BMO Capital Markets
Global Farm to Market Conference 2020

Bunge

May 13, 2020

Ken Zaslow: Thank you so much for taking the time to be with us today, particularly in these unusual times. Let me just say a few words about Greg. He has over 30 years of experience in agriculture, energy, and food processing industries. Most recently, he was CEO of The Gavilon Group, which became the third largest grain handler in North America and was sold to Marubeni. Previously, he was Chief Operating Officer of ConAgra Foods Commercial Products and President and COO of ConAgra Trade Group. We're happy to have you here with us and grateful for the opportunity to gain greater insight into how you will continue to reshape Bunge's future direction.

As CEO for about a year, you've accomplished a great deal in terms of portfolio refinement, operational improvements, and risk management in spite of less than desirable operating environment. Similar to others in the industry, Bunge is faced with both opportunity and uncertainty while being at a crossroads for its future strategic direction. I could not be more appreciative of you joining us today. With that, I'm going to turn it over to you for some opening remarks before our discussion. Again, Greg, thank you very much.

Greg Heckman: Thanks, Ken. Great to be here today and thanks for doing all this. Before I get started, I just want to make a couple quick comments. Turning to Slide 2, please read and acknowledge our Safe Harbor statement about forward-looking statements and then we'll move onto Slide 3. We reported a very solid first quarter last week. Our underlying business performed well and I'll tell you, I'm really proud of the team's high level of execution during what's an incredibly challenging period.

The work we've done to improve our operations and increase our responsiveness have enabled us to adapt to the changing conditions and operational demands. In Agribusiness, we were able to capitalize on several key opportunities and in edible oils, we benefited from good demand in tide oil environment.

For the first quarter, we reported GAAP earnings of a loss of $1.46 per share. However, our underlying earnings were a gain of $0.91 when adjusted for certain gains and charges and the timing of mark to market losses. Looking ahead, we expect approximately 80% of the Q1 mark to market losses to reverse in 2020. And that will be heavily weighted to second quarter.

Agribusiness is largely in line with our previous expectation given our strong first quarter and the crush capacity we have hedged in the second half of the year. However, results in Edible oils will be lower due to COVID-19 related demand interruptions in both food service and biofuels.

In milling and fertilizer, similar to Agribusiness, there are no changes to our beginning of the year outlook. Operating in this environment has certainly not been easy and I am tremendously proud of our team and their continued high level of execution during this time. We've continued to move forward, improving our operating model, and I'm confident that we'll exit this crisis stronger, with more tools and experience to navigate whatever challenges we all face in this new normal.

Now, I want to make a couple points about our sugar and bioenergy joint venture. First, we could not be more pleased with our partnership with BP and the great work the management team is doing to operate that business. However, lower ethanol prices in Brazil will negatively impact the business until global oil prices improve and demand returns to the Brazilian market.

Also, impacting the business is foreign currency exposure of the joint venture's U.S. dollar denominated debt. As of the end of the first quarter, the impact was a negative $25 million. We expect additional FX related losses in the second quarter as the Brazilian real has continued to devalue. However, it is important to recognize that we account for our interest in the joint venture under the equity method of accounting. Therefore, these losses are reflected as a reduction in our investment value and were non-cash in nature in the first quarter.

Additionally, the joint venture's debt is non-recourse and we have no obligation for further investment. So Ken, with that, let's get started.

Ken Zaslow: You said something in your introductory comments that I always like to hear but I like to just go a little bit deeper into this. You said that you emerged from COVID-19 stronger. How will you measure that and is that a financial measure or is it just our position is better, therefore it will be stronger? Can you put some context to what you actually mean by that and will there be a financial component to that?

Greg Heckman: I think it's both. All of the transformational work that we've been doing, the team has been fantastic. That's been ongoing. The changes to the operating model that have allowed us to be more agile and respond to COVID. The changes that we're making in the portfolio, which will improve our returns, as well as provide fuel for growth when we earn that right again. The financial discipline that we've added, not only around capital allocation but around the risk management of how we operate each and every day, let alone the experience that we're all getting during COVID and last year with the trade war and African swine fever. So this team and the changes we made, we've stayed on track despite all this. Couldn't be more pleased with the team and with the challenges that we've seen, we've got additional experience and we'll be prepared for whatever the new normal is.

Ken Zaslow: Can you talk about the operational improvements and can you give some anecdotes of how you've actually seen that and with the anecdotes, maybe some financial measures around that?

