Bunge

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Adam Samuelson: Thank you, and good morning, everyone, and thank you for continuing to join us here at our Goldman Sachs Industrials and Materials Conference webcast. My name is Adam Samuelson. I'm the agribusiness equity research analyst here at Goldman. Today, we're very happy to host Bunge. And from Bunge, we have their Chief Financial Officer, John Neppl, who's graciously agreed to do a fireside chat with me today.

This session will be interactive. We're happy to solicit questions from the audience online. There should be a question-and-answer box in your webcast window that I will get to as we go through the session today. But maybe just to kick things off, John, you reported earnings last week. It's obviously a very -- it's been a dynamic market environment through the first few months of the year. Maybe if we could just take a view around the different businesses and what you're seeing in the market, and how that's maybe changed from how you first saw things back in February, and we can jump off from there.

John Neppl: Sure. Thanks, Adam. And thanks to everyone for listening in. I appreciate being here today. We did report last week, as Adam mentioned, and a little bit of noise in our numbers from the outside perspective. And I think to really boil it down, if you look at the underlying performance of the business, we did have a lot of mark-to-market timing. But ultimately, we performed very solidly underneath all that. And ultimately when you look at adjusting for timing differences, we've booked about a $0.91 a share number for the quarter. So we felt very good about that and I would say as we look at the business and kind of how we view it now versus the beginning to the year, largely unchanged on the agribusiness side, which of course is the largest part of our business.

I think we felt pretty good at the beginning of the year coming in, and I think we still feel pretty good about where the business is. And so no material change, as we mentioned, on our call, in the outlook of that business at this point. Where we've seen a little bit of softening in the business is on the edible oil side, just really driven by lack of demand or decline in demand, both in the US and in Europe, primarily around oil, whether it's going into QSR food service, which is a big part of our business, or into the biodiesel space. Both of those markets have declined here this year as a result of COVID.

And so I think we look at Q2, we have a little bit better view on Q2 now, and I think we're going to be about 40% off from where we expected to be in edible oils. But again, really looking at the back half of the year, difficult right now to predict how quickly that will rebound. We're seeing strong improvement in QSR, which is a big part of our business on the food service side. Retail has hung in their pretty well, but it's a fairly small piece. And then on the biodiesel side, it's going to really be driven by demand for biodiesel, a lot around just the economy itself and miles driven. So that one's a little bit tougher to predict on how long it's going to take for that to recover. But in the US, maybe a little bit less impact on biodiesel because of a lot of the miles driven are over-the-road trucking transportation versus in Europe, where we also have biodiesel demand or oil demand for biodiesel use, which is more passenger-car driven. So those are the dynamics we're watching on that side, probably a little too early to predict how the second half is going to look at this point.

The third piece really is sugar, and a little bit of confusion around sugar. We described sugar, we felt really good coming into this year about where the year was going to be. We had good ethanol margins and demand in South America, which is where of course that business is, and had our sugar side of it largely locked in for the year. But with the impact of COVID, miles driven and demand for ethanol in Brazil dropped significantly, and so that's resulted in a pretty tough margin environment in Brazil for ethanol, which is really ultimately the driver for the underlying performance of that business, along with the impact of the weakening of the real.

Adam Samuelson: Okay, great. Well, there's a lot in there to unpack. Maybe we'll just to start with the edible oils piece, and just want to make sure -- I mean there's a number of different businesses in here between the legacy Bunge edible oils business across the different regions, as well as the loders business itself. Maybe just, whether it's geography by channel, just I think people are trying to assess -- and thank you for the kind of 40% off kind of framing in the second quarter. That is very helpful. But just people are trying to assess kind of the exposure to the channels categories that are most pressured today, just as we try to think about that demand curve. Maybe we'll start there.

John Neppl: Yeah. So the food service side of things for us, there's the fine dining piece, and then there's a QSR piece. And I don't have the exact percentages in front of me. But the QSR piece is a larger, certainly much larger piece of that for us. And even when you differentiate between the US, say the North American QSR market versus Europe, there's a slightly different dynamic in that in North America, the QSR has held in there pretty well in a lot of cases. In some cases we've seen it hold fairly steady throughout, or certainly come close to recovering. And some of that's been driven by something as simple as the drive-thru window, which is not nearly as prevalent in Europe.

