessel is there and the time that actually takes us for loading the vessel. So we feel very comfortable that we have put all our efforts into the logistics because we knew it was coming, and we are prepared. So we are ready to tackle the big crop.

Greg Van Winkle - *Morgan Stanley - Analyst*

Okay. That's good. And then specific to the truck driver issue, because I guess -- I've read that 60% of the grain production in Brazil is moved by trucks. Do you expect that to have any kind of material impacts?

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

I think always in South America when you get the time of the harvest, you have those issues every year. We think we managed it before and we have the right team and the experience to manage it again.

Greg Van Winkle - *Morgan Stanley - Analyst*

Okay, thanks a lot.

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Operator

Christine McCracken.

Christine McCracken - *Cleveland Research - Analyst*

Just on ethanol, I wanted to follow up. You know, you've seen these businesses under quite a bit of pressure here for a while, and several of them I think have now shut down, as you mentioned. I'm just curious if you think this downturn could force some consolidation in the industry, and a more sustainable kind of base, as it were, in the industry going forward. And then if you guys would participate in any of that consolidation.

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

Yes, Christine, I think you're right. I think we've seen some people shutting down, and we've seen also some of our competitors making some moves to consolidate that. So we've seen the start of that.

It's a big job to consolidate this industry, which is very fragmented. We constantly look at that. We constantly are presented with units. And to the extent that there is going to be units that will be an enhancement to our very good footprint, we may consider them. Some of them, obviously, they want to throw in the towel first sometimes are not the most -- with the best positions or the best locations, so we are very careful on that. But we think the consolidation journey has started, and we've seen some of that.

Christine McCracken - *Cleveland Research - Analyst*

And then just a follow-up. You mentioned that you'd adjusted your network to benefit your operations and origination. Wondering if you think you will keep that origination plan in place through the fall harvest or if it was a temporary adjustment.

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

You mean for Ag Services?

Christine McCracken - *Cleveland Research - Analyst*

Yes, on your transportation.

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

I will say we are constantly reviewing; we were doing it again yesterday. And we constantly look at where do we have material, what are the product flows, do we need the export terminals, do we need this one, do we need that elevator? So it is a very dynamic -- it is a very big footprint, and we have many, many options of how to run it.

So as I said, the business is constantly looking at how do we redeploy resources to make the most utilization in one place and not keeping idle resources in other places. So I would say it is going to be dynamic and will probably continue to move.

Christine McCracken - *Cleveland Research - Analyst*

With that disruption on the river, I assume that is more rail then?

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

Disruption on the river, you know, at the moment, we think that we are clear for the foreseeable future. The Corps of Engineers have done a great job in helping us with that. I think -- so at the beginning, we helped ourselves through the teamwork and rail and truck. And I think now, it is just -- I think the river is in fine conditions for us going forward.

Christine McCracken - *Cleveland Research - Analyst*

Great. Thank you.

Operator

Robert Moskow.

Robert Moskow - *Credit Suisse - Analyst*

Juan, it looks like in Oilseeds, the industry conditions have really improved with much better capacity utilization -- you described as a record for utilization. Given that it looks like your competitors are enjoying the same thing, how sustainable do you think these record crush margins are? You're going to be running out of beans, I would imagine, in the US.

So on one hand, I would think that maybe capacity could increase because the margins are so good, but you're running out of beans. So what do you foresee for North America for the next six months?

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

I think this is the time of the year in which the market will be making the shift from the northern hemisphere to the southern hemisphere. So it all will depend on how the harvests progress in South America, how much farmers selling -- early farmer selling do we have in South America.

But we are prepared for that. That is one of the reasons we are bringing the Paraguay plant on stream. We are preparing for that shift. So we expect our North American operations in that sense to start declining from here, if you will. And you know, South American operations picking up the baton from now on.

Robert Moskow - *Credit Suisse - Analyst*

Okay. And in Paraguay, I remember about a year ago, I think the thinking was that Paraguay was having a short crop. Can you give us an update there this year, and what do you expect for the contribution from Paraguay this year?

Craig Huss - *Archer Daniels Midland Company - SVP, Chief Risk Officer*

I think in all of South America, we are looking at -- we have very strong acreages, and we are looking at very good crops. And it is all -- they are in that time of year where we need rain and good weather, but I think in Paraguay, we think we will have a record crop, and there is no reason to think otherwise.

But remember, in June of last year, we had record crops in the United States. So it is always variable. But at this point, the weather forecast this morning, there is some stress in South America, but very good crops (inaudible).

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

At this point, given the balance is in Paraguay, we expect to run our plant flat out. So we are not concerned about not getting the beans for that plant to run flat-out.

