Bunge Limited

Second Quarter 2020 Earnings Release and Conference Call

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CORPORATE PARTICIPANTS

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Greg Heckman - *Chief Executive Officer*

John Neppl - *Chief Financial Officer*

PRESENTATION

Operator
Good day and welcome to the Bunge Limited Second Quarter 2020 Earnings Release and Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing the Star key, followed by 0.

After today's presentation, there will be an opportunity to ask questions. Please note this event is being recorded.

I would now like to turn the conference over to Ruth Ann Wisener. Please go ahead.

Ruth Ann Wisener
Thank you, Operator, and thank you for joining us this morning. Before we get started, I want to let you know that we have slides to accompany our discussion. These can be found in the Investor section of our website at bunge.com under Events and Presentations. Reconciliations of non-GAAP measures to the most directly comparable GAAP financial measure are posted on our website as well.

I'd like to direct you to Slide 2 and remind you that today's presentation includes forward looking statements that reflect Bunge's current view with respect to future events, financial performance, and industry conditions. These forward-looking statements are subject to various risk and uncertainties. Bunge has provided additional information in its reports on file with the SEC concerning factors that could cause actual results to differ materially from those contained in this presentation and we encourage you to review these factors.

On the call this morning are Chief Executive Officer, Greg Heckman, and Chief Financial Officer, John Neppl. I'll now turn the call over to Greg.

Greg Heckman
Thank you, Ruth Ann, and good morning, everyone. Turning to Slide 3, you can see the agenda for today's call. I'll start with an overview of the second quarter, then hand it over to John who will go into more detail on our performance. I'll share how we're thinking about the second half of the year and close with some remarks on the second quarter and how that fits in with what we discussed during our business update last month before opening the line up for your questions.

I want to start by wishing you all well and hope your families and colleagues are safe and healthy. This is a relentless challenge we're all facing.

I'd also like to very pointedly thank our team for their hard work, resilience, and focus. Our results in the first half of 2020 are a testament to their dedication to getting the job done and I couldn't be prouder.

Last, I'd like to thank all of you who joined us for our virtual business update meeting last month. We appreciate the positive feedback we've received, and we look forward to continuing the dialogue.

With that, let's turn to the quarter, starting with Slide 4. Bunge delivered a very strong second quarter with operations reflecting the way we intend to run the business going forward and demonstrating the benefit of our new operating model, leadership team, and mindset.

Performance across all of our core businesses was excellent. Our strong execution in the committed crush capacity, exceptional coordination of trade flows, and great risk management allowed us to capture above average margins and deliver solid top and bottom line results.

Across the platform, we hit record capacity to utilization in crushing, reduced unplanned downtime, about 20 percent year over year, and had the lowest operating quarter costs for soy crush in the last three years. We relayed the benefit from the risk management decisions we made in the first half of the year and we earned new business with our folks on innovation and a collaborative approach with customers. We generated a strong free cash flow while still being disciplined with capital allocation and continue to execute on our key priorities, including refining the portfolio and gaining momentum on reducing costs.

Agribusiness had outstanding performance this quarter with improved performance in essentially every part of the business. In oilseeds, as we expected, prior period timing losses were reversed as gains. Average global replacement soy crush margins across the quarter were $27, but because of our active risk management and effective use of working capital to capture market opportunities, we were able to execute at an average of $40 per metric ton. In grains, performance in Brazil was exceptional as we benefited from increased farmers selling as local prices increased with the devaluation of the Brazilian real.

Food and Ingredients continues to gain traction and demonstrated our nimbleness and flexibility in the current environment. Even as food service demand fell off as a result of lockdowns around the world, our growing strength with CPG food processors and renewable diesel producers, including new customer wins in those areas, offset the COVID related impacts in food service. As COVID continues to present challenges for our customers, they are increasingly turning to Bunge because the resilience of our value chain model can provide innovative solutions that will continue to benefit our relationships going forward.

With the backdrop of great commercial execution, we continue to focus on optimizing our portfolio and recently entered into an agreement to sell the assets of the small non-core food business in Brazil that produces tomato sauces. We've also officially closed our White Plains office and are well adjusted to our St. Louis headquarters and interim remote working situation.

In short, we're very pleased with the results of this quarter and very pleased on our overall momentum. Given the strong Q2, our outlook for the full year is now higher. I'll call--I'll now turn it over to John who will walk you through the financials and some of the puts and takes related to our outlook.

John Neppl
Thanks, Greg, and good morning, everyone. You may have noticed that we updated the format of our earnings press release. We did this for a couple of reasons. One, we wanted to more clearly differentiate our core businesses from our non-core businesses and secondly, we wanted to provide a cleaner format for detailing individual segment performance. We hope you find these changes beneficial.