Greg Heckman: Sure, we can give a couple. I think what's key is with a big asset base like this is ensuring that we've got those assets up and ready to operate when the margins are there and that our team is locking in those margins. We're seeing that come, whether it's the de-bottlenecking projects we've done, whether it's the way the industrial teams and the commercial teams are working together. But we saw record soft seed crushing volume first quarter. Able to run that harder than we've ever run at Bunge.

In the U.S., we saw the highest crush levels that we've had in capacity utilization since 2016. So as difficult as the environment is, we're seeing the changes in the operating model, the leadership that we've put in place, and the way we're working as Bunge. We're starting to see that in a number of places. And I think you'll see that as the mark to market rolls out here in second quarter and over the balance of the year with the earnings we deliver.

Ken Zaslow: And also the portfolio refinement, obviously you sold some assets at a very good price, at least higher than we would have expected. What is that doing to freeing up your capital resources? And you did say when you earn a right to grow again. When will you see that right to be re-earned and how do I think about that?

Greg Heckman: We've stayed on track with the portfolio rationalization and you're speaking of course to the sale -- the U.S. grain assets. We've got probably one more sizable project underway and then two or three other smaller ones. We set the internal target to have those done by the time of our investor day here at the end of June, or at least in a position to be able to talk to them. We're still pushing against that deadline.

But really, that's where we'll go forward here as we get into the second half of 2020 and looking at the earnings potential of the portfolio that we're running going forward. And that's really as we're starting to set our strategic priorities on a go-forward, as we get proceeds in from the deals we finished, and as we continue to perform on delivering the results with our operations that we'll then begin to look and feel that we've earned the right to grow again.

Ken Zaslow: And when you think about right to grow, is it through CapEx spending? Is it through acquisitions? How do you think about that? I just think that's an interesting point.

Greg Heckman: Well, again, we've got some more work to do to get there but we'll look, be very disciplined around our capital allocation. We've got a process that does the stress testing to ensure that when we put money to work and long-lived assets that that makes sense under any industry condition. So we'll always look for those de-bottlenecking and those low cost internal organic projects first. Then we'll look, of course, where those bolt-on acquisitions can add additional capabilities, or products, or geographies for us that are adjacent to where we already operate, in our highest margin, lowest volatile returning areas.

And then we'll look in areas where we want to continue to support our strongholds but maybe not add to capacity. And I think an example of that will be the Imcopa deal that we did. We feel that that will add to capabilities we already have in our strong South American platform, without adding capacity to that industry.

Ken Zaslow: So just going back to -- staying with your opening remarks, there's a lot to go through there. You didn't change your outlook on Agribusiness, but how has the composition of Agribusiness mix changed relative to pre-COVID versus after? And again, where are the pockets of increased demand and will be there more dislocation opportunities?

Greg Heckman: The Agribusiness has performed very strong. And as you said, it's definitely happening a different way than we maybe thought it would. Actually, as China is rebuilding their hog herd and we've seen the increase in poultry to make up their protein deficit, our Chinese business has performed very well. And then in South America, although the Argentinian farmer has marketed in the fall but then been a very reluctant seller from that point forward, really protecting itself against the FX and the devaluation, that Argentina has been challenged to run, which we generally know is better for global margins.

We also have the low water situation in Argentina, which is increasing freight rates and making Argentina not as big -- not as competitive in the global market. We did see the weakening Real increased farmer selling in Brazil, selling record levels of old crop, almost 80%, and record levels of new crop, marketing 30% of their crop. What followed with that, of course, some big export programs, and crush running very hard.

And then if you come around to the U.S., as I mentioned, we had record crush there in the first quarter, even though the farmer who does have pretty good -- some support from the government, has been a reluctant seller, we think until he probably sees -- she see how this year's crop develops and that marketing probably happens closer to when we get in front of the fall harvest. But as crush margins have come off in the U.S., we've pulled back crush a little bit to catch up on some of the maintenance that we needed to do.

Ken Zaslow: And how concerned are you with the potential for the protein animal cycles to be cut short? What are you seeing? What do you think is going to happen and does that change your earnings power for 2021 and beyond?

Greg Heckman: Well, I think we believe that there's a number of puts and takes around animal numbers being pulled back in the U.S. but they're coming off of high levels. We're seeing less run in ethanol, which of course there's less DDG and then we're seeing higher wheat prices. So there will be less wheat feeding. So we're not, at this point, seeing any big impact. We think those are trade-offs between the supply and demand here, but that's what we're watching the balance of the year in the U.S.