And so demand here on the QSR side has recovered reasonably well. We're seeing some recent news that a lot of our customers are getting back to near normal. So we're going to keep an eye on that and see if that's sustainable. The fine-dining side of food service and more the traditional food service distributors, both in the US and Europe, have probably been impacted more. That's a little bit less of our business. And then the food manufacturing side, it's principally ultimately those who produce for retail has been holding pretty steady to growing obviously. But that's a smaller piece of our business. So

we haven't gotten quite the offset, just by relative fact that that's a smaller piece of the business.

Timing is difficult to say again. I think that we're watching all of this closely. And then biodiesel of course is always the marginal demand for oil. And that market has been on a pretty steady growth pace over the last several years and has picked up any excess oil in the market, and has actually created a good margin environment for oil over the last few years, or certainly improving environment. But with all of it being off at the same time, it's softened the market a bit.

Adam Samuelson: That's very helpful. And then maybe turning to the bigger business within your agribusiness segment, and just trying to think about the moving pieces. Maybe we'll start on the crushing side of things. And you had articulated last week that you have a meaningful amount of the year hedged, certainly through the third quarter. And I think what people are trying to kind of balance is kind of your confidence in the earnings outlook for yourself relative to a forward crush outlook that has weakened pretty considerably over the last 45 days, and trying to think about what happens when the hedges roll off. And just what's been going on in the oil seed, the meal, and the oil markets there?

John Neppl: Yeah. So you know, certainly things have come off. I mean we saw, as you all know, a dramatic increase right at the end of Q1 in the market, in the crush margins. And they came off pretty hard in April. And where we are today, in some cases the forward markets are inverted a bit. So we did have good coverage on coming into second quarter, and we had been layering on as we went. We feel pretty good about where we are for Q2-Q3 in terms of coverage, Q4 obviously a little less so, just given in some cases the forward curve isn't that favorable. Plus there's not as much liquidity out in Q4.

I think we feel that some of the recent impact of the market move obviously will be muted for us, just given the fact that we had a fair amount of coverage on already for Q2 and 3. So it won't have as big of impact on us as it would if we were otherwise in the spot market certainly. But there's still some open capacity that we'll have to put on, especially for Q3. But we'll watch closely what the margin environment looks like and try to pick our spots, as well as the Q4 open position that we have. A lot can happen between now and when we get there. And so we'll obviously be watching for opportunities to layer in coverage when we think that the market is in a good spot. But you know, we feel pretty fortunate that really even coming into 2020, we had good coverage on early in the year, and have tried to keep that going as much as we can, until just this recent drop-off, and then we've probably taken a step back and are just watching the market a little more closely right now.

Adam Samuelson: And maybe to that point, John, just what you see, the volatility in the animal protein sector, especially here in the US with some of the issues in the slaughter facilities. I mean how do you see that impacting demand for meal? Is it transitory or is there something kind of more durable to watch as we get into the later parts of the year?

John Neppl: Well, this is going to be -- it's not going to be a long-term issue. It's going to be a near-term dynamic. And we're obviously watching animal counts. We're watching egg sets on the poultry side. We're watching pork population, as well as we're watching -- you know,

what's happening in the ethanol industry as it pertains to DDGs, and whether soybean meal can become a replacement feedstock for cattle feeders as well. Maybe not quite to the same level of impact that we'd have in pork and poultry, but it certainly is another opportunity for us.

It's really right now about the bottleneck seems to be with the processor. And there's plenty of animals out there today, certainly on the pork side and poultry side. But as you mentioned, we've had some disruption on the processing. And so to the extent that that can get cleared and these plants can get opened back up consistently, you know, the poultry side of things can turn around fairly quickly. And for that, we're watching. We know that that can react fairly quickly.

On the pork side, it's a little bit longer tail. But we also know that when it comes to pork and beef as well, the producers are going to be looking an opportunity to potentially just try to maintain their herds and maintain some sort of a feed regimen where maybe they aren't forced to market as quickly to the processors, and maybe slow down the pipeline a little bit. But then can quickly react once things open back up. And so that's an opportunity I think