Now, let's turn to the earnings highlights on Slide 5. Our report of second quarter earnings per share was $3.47 compared to $1.43 in the second quarter of 2019. Adjusted EPS was $3.88 in the second quarter versus $1.52 in the prior year. Our results include a net $0.41 charge primarily related to a provision against an aged receivable dating back to 2015 that is now deemed uncollectable as part of an anticipated legal settlement.

Adjusted core segment earnings before interest and taxes or EBIT was $943 million in the second quarter, adjusted EBIT of $287 in the prior year, primarily driven by results in Agribusiness where EBIT was $843 million compared to $211 million last year.

As Greg noted, higher Agribusiness results in the quarter reflected strong execution throughout the value chains particularly in managing risk, committed crush capacity, and global trade flows. Results also benefited from approximately $380 million of timing differences related to expected Q1 reversals and new mark to market gains.

In oilseeds, strong soy processing results were driven by higher margins in South America, Europe, And Asia largely reflecting the actions we took in the first quarter to lock in capacity. This is partially offset by lower margins in North America. Softseed processing results were higher in all regions.

You may recall we carried into the second quarter a mark to market balance of approximately $295 million of previously reported timing losses related to open forward oilseed processing contracts and hedges against sales to our downstream Edible Oils customers. As anticipated, approximately $155 million of these timing losses reversed in the second quarter upon executing a portion of these contracts.

In addition, as a result of the decrease in global crush margins and the recovery in vegetable oil prices during the quarter, we recorded new mark to market gains of approximately $145 million on open contracts at the end of the quarter. This reduced our carry forward balance on open oilseed contracts to a net gain of less than $10 million, which will reverse in the coming quarters.

Results in grains improved, driven by most areas of the business. Origination benefited from increased farmer selling in Brazil with the rise in local prices caused by the devaluation of Brazilian Real. North America origination also showed improvement compared to a challenging year ago period.

Higher results in trading and distribution were driven by improved margins and favorable positioning. Ocean freight also had a strong quarter driven by excellent execution, as well as approximately $75 million of gains from the reversal of mark to market timings, primarily related to bunker fuel hedges that negatively impacted the first quarter.

In Edible Oils, we observed a steep drop in food service and biofuel demand due to COVID-19 related restrictions at the beginning of the second quarter as discussed on our first quarter earnings call. However, as the quarter developed, refinery margins improved, driven by increased demand for food--from food processors and retail channel, along with partial recovery in biofuel demand. This margin improvement, combined with growth in new customers as well as lower costs, resulted in higher earnings in all regions.

In milling, higher results in Brazil, primarily driven by increased food processor and consumer demand, as well as decreased cost, more than offset lower results in North America, which were negatively impacted by business mix.

In fertilizer, higher segment results reflect improved performance in our Argentine operation, which benefitted from higher margins and volumes as farmers accelerated purchases in anticipation of higher local prices.

In corporate and other, total adjusted segment EBIT included expenses of $56 million from corporate and income of $2 million from Bunge Ventures and other. This compared to expenses of $60 million from corporate and a gain of $146 million from Bunge Ventures and other for the prior year period, primarily reflecting our investment in Beyond Meat.

In our non-core segment, sugar and bioenergy results for this quarter, which are non-cash, reflect our share of the results of the 50/50 joint venture with BP. By contrast, second quarter 2019 reflected our 100 percent ownership of the Brazilian sugar and bioenergy operations that we contributed to the joint venture in December 2019. Additionally, results of the joint venture are reported on a one month lag.

Lower results in the quarter were primarily driven by approximately $70 million of foreign exchange translation losses on U.S. dollar denominated debt of the joint venture due to depreciation of Brazilian Real. Also contributing to the decline in earnings were lower Brazilian ethanol prices driven by the drop in global oil prices.

For the quarter ended June 30, 2020, income tax expense was $168 million. Net interest expense of $56 million was in line with our expectations.

Let’s turn to Slide 6. This slide compares our Q2 SG&A to the prior year; adjusted SG&A excludes negligible items. For Q2, our adjusted SG&A was $28 million lower than last year, of which $20 million reflects our organizational redesign actions and increased focus on managing cost. The additional $8 million reflects the net impact of such items as inflation, foreign currency fluctuations, changes in our perimeter, and performance based compensation, essentially, adjustments to enable an apples to apples assessment of our actions to managed cost.

We recognize a portion of our savings due to COVID-19 related restrictions, such as reduced travel, some of which may be a temporary impact. However, we strongly believe we won’t return to pre-pandemic levels as we have all learned to operate differently.

Moving to Slide 7 cash flow highlights. For the trailing 12 month period, our cash generation was strong at $1.3 billion of adjusted funds from operations. The cash flow generation enabled us to comfortably fund our capex and dividend and to meaningfully reduce debt.