Ken Zaslow: So you think that the animal protein supply in the U.S., there's obviously been a pullback and you've said you've done more maintenance to cut a little bit of production but you don't think it's a lasting effect on your business?

Greg Heckman: No, we don't see that as a lasting effect.

Ken Zaslow: What about also, just to be clear, what about anything -- issues in Brazil? I know Brazil is starting to get the impact from what we have. Is that changing your soybean meal demand and I'm assuming most of the demand for soybean meal in Brazil is actually exported anyway. But can you just kind of frame that?

Greg Heckman: If you look at Brazil, about half of the beans are used domestically through crushing and about half is exported. While there's some rumor of animal numbers down slightly in South America, we don't really have any facts to see that at this point. The industry has always been very disciplined. We'll continue to manage our crush and export to ensure that we manage margins.

Ken Zaslow: And Bunge is obviously -- you're food service. How is Bunge impacted by the food service shutdowns? What is Bunge's relative exposure to QSRs and Edible oils? And are you starting to see changes in markets as they start to open up and how is that business performing?

Greg Heckman: Performed very well Q1 because we didn't really feel the COVID impacts until real late Q1 and primarily in April. It has had the impact with the falloff due to the demand of food service, as well as biodiesel. But our exposure, we're a little more heavily indexed to North America and to QSR, which has been fortunate. They've seen probably less impact and it looks like they're coming back more quickly.

So while we saw some pretty heavy cuts, as the states have started to open back up, we've seen some good increase even in the last two weeks. So we're starting to be fairly encouraged. It's hard to tell what's loading the pipeline and it will be important to see what the continued takeaway is. But right now, I think if we had to call a number, we'd say in Q2, Edible oils is probably going to be down 40% if we had to call it.

Ken Zaslow: And how permanent do you think that would be? Let's say, again, maybe QSR service never get back to the entire number that they get back to, but let's say they get within spitting distance, within 5% to 10% of their 2019 numbers. Does that truly change the earnings power of Edible oils? Is this considered a near term blip or is this an extended period that we should think of it as a smaller business?

Greg Heckman: No, we don't think it hurts the earnings power. We've definitely seen a pickup in the CPG and the retail side. While it hasn't completely offset the food service, if food service doesn't come all the way back, of course, we'll be watching that mix of the two different channels. So we don't think it's when it comes back. It's just -- it's not an if it comes back It's when it comes back in.

Ken Zaslow: And have you picked up any of the extra -- what ever is lost in the Edible oils, have you picked up any of it on the wheat side? I know it's not a net neutral but is there a mitigating factor or is that not really something that we should think about?

Greg Heckman: I think part of being able to -- with all the disruptions, holding our milling business for the year is that our corn and wheat milling have seen that pickup and they've seen it in the frozen pizza, and in the snack foods, and in the consumer product segments. So that's what been the stability there.

Ken Zaslow: When I think about the industry as a whole, I would argue that the capital spending probably will not be as aggressive as it would have been given the liquidity issues and stuff like that. How does that play out in your returns and do you think that this will accelerate or stop the potential for consolidation in the industry?

Greg Heckman: I think as we all know, the industry have been under some margin pressure prior to COVID or even prior to ASF and some even uncertainty around the trade war. We had seen capital spending really pull back across a number of industries. That's supply that's not going to be there when demand comes back. So we think that's probably constructive for margins.

We know we've been very disciplined and will continue to be very disciplined around our capital spending. As far as consolidation, I can't really speak for the industry. We'll continue to participate, especially in regional consolidation, as we have, and being very thoughtful about how we build on our strengths and add to our network.

Ken Zaslow: Where would it be most constructive on your margin structure with limited capital relative to where you would have thought it would have been two or three years ago? Where did you think there was going to be a lot of building and there was not so that would be a part of -- more be constructive for you?

Greg Heckman: Well, I wasn't looking at this portfolio two or three years ago but I'll still answer the question. There's no doubt, we're really pleased with the Loders Croklaan acquisition and bringing that together with the Bunge -- the legacy products and services that we have, and going to market as Bunge Loders Croklaan. We see a lot of opportunity there. It's a higher margin. It's more stable. It's faster growing. So we'll look at organic growth as well as some opportunities to bolt-on additional product capabilities or to add geographies.