Robert Moskow - *Credit Suisse - Analyst*

Got it. Sounds good. Thank you.

Operator

Tim Tiberio.

Tim Tiberio - *Miller Tabak - Analyst*

My question is around some of the commentary that Russia may be out of the wheat export market for most of the first half of 2013, and could potentially even be forced to import at some point. How does this create new trading opportunities? Are you seeing anything develop on that front yet that could potentially create new, I guess, global logistics opportunities in the first half of 2013?

Craig Huss - *Archer Daniels Midland Company - SVP, Chief Risk Officer*

Great question. And we deal with this -- I read this morning that they are talking about reducing their tax on exports again. So when you deal with Russia, it is an ongoing issue that hits us every day. But we see opportunities out of Romania and the Ukraine to take care of that.

But the overall wheat situation around the world is adequate at this time, and it is going to be a matter of price. At these high prices, we expect these countries to sell as much as they can. It is just nobody wants to store -- they are not going to store extra wheat in the Soviet Union -- or in Russia; they are going to sell it. That is just the way this market works.

Tim Tiberio - *Miller Tabak - Analyst*

Okay. Thanks for your time.

Operator

(Operator Instructions) Ryan Oksenhendler.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

I was just curious -- it sounds like you've closed a decent amount of capacity in ethanol. I guess what would be the benchmark for you guys to turn that capacity back on? Is it just you are waiting for the new corn crop? It sounds like, Juan, that the supply/demand balance may not get better for some time, so the margins may be negative even when the new corn comes in.

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

We will continue -- again, this is a very dynamic picture, and we have felt our portfolio is very big, and we are constantly trying to optimize the overall of the portfolio with our production footprint. We look at all the elements of the US industry production, the demand, the gasoline demand as we go into building inventories for the high season.

And fundamentally, we also monitor the balance between imports and exports and what does it do to local inventories, domestic inventories. So a typical commodity type of thing; you look at inventories, you look at supply/demand, utilization, and you look at your footprint at how you can maximize your own margins. And hopefully that drives some reaction in the industry margins. But fundamentally we are looking at our own margins and helping ourselves.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Got it. Thanks. And then just in terms of looking out over the first half of 2013, trying to get a sense in terms of modeling the Oilseeds Processing segment, you had a good quarter relative to historic levels in I guess what would have been your fiscal second quarter. But I know you've also had a lot of mark-to-market adjustments there. I know you had a $50 million adjustment this quarter. And there is a lot of moving parts, I guess, within the first quarter, North America production -- or capacity coming down. And you've got new facilities in South America.

So can you try to help us gauge -- should the third quarter -- fiscal third-quarter be similar to your second quarter, or just the level of profitability over the next six months?

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

Let me see, because sometimes I even get myself confused with my quarters here since the change. Let's talk about the calendar year and the fiscal year, which are the same in 2013. So we're looking at the first quarter and the second quarter.

And I would say we expect from a North American perspective Oilseeds to go down the next two quarters versus what we are today, slightly down. And South America picking part of that up. So part of that it will be offset within Oilseeds, because South American results are reported within Oilseeds.

Then from an Ag Services perspective, we see second quarter probably the toughest in that sense, as we get close to the harvest. And that is why we are monitoring. I think first quarter will be a transition towards that. That is the way we are seeing.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

Okay, thanks for that. And just last question. I guess if there is any comment you can make, I guess, regarding your stake in GrainCorp and if you plan to make any more or where we stand there. Appreciate it.

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

Sure. First of all, there was really nothing to update because there has been no further conversation with them since their rejection of our last proposal.

Ryan Oksenhendler - *BofA Merrill Lynch - Analyst*

All right. Thanks, guys.

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Operator

Ann Gurkin.

Ann Gurkin - *Davenport & Company - Analyst*

I wanted to ask about additional opportunities for driving improved cash out of the business. And do you also anticipate completing your share repurchase program by the end of the program, which I think is 2014?

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

Let me start with this, and then I ask Ray to chime in. We launched this billion-dollar challenge internally just to raise the awareness of the people and kind of an education and training campaign internally. So we drove a lot of the low-hanging fruit in getting this billion.

I think the work is still in front of us in really addressing improving the cash conversion cycle. We are turning into that more aggressively. At this point, as I said, we reduced inventory of everything that was in a bag, in a pail, in a dram, as one of my business leaders would say. And I think we are excited about the potential for this and the potential for helping the balance sheet getting even better. But I will let Ray talk on the share buyback program.