As you can see on Slide 8, we continue to strengthen our balance sheet. At the end of the second quarter, nearly 85 percent of our debt was used to finance readily marketable inventories compared to about 70 percent for the same time a year ago.

Turning to Slide 9, we have committed credit facilities of approximately $4.3 billion with $3.6 billion available at the end of the quarter, and we had a cash balance of $277 million.

Moving to Slide 10 and our summary of capital allocation. Year to date adjusted funds from operations was $817 million. After allocating $85 million to sustaining capex, which includes maintenance, environmental health and safety, and $17 million to preferred dividends, we had $715 million of discretionary cash flow available.

Of this amount, we paid $142 million in common dividends to shareholders, invested $42 million in growth and productivity capex, and bought back $100 million of our stock. The retained cash flow of $431 million was used to pay down debt.

Please turn to Slide 11. On our business update last month, we introduced two complementary return metrics that we believe better reflect the performance of our business. One of those metrics was AROIC, which recognizes merchandizing RMI as a tool to generate incremental profit.

With the trailing 12 months, AROIC was 11.7 percent, 5.1 percentage points over our RMI adjusted weighted average cost to capital, 6.6 percent. ROIC was 9.6 percent, 3.6 percentage points over our weighted average cost to capital of 6 percent. Detailed calculations of these metrics are in the appendix of this presentation.

Moving to Slide 12, the second complementary metric we introduced was cash flow yield, which is a ratio of discretionary cash flow to the adjusted book equity. This measure emphasizes cash generation and complements earnings and return metrics.

Here you can see cash flow yield over the past five years, as well as for the trailing 12 months ending Q2 measured against the cost of equity of 7 percent. For the trailing 12 month period ending June 30, after adjusting the book value for CTA changes, we produced a cash flow yield of just over 19 percent.

Please turn to Slide 13 and our 2020 outlook. As Greg mentioned in his remarks, we are increasing our 2020 EPS outlook based on our stronger than expected second quarter. In Agribusiness, based on first half results, the curve environment and forward curves, we expect our full year results to be approximately $100 million higher than last year's results and second half results weighted toward the fourth quarter.

In Edible Oils, we expect modest improvement compared to our previous outlook. Despite a stronger than expected second quarter, the business will likely continue to face headwinds from COVID-19 in the second half.

Expected results in milling continue to be in line with last year. We also expect an adjusted annual effective tax rate in the upper end of the 19 percent to 23 percent range. Net interest expense of approximately $230 million and capital expenditures in the range of $375 million to $400 million. And, depreciation amortization of approximately $400 million. The outlook of the sugar and bioenergy joint venture has declined from the previous forecast to reflect the impact of foreign exchange volatility in the first half of the year.

With that, I'll turn things back over to Greg for some closing comments.

Greg Heckman
Thanks, John. As we wrap up, it's clear that we're managing the business to maximize economic results and value creation for the long term, not any one calendar quarter. Accounting requirements can create timing differences, then smooth out over time. The mark to market losses we recorded in the first quarter that reversed this quarter as expected are a good example of this.

During our business update meeting last month, we forecasted a strong second quarter, which ended up being even stronger than expected. We highlighted our new leadership team and our new approach to risk management, and you can see our execution this quarter.

We emphasized our progress against our key priorities of improving financial discipline, optimizing our portfolio, and changing our operating model to drive excellent performance. We've continued to execute on each of those areas.

We stressed greater transparency and accountability and you're seeing that in our reporting today. And, finally, we told you that we're taking actions that have set us up to get to an earnings baseline of $5 per share with additional upside.

While there's more work to be done, we're moving in the right direction, we're operating better than we have in many years, and we're making progress every day. And, with that, we'll open the line for your questions.

QUESTION AND ANSWER

Operator
Thank you. We will now begin the question and answer session. To ask a question, you may press Star, then 1 on your touchtone phone. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press Star, then 2. At this time, we will pause momentarily to assemble our roster.

Our first question comes from Vincent Andrews with Morgan Stanley. Please go ahead.

Vincent Andrews
Thank you and good morning, everyone.

Greg Heckman
Morning.

Vincent Andrews
So just want to understand a little bit better the results in the first half versus what's going to happen in the second half, and I think what's happened is that everything that happened in the first quarter has now reversed in the second quarter and you carry very little into the back half of the year. So, obviously very strong execution because you said you've realized 40 bucks a ton versus, I guess, the spot or the market, however you want to phase it, would have been at 27.

So, whatever I thought you were going to reverse in the second half of the year has already happened, so I've got to take that out and now I just have to consider what I think or what the market looks like in terms of what crush margins are all else equal. Is that correct?

John Neppl
Yeah, I think that's a good assessment.