We, of course, we're the largest global oil seed crusher and we'll continue to protect that franchise in our strongest areas and continue to look where the growth will be strongest. And that again is where we'll drive our capital. We'll be very capital not to expand where the customers don't need us.

Ken Zaslow: I always hate asking a question about non-essential business but I think it's somewhat -- I probably have to tackle this a little bit. Your sugar JV is probably perceived to represent at least two-thirds or more of the reduction of your outlook. What is the actual economic impact on Bunge's cash flow and how does this affect Bunge's financial and strategic outlook?

Greg Heckman: You're correct. It's the majority of the change in outlook was attributable to sugar. It does not affect our cash flow. It does affect the carrying value of our equity investment in that joint venture but strategically, the next step for sugar, as we said at the time, is when the industry is right will be when we divest the other half and then turn that capital back against our core businesses.

So the team is doing a great job. We've got a great partner. I think they're very well positioned but our strategy is around the balance of our core businesses. We'll be supportive of that until the time we exit.

Ken Zaslow: Let me just make sure. I know you wrote it down to, like, $300 million and then now, you're writing it down. If you wrote this asset down to zero, would that change your ability to actually generate cash from it when you actually sell it? Does that change that and would this -- if you did write it down to zero, would there have been any earnings reduction anyway?

Greg Heckman: No. It would be non-cash. So once -- the only different would be once you write it down to zero, then we wouldn't have to talk to you about the change in equity value anymore.

Ken Zaslow: It would cut out five minutes of this fireside chat. When I think about your risk management, and I know it's hard to kind of frame it, but it is such, I think, a very important change that you've put in. Can you talk about what you think you may have lost over the years? What you're gaining now? And again, what the process for it is going forward?

Greg Heckman: I can't say enough about our commercial teams and our risk control teams and how they're working together, led by Brian Zachman and Robert Wagner. But it's really the culture that we're all walking the talk from the top down throughout the organization. It's about managing the margins that exist in these billions of dollars of assets. And it's about working with our customers on both ends of the supply chain to help them manage their risk and manage their margins.

We are developing more tools. The team has more transparency, more tools to make decisions, and to manage. We're ensuring that the risk we do take, that our limits are all appropriate as we're managing those margins, that we're appropriate for the environment that we're operating in, and for the earnings power of the individual business.

So it is a cultural change but the key is we're going to avoid the majority, not all, because you never do in these businesses, but we're going to avoid the majority of the downside volatility. And what you'll see is we'll still be in position when the margins are good and the opportunities are there is to take advantage of that upside volatility, which improves returns and also then increases earnings that we're able to then invest back in the business.

Ken Zaslow: Can you talk about -- I think you've kind of indicated that you're hedged through the end of the year largely on your crushing. Is that the case? Am I mistaken? And is there any opportunity that you can go further than that? How long can you extend your margins? I'm assuming right now you wouldn't be doing anything, but I'm assuming you did something at earlier times in the year. How do I think about that?

Greg Heckman: The team continues to monitor the market and lock our margins in when we can. We have quite a good percentage hedged into the second half. Of course, less so into the fourth quarter where there's less visibility and liquidity. But we'll continue, as we have those opportunities, to manage the margins in not only our crushing but our milling businesses and our distribution businesses as well.

Ken Zaslow: So once you get done with some of the asset sales and once you make the operational improvements, and not to say it's not an ongoing process, and I get that. But what is your next set of milestones that you're going to seek to do? What comes next? And I'm not saying that you're done with everything but you're definitely well on the way and I think most people would judge that you've accomplished a lot of that. So what comes after?

Greg Heckman: We'll be giving a little bigger picture into that at our investor day at the end of June. But let me touch on a couple. The one thing that comes after is the continuous improvement. The portfolio rationalization was a project. The portfolio excellence is a continuous improvement project where we're constantly challenging ourselves on the lowest performing part of our business and improving them or deciding if they need to exit.

Finishing the rewiring that supports our operating model gives us more tools to operate and to analyze the business with but it also gives us the ability to begin to take out costs. And the costs that also come out from the new operating model, also as we finish the portfolio work. And then we're able to either take those savings to the bottom line or turn around and reinvest in the capabilities in people or assets to drive our growth.

And then as we've refreshed our strategy, we know where our priorities are, what parts of the business we want to grow organically, and where we see the targets for bolt-on M&A. But we've got to get the rest of the deals done, continue with the performance, get our balance sheet, continue to have a strong balance sheet, and then earn back the right to grow.