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

As you know, we bought back some shares in earlier calendar year 2012. We stopped it due to the fact that we were looking at the GrainCorp transaction, and in addition, our debt-to-EBITDA credit metrics were under a little bit of stress. I think with the good work that has been done in this stub year, our balance sheet is pretty strong, and that is the reason why we are going to restart the buyback program on a modest basis.

We are still going to look to evaluate how GrainCorp will play out. And then secondly, we are going to look at how earnings are going to play out. So we have about 14 million shares to repurchase to offset the impact of the equity unit conversion.

Timing, we are going to play it quarter by quarter, and see how events unfold and how market conditions unfold in the Company. But I think the significant factor is we feel good that our balance sheet is strong enough to restart a modest program right now.

Ann Gurkin - *Davenport & Company - Analyst*

Right. Do you still target ROIC to drive improvement there to at least over 200 basis point above WACC? Is that still the target?

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

I think that is still our long-term target. We feel good that the trend is improving right now. As you kind of saw in the numbers, we moved from a 6.0% to a 6.2% number over the quarter, and that is a fourth-quarter trailing average number too.

So I would say -- naturally, there could be some bumps along the road due to market conditions. But with the great effort being done right now to reduce invested capital and drive the earnings power of the Company, I feel good that the trend in ROIC is clearly on the positive path here.

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Ann Gurkin - *Davenport & Company - Analyst*

That's great. Congratulations. And then finally, I don't know if we can get more specific numbers on HFCS pricing, a level of average price increases. Can you give us that for the 2013 contracts?

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

As I said before, we haven't completed all our negotiations yet, so I will restrain from giving any numbers at this point in time. Sorry.

Ann Gurkin - *Davenport & Company - Analyst*

Fair enough. Thank you.

Operator

Eric Larson.

Eric Larson - *C.L. King & Associates - Analyst*

I've been trying to dial in here for some time. I have not been able to ask a question, which is kind of strange. But the first question I have to ask is the gain -- and I should know this probably -- is the gain on GrainCorp in the quarter is a nonrealized gain or have you sold your position in the stock?

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

No, Eric. Basically, when we made our initial investment in GrainCorp, we did it through what is known as a total return swap structure, or TRS structure. So when we actually converted it from a TRS structure into physical shares, we recorded this gain, the $62 million gain that Juan referred to in the Ag Services segment.

And just to provide some clarity, if you look on the cash flow statement, we show a $580 million cash outflow related to GrainCorp. That is related to the time when we actually converted the TRS to physical shares. So that is the accounting cost.

Our economic cost of acquiring GrainCorp is actually the $580 million less the gain that we recorded. So I just wanted to make sure that people understood the economic cost of the acquisition of GrainCorp.

Eric Larson - *C.L. King & Associates - Analyst*

Okay, that helps a lot. And just a follow-up. We've touched base on the Oilseeds, and obviously that is one of the things that has really been driving your earnings and helping to offset some of the softness elsewhere. But when you -- to further question, Juan's, sort of outlook for the Ag Services business for let's say the next two quarters, it seems that the June quarter should be probably your more difficult quarter, maybe not the March quarter -- I'm talking 2013 now -- when in June, you'll probably have probably the tightest amount of North American grain supplies available. Is that the wrong way to look at it? Or is your March quarter your biggest transition quarter?

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

No, I would say, Eric, you are correct. That is the way we see it. The June quarter will be the toughest quarter for Ag Services. Yes, that's correct (multiple speakers).

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Eric Larson - *C.L. King & Associates - Analyst*

Finally, we all -- this has just been an underlying assumption that the strength in the global oilseed business continues to be good. But it isn't going to be good unless you have good demand.

Is it false to assume that China is -- is it okay to assume that China is going to continue to buy oilseeds? Could you talk a little bit about the demand side of it, so that it certainly would help the processors if there is demand?

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

We continue to see a strong demand around the world, not only domestically, but also for exports. So that is not the part that we worry the most, to be honest. And we have good exposure and good view into China and other markets, and that continues to come strong.

Eric Larson - *C.L. King & Associates - Analyst*

Your US demand livestock feed for soybean meal, you said that continues to be strong. Is it strong on volume year-over-year, or how would you describe the demand? Is your tonnage doing well, as well as your margin?

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

Yes, both; tonnage are driving margins, yes.

Eric Larson - *C.L. King & Associates - Analyst*

Okay, thank you.

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

Thanks, Eric. Sorry it took you so long to get on the call.

Eric Larson - *C.L. King & Associates - Analyst*

Thanks. I'm glad I was able to do it. Thank you, everybody.

Operator

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

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

Thank you, everyone, for your interest in ADM and for your questions. We appreciate it, and have a good week.

Operator

Ladies and gentlemen, this concludes today's presentation. We thank you for joining. You may now disconnect.

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