Vincent Andrews
Okay. And, then on farmers selling in Brazil, the slides, you had a couple of good comments about the records of past utilization rate and the lowest quarterly operating costs for soy crush. How much of that is a function of just the rate at which the Brazilian farmers sell, which is allowing you to run those--in those conditions versus the good work you guys have been doing just sort of on operations irrespective of what the farmer is doing?

Greg Heckman
Well, I think both. No doubt, the team did a great job of being in position to take advantage of the opportunities that we saw, whether it was the farmers selling, driven by the action of the Brazilian real in Brazil and which not only helped drive the strong exports there. But, our crush utilization, but also even in the U.S. where we saw the opportunity with margins where we were able to run hard to delay some maintenance and of course, improved on unscheduled downtime to go ahead and capture those margins while they were there. So, definitely a combination of environment but definitely the team executing very well in this environment.

Vincent Andrews
Okay, thank you very much. I'll pass it along.

Greg Heckman
Thank you.

Operator
Our next question comes from Adam Samuelson with Goldman Sachs. Please go ahead.

Adam Samuelson
Yes, thank you. Good morning, everyone.

John Neppl
Morning, Adam.

Adam Samuelson
So, maybe first, just a continuing comment on Vincent's point on second half expectations. Maybe would love to get your reflection on what the state of soy and softseed crush margins are today around the world and then the margins that we see have come down pretty notably from where they had been earlier in the year and just get your thoughts and positioning around that and I guess maybe opportunities to exceed that kind of visible crush kind of margin with some of the origination and sourcing activities that you have and the leverage you have in the network.

Greg Heckman
Sure. Yeah, current crush replacement margins are in the U.S. around mid-20s, mid to high single digits in Brazil, low single digits in Argentina, and then you've got Europe and China both in the mid-20s. Now that being said, even in the last couple weeks, we've seen the curve start to improve a little bit. So, as usual, we don't have a lot of visibility into Q4 and as usual, we have more locked in Q3 than we do in Q4, but that's not unusual.

And, then the--kind of the broader, I think, keys to watch on the crush, the flags are as we know, we've seen the strong exports with the farmers selling in Brazil and the strong exports there to China and then we've seen China increasing their purchases here in the U.S. and the question will be, what pace will that continue on, as well as we've got the crop developing here in the U.S. a big corn crop, but the bean crop is developing very well. So, it looks like we'll have a big harvest and then how the farmer decides to commercialize that.

So, those are the key flags here as we watch this second half develop.

Adam Samuelson
Okay, that's very helpful. And, then just to clarify kind of the revised outlook, so you're now expecting Agribusiness up about $100 million year on year. So, relative to where you laid that

out in--with 1Q in late April, that's what, $150 million or so kind of dealt to the positive. You've increased the Edible Oils outlook some. How much--and how much did sugar--is sugar expected to be worse than the prior outlook, just to clarify? Am I rolling up those pieces properly?

John Neppl
Yeah Adam, I would say on Edible Oils, even though we had a little bit better second quarter than expected, over the whole year, if you look back versus where we were in April, we've actually taken the number down slightly. And, then sugar, I'd say probably in the $30 million range in terms of our--the impact of that from a P&L standpoint versus April and reminder that that's a non-cash recording of the investment and the underlying JV.

Adam Samuelson
Okay, that's helpful. And, just to clarify in terms of the (INAUDIBLE) around the hedging on the JV level debt. Were you able to execute hedges to eliminate that FX translation impact going forward?

John Neppl
Yeah, so the JV has been working on hedging that and at the end of June, they had $150 million of it hedged. Their target is to hedge half the $700 million to get to $350 million. For us, because the debt's nonrecourse to us, it would have been a case of us putting a hedge on it just to impact reported earnings, which then effect is basically an FX spec position. We manage our exposure to the real at a much broader level for the company rather than on any specific individual exposure and while that's a reported earnings impact, from a cash standpoint, it doesn't really impact us.

So, we made the decision not to do anything on our books because we look at it more globally from a real standpoint. But, they are making progress in terms of getting that covered.

Adam Samuelson
All right, I appreciate the color. I'll pass it on. Thank you.

Operator
Our next question comes from Tom Simonitsch with JP Morgan. Please go ahead.

Tom Simonitsch
Thank you and good morning.

Greg Heckman
Morning, Tom.

John Neppl
Morning.

Tom Simonitsch
Sorry if I missed this, but can you clarify the 2020 EPS guidance? I think you had originally guided to around 370 at the start of the year and lowered it directly to last quarter, so if you can just frame your guidance in a range of what is that initial 370 guide, that would be very helpful.

John Neppl
Yeah, so if you look at kind of where we were coming into the quarter here, I think average consensus was 283, somewhere in that range. And, the way we look at it, probably the biggest delta in our forecast now is the $100 million I mentioned in Agribusiness and the rest of it kind of all offsets net--kind of net to close to zero. So, if you think about $100 million from an EPS standpoint, that's around $0.55 roughly and so that's kind of how we're thinking about it right now.

Tom Simonitsch
Sorry, $0.55 above current conditions?--

John Neppl
--Yeah, upside--I'm sorry, upside in Agribusiness, that $100 million is roughly $0.55.

Tom Simonitsch
Okay. And, then just on the Edible Oils, I think your EBIT of $51 million was about double what you had guided for Q2. So, can you just help us reconcile the outperformance in the quarter with the comments that COVID-19 headwinds are likely to linger?

John Neppl
Yeah, what we saw, the big driver of course is around U.S. food service and where we talked about from a QSR--we're a little over indexed to QSR and to the big QSRs. So, April was down about 40 percent. But, then during the rest of the quarter, we saw a strong recovery. Some of that no doubt was pipeline filling. But, we saw levels get to year ago levels.

Now, as that's kind of leveled off, we think it's stabilized between the balance of what business moved over to the retail or CPG space and versus how food service with some of the closings coming back out, we're probably net off 15 percent and we expect that to probably be pretty wavy on the demand as things open and close and we manage through COVID through the balance of the year.

Tom Simonitsch
Great, that's helpful. Thank you. I'll pass it on.

Operator
Our next question comes from Ben Bienvenu with Stephens Inc. Please go ahead.

Ben Bienvenu
Thanks. Good morning, everyone.

Greg Heckman
Morning, Ben.

John Neppl
Good morning, Ben.

Ben Bienvenu
I wanted to revisit origination for the back half of the year and 4Q in particular. Greg, you know that that's going to be kind of a key factor as it relates to the performance for the balance of the year. But just as we sit here today, you've already seen some renewed buying from China through U.S. soybeans. Brazil soybean balance sheet is pretty tight with their strong exports.

There's some corn crop issues in China and we've seen their prices move higher as they've also sold through reserves.

So, just curious, recognizing there's variability both in how the crop fares in the U.S. through the balance of the year and inherent volatility in that business, how optimistic are you about origination for your business in the back half of the year?

Greg Heckman
We're definitely optimistic about what's happening overall. There has been some of Q3 pulled into Q2 in South America, but with the programs that are building in the U.S., we're definitely seeing very good port margins there. I think the way--what you'll have to weigh there is how the buying continues for the program for the rest of the year on export out of the U.S. versus the farmer commercializing what's to be a very big crop.

Ben Bienvenu
Okay, great. On portfolio optimization, you noted a small sale of a tomato sauce business. I believe you guys were in process on selling another large asset. I think last update you had given, COVID wasn't a huge disruptor to the progress of those discussions and broader portfolio optimization discussions, but I think there had been a little bit of a slowdown. Kind of where are we in all of that and how are those discussions going broadly?

John Neppl
Yeah Ben, I'll take that. So, with respect to some of our projects that we're working on, let's--I'll give you a quick rundown of things we've talked about before first. Obviously, our Brazil margarine and a mayo business we had announced previously is still underway. It's still in regulatory in Brazil but moving along and I think we feel pretty confident we'll get that closed this year.

We've talked before about the U.S. grain asset sale. With the review there, it's probably--we've talked before, late Q4/Q1 type event to get that closed. I think we still feel pretty confident in that timing.

And, then we do have another project that we've been working on. I would say it's been a little bit COVID related, but it's moving slowly, but it's moving forward and it's just really at the pace of how we can work that with our counter party. But, all those things, we're pretty positive on how they're moving.

And, then on the other side with the announcement of Imcopa that's progressing. Again, from a regulatory and timing standpoint, it's probably slowed down a little bit, but we still feel pretty comfortable where that's headed.

Ben Bienvenu
Great, good luck with the back half.

John Neppl
Thank you.

Greg Heckman
Thank you.

Operator
Our next question comes from Ken Zaslow with Bank of Montreal. Please go ahead.

Ken Zaslow
Hey, good morning, everyone.

Greg Heckman
Morning, Ken.

John Neppl
Morning.

Ken Zaslow
Just a couple questions. One is can you talk about the new business that you earned and what does that entail? You said that in the opening remarks. Can you just talk about that?

Greg Heckman
Yeah, I think what we've really seen is there continues to be a little bit of magic in the specialty fats and oils and Loders that we added into the legacy Bunge's portfolio of our commodity oils and then our global footprint. So, what we've been able to do is help people solve the problems, whether it's the switch-over in the product mix we saw as people went from eating away from home to eating at home, to where they were making it and using our global platform to help them solve problems that they understand long term that the power of Bunge and our ability to move and be nimble and our new operating model definitely supported that.

That gets us in a less transactional and a more partnership relationship with folks and not on single product, but on the portfolio products and services we're able to bring. So, we definitely like the progress that we're making and it's the right kind of growth with the right customers.

Ken Zaslow
And, then a second question is in terms of the crush margin outlook, obviously U.S. crush margins are getting better. Can you talk about why you think it's getting better, the longevity of that, and then also China and Europe seem to be very strong as well. Can you talk about the underpinnings there and again, it seems like China has changed as they expanded their hog herd. Is that the derivation of why Chinese crush margins are--is that a foreshadowing for the globe?

Greg Heckman
Yeah, I think a couple of the big drivers around--let me talk to meal first and then oil. A couple of the big drivers, of course, around meal demand have not only been the imports of protein into China, which of course has helped the meal demand in those exporting countries. But, the big--one of the big drivers is how quick China's sows and hogs have come back and their meal demand has recovered much more quickly than any of us have thought. And, then of course the U.S., where we've got historically high numbers in chicken and hogs has been good for demand and those numbers have not tailed off as quickly as everyone had predicted.

And, then on the oil side, as we talked, the oil demand has come back quicker than we thought here in the U.S. and that's not only on the food side, but on the renewable diesel. So, we continue to see strong demand there and see some--definitely some tailwinds going forward, not only the second half of '20 but into '21 around renewable diesel. Probably the lagger right

now on the one that we'll watch is biodiesel in Europe, which has been a little bit slower coming back.

Ken Zaslow
Great, I really appreciate it. Thank you, guys.

Greg Heckman
Thank you, Ken.

Operator
Our next question comes from Heather Jones with Heather Jones Research. Please go ahead.

Heather Jones
Good morning.

Greg Heckman
Morning, Heather.

Heather Jones
First I want to say, thank you for the new layout on the press release. It was--I really like it. It's made a lot--things a lot more helpful and more clear. Just a quick detail-ish question. When y'all are talking about your full year outlook for sugar, the real has appreciated considerably since the end of May, which I think is the end of Q2 for sugar.

When you guys are talking about your full year outlook, are you assuming there's no appreciation in the real from Q2 or are you assuming the current rate?

John Neppl
Yeah, when we--Heather, this is John. So, when we put in the forecast, it's probably a week ago or so that we finalized that, maybe a little bit less than a week ago, and we took some of that into consideration, but we don't assume going forward any big change one way or the other.

So, it--we've got the--remember, we're--the reporting of that is the end of May for our June 30, so any change from May to the end of June would be reflected in Q3 and then of course, all the way through August will be recorded in our September number. So, we don't have a big assumption one way or the other in there in terms of where it's headed, but obviously that'll have an impact going forward.

Heather Jones
All right, thank you. Then I wanted to ask about meal demand. So, Greg, you mentioned hog and chicken numbers and those have held up fairly well, but our understanding is that a lot of these hog guys have taken their rations down--to levels, basically maintenance rations. And, more recently, it seems like that soybean meal inclusion rate has bottomed and it's starting to move higher again.

Would--what you're seeing, does that agree with--would that agree with that observation?

Greg Heckman
Yeah, I'd say generally--I don't know that I can--on that kind of detail. But yeah, generally--I'm not 100 percent of the driver, but the demand has not come off as fast as we thought in the U.S. The demand has stayed there and then of course, in China, we've not only seen the animal

numbers, but the inclusion rates in China. That, we have seen, is driving the demand there. And, then of course, there was less DDGs as the ethanol industry was not running as well, so I think that's where we saw some of the inclusion rate just from a protein side.

Heather Jones
And, in China, given--because I'm glad you mentioned that because it seems like the demand growth is outpacing the adding the number of animals that have been added. So, would y'all attribute that to the fact that it's large commercials that are the ones that are adding the hogs and so their inclusion rates tend to be higher or is there something else that we're--that I might be missing?

Greg Heckman
No, that's what we're seeing, that it is the inclusion rate because it's the professional commercial operations that are coming back up, which is how they've come up as quickly as they have.

Heather Jones
Okay. And, my final question is on, you mentioned strong U.S. port elevation margins. I mean, our numbers are showing very strong, much stronger than last year in both beans and corn. That's consistent with y'all's observation as far as the year on year strength?

Greg Heckman
Yes, we'd agree.

Heather Jones
Okay, all right, thank you so much.

Greg Heckman
Thank you.

Operator
Our next question comes from Ben Theurer with Barclays. Please go ahead.

Ben Theurer
Hey, good morning, Greg, John, and thanks for taking my question. Congrats in the strong results. I wanted to quickly follow up on the food service piece and you mentioned that basically it was very much in the pressure in April and then partially with selling rates going higher into May/June. What have you been seeing within July in terms of the pace of demand on food service and how do you think this is going to turn out, just to understand a little bit how much maybe was just anticipated and now weakness into 3Q versus how the underlying business was actually doing. That would be my first question.

Greg Heckman
Yeah, it feels to us like it's settling out down about 15 percent and of course, that's kind of wavy as things open and close and there's pipeline filling and then working off. But, I think down 15 is what our team feels.

Ben Theurer
Okay. And, if we think about it, I mean in the medium/long term and what you've been showing within the Agribusiness piece and I mean, clearly it was an outstanding quarter and you've mentioned all the benefits from the mark to market. But, if we look into it with what likely the

crop's going to be in the U.S. and what Brazil and Argentina is doing as well, how do you think more the medium/long term level of profitability and where do you see margins going? Do you really think we're going to be next year at that roughly mid-$30 crush margin level as you've highlighted about a month ago or do you think it's still too early to get there?

Greg Heckman
Look, the curves will continue to change. The outlook we're giving you today is on the curves that we can see and then of course in the business update, the number we spoke to was a baseline to deliver that $5 earnings so that based on what you believe the market is doing, you can adjust it against that baseline. We weren't making a prediction for crush margins for '21 there.

Ben Theurer
Okay, that's clear. Okay, perfect. Thank you very much. I'll pass it on.

Greg Heckman
You bet. Thank you.

John Neppl
Yeah.

Operator
Our next question comes from Robert Moskow with Credit Suisse. Please go ahead.

Robert Moskow
Hi, thanks for the question. I might be just doing my model incorrectly here, but if I start at that, I think you said $2.80 base and add the $100 million to that, I'm getting--according to your math, something around $3.40 for the year. But, my model is spitting out a much higher number. Maybe we're using the wrong base or maybe I'm misunderstanding the communication on sugar here.

So, can I start there? Are you expecting sugar to operate at a loss in the back half of the year?

John Neppl
Notwithstanding the--any fluctuation in currency, I think our expectation is that there should be a small contribution from sugar in the second half to flat to zero. We don't expect underlying operational losses to continue in the second half based on what we can see. So, it's all going to be dependent upon the exchange rate and how that impacts the reported numbers from the debt.

Robert Moskow
Okay, well then maybe I'll just try the math here. Year to date, your adjusted EPS is up, like, $2.50 I think. It is $2.50 and now you're expecting the back half to look similar to the back half of last year I think if you kind of net all that out. Doesn't that get you a much higher number, like closer to $5?

John Neppl
Yeah no, we're not calling the second half consistent with last year's second half. Maybe there was some confusion there.

Robert Moskow
Yeah, but Agribusiness is up $100 million compared to the second half of last year. Is that right?

John Neppl
No, that's for the full year. So, that's looking at the over-performance in the first half and then projecting, taking a look at the second half. For the full year, we're calling it up 100.

Robert Moskow
Okay, there is the math question. Thank you very much.

Greg Heckman
You bet. No problem, Rob. Thanks.

Operator
Our next question comes from Ben Kallo with Baird. Please go ahead.

Ben Kallo
Hey, guys. Thank you for all the clarity. Maybe just on the cash flow yield and maybe what the use of proceeds--I think I asked this in June. But, what's the plan for the share repurchase? And, then could you just talk to us about RMI and remind me how that changes in the second half of the year too? So, should we see an uptick there? It looked like there was in the quarter. Thank you.

John Neppl
Sure. Yeah, so I'll start cash flow yield. So, as you look at the cash that we generated through the first half of the year and the net number after all allocation was $432 million and as we looked at the first half, you can imagine capex was a little underspent, just given COVID related timing and impact on the ability to get some projects done. We do expect that to pick up a bit in the second half certainly. Of course, our normal dividends were in there and that will be pretty standard with the second half of the year.

When we were looking at the opportunity for stock buy-back in the first half of the year, it was really looking at, as we always do, looking at the opportunity for risk adjusted return and where was the stock trading and what did we have in the pipeline in terms of projects and we just felt like it was a good time to step into the market. We'll continue to look at it. We always do, as we communicated a month ago at our business update.

In the second half of the year, I think while we'll expect earnings to be more modest than they are for the first half of the year, we're also looking at capex likely picking up. We also--you'll see in our Q, we announced we're making $65 million contribution to our pension plan to take advantage of some tax opportunities. That'll have a small impact on cash flow in the second half, but we'll continue to assess all of that.

In terms of RMI, it's very seasonal. Certainly, our growth in second quarter related to the strong origination in South America. We were well ahead of our normal pace in terms of farmers selling and our ability to get ahold of the crops. We feel very good about how we're positioned there.

Then of course, in Q4, we'll have a big growth in RMI because of North American harvest. So, we'll expect to see that, but again, we're managing that in a smart way, making sure that when we invest in RMI, we're getting a return on that.

Ben Kallo
And, maybe just coming back to I think what was kind of the thread that ran through everyone's questions before me is that we're trying to square away the second half numbers to the outperformance here in Q2 and my math is not good either. But, it looks like that I'm getting to a $0.90 EPS for the second half total and I know you don't want to go to that granularity, but why do we expect a big drop-off? I know there was a big mark to market here in Q2, but why should we expect a big drop-off in earnings when it seems your commentary doesn't flush with that? And, yeah, maybe I'll just leave it there.

Greg Heckman
Yeah, I'd say we continue to look at what the current curves are giving us in the second half. Now that can change quickly, as we saw last year in Q4, and we're definitely--we're facing something we haven't seen before, right? We're still working through the trade war. We've got COVID, but we are facing it with a new Bunge with a different team and a different operating model. So, we feel based on the opportunity that we see, we'll get more than our share of that.

Sure, some of the Brazil business was pulled a little forward into Q2 from the second half, but the other side of that is we've got big crops coming in the U.S. and we'll see how the farmer markets its crop there and then how China continues as they work against the trade deal and fulfilling their obligations. They've been very aggressive here the last couple months.

And, then we've got the oil complex, which feels like it continues to tighten really as we look across the complex. If COVID improves, that also helps the curve. Argentina continues to be a challenging situation for all of us operating there with the farm continuing to be a very reluctant marketer as he protects himself financially, as well as some of the industry just continuing to struggle.

So, net-net, a lot of people are in the spot because of that uncertainty they're seeing from their customers with COVID, so a lot of meal and oil customers are spot buyers today. That's also giving us less visibility, but the numbers are out there, and we expect the business to be there. I think we're very comfortable that we remain nimble, we remain well positioned, and we've got the right team to take advantage of the opportunities as they happen.

Ben Kallo
All right, thanks, y'all.

John Neppl
Thank you.

Operator
Our next question is a follow up from Ken Zaslow with Bank of Montreal. Please go ahead.

Ken Zaslow
Hey, I appreciate the follow up. Can you tell us a little bit about the operational efficiency? You said that you had record utilizations, lower cost structure. Can you talk about what the parameters were, say, a year or two ago, where they are now, and what is the key driver to the improvement of these metrics?

Greg Heckman
I think the operating model has been a key driver, Ken. We talk about unscheduled downtime and that's, one, having the assets up and ready to run, but it's also how the industrial and the

commercial teams are working together on getting the inputs there, getting the products away to make sure that those plants stay up and running and of course, the first step before that is making sure that we get the customer business done, and that's why the customer selling us the beans on the origination side or the customer buying the meal and oil so that we've managed those earnings at risk, we've locked them in, and we're able to run our facilities to full, and that's where the capacity utilization is coming from, as well as, as I said, the team staying in step and making sure that we keep those facilities running.

So, it's been great coordination. We're looking at it as a global business, so we're able to move much faster as we move business around and frankly, we've been able to help customers solve some of their problems and that's meant extra business for us as well.

And, then the other thing we talked about is we're now scheduling the business as a global company and being thoughtful about when we're taking our scheduled downtimes to again get the capacity utilization and make sure we're running where the margins are best.

John Neppl
And, I would just add to that, Ken, that we are focused, much like we are on the SG&A side. We're focused on industrial costs as well and I think the team is making good progress there. It's not always visible because it's buried in the margin number, but although we've incurred a little bit of excess cost here in the second quarter relative to COVID, I think we feel really good about where we're headed from a cost standpoint as well. It's going to take time, but I think there's--the team is making good progress on that as well.

Ken Zaslow
So, is it fair to say that the way you're moving the business between the risk management and the operations again absent where the crush margin is, but towards that $5 number, everything that's in your control is still working that way? There hasn't been any put-backs or anything like that? It seems like the path continues to move towards that direction. Is that a fair way of saying it, given these little milestones that you're kind of giving us?

Greg Heckman
Absolutely. We continue to be really pleased with the transformation. We're ahead of our own schedule in several areas and on schedule in the others and all that in the midst of COVID. So, couldn't be more pleased with the team, the ability to execute for customers in a really challenging environment, but also continue to stay focused on the transformation.

Now look, we've still got more to do. There's more self-help to come. There's more cost to get out as we finish the portfolio rationalization here at the end of the year and as we finish our rewiring. But, we're on track, we know what we're doing, and we have the right team doing it. Feel real good about things.

Ken Zaslow
Great, thank you very much.

Greg Heckman
Thank you, Ken.

Operator
This concludes our question and answer session. I would like to turn the conference back over to Ruth Ann Wisener for any closing remarks.

CONCLUSION

Ruth Ann Wisener
Thanks for joining us today and if you have any questions, please feel free to reach out to us.

Operator
The conference has now concluded. Thank you for attending today's presentation. You may now disconnect.