Ken Zaslow: Okay. And there was a point probably before COVID-19, and I might have been mistaken but I may have not been, that there may have been intent over time to think about share repurchases given your liquidity and cash flow. Has that changed at all? Is that -- your stock hasn't performed perfectly well. So how do you think about that part of it given liquidity and where your stock value is?

Greg Heckman: We've got very strong liquidity right now. We'll always manage that, of course, protect our credit rating. We're always looking at and making the decisions for capital allocation, and of course, stock buybacks are one of those. In this environment, we sure think there are going to be some additional opportunities and so we've wanted to keep some powder dry. But it's always one of the levers we can pull and we continue to debate it.

Ken Zaslow: And even with the extra $220 million, $230 million, $240 million, that doesn't give you enough leeway to potentially kind of think about it?

Greg Heckman: We definitely have the ability to think about it and are currently having that debate. It is a lever available to us.

Ken Zaslow: President Trump has said certain comments about the U.S.-China trade agreement. You guys don't tend to be as impacted by U.S.-China trade deal as others. How do you think of it as the implications for you? Would this at all change your course? Would you be able to work around it? How do you think about that?

Greg Heckman: I think with our risk management culture of ensuring that the risks we're taking are appropriate for the environment, this is definitely a big flag in the environment. So we'll continue to stay in position, to monitor it, and take advantage as it changes. There's no doubt, if it is stronger in the U.S., we don't have as much interior origination so that margins and that move isn't. But we do have our export at the Center of Gulf and into the PNW. So we'll participate in that export and then of course, whatever effect it has on our crushing margins there in the U.S. We'd always rather crush a bean or mill the corn or wheat than export it. But we'll be making those tradeoffs and managing our portfolio for the best outcome on earnings, managing our margins.

Ken Zaslow: When I put this all together, you kind of said, hey, look, our risk management is there. We're getting better through this COVID-19. We don't think that the structure of the protein cycle will change. We'll get a lot of it back on the Edible oils. So if I put it all together, how do you envision Bunge's earning power relative to where you would have thought pre-COVID? And is there still a viable path to 5 plus of EPS?

Greg Heckman: I won't give you a number because we've got an upcoming investor day. But I will tell you, post-COVID, we have a stronger earning machine than -- post-COVID than we did pre-COVID. This has made us better. The team has stayed on track with the things we're doing for the transformation and our turn around to think that we could run a business this size from remotely with the amount of change that we have made. And since the one year ago when I sat here with you to chart the course and to continue to deliver the results the way we have. We will be better for this and we'll have a better earnings power post-COVID. The demand, we can't control but as it's there, we'll be in a position to take advantage of it.

Ken Zaslow: At the same time, although you won't give an EPS number, but what would it be fair to say you're trying to invest the capital. Even if that changes subtly, is it fair to say that return on invested capital outlook is still intact and there's no reason to think that would change?

Greg Heckman: That's correct. Our return on invested capital in March sits 2 points above WACC. Continues. Every decision we're making around portfolio, business model, expenses, how we run the business, they're all focused on improving the returns.

Ken Zaslow: One other last thing is -- so in another two years from now, or three years from now, what would measure your success by? What are the milestones that you need to accomplish to say that you've done a successful job outside of you potentially selling the company or doing something like that? What would you say you would need to accomplish -- to say that hey, I did a good job?

Greg Heckman: Well, it's about Bunge's reaching its full potential and that's going to be in our financial results and when I talk to the team, I tell them, look, this is about us continuing to do the things that we know are right, to serve customers at both ends of the supply chain, our farmers and our consumers. About making sure we're running the right assets. Ensure that we're taking the right amount of risk to maximize the margin in this asset base, that we're disciplined around the capital that we allocate, and the investment that we make.

That we take the knowledge of the great things that Bunge has and the strong platform that we have globally, that's really unmatched, and really unleash the full potential. So that the customers want to do business with us, the investors, whether they're debt or equity, want to be invested with us. The employees want to be here and be part of Bunge. And that's the journey we're on. We've got great momentum and I'm really looking forward to continuing to roll it out.

Ken Zaslow: Great. I'm going to leave it there. I could not be more appreciative of you spending time with us today and coming to the conference. Thank you so, so much.

Greg Heckman: Ken, thanks for doing this. Appreciate it.

Ken Zaslow: Take care. Be safe.

Greg Heckman: Thank you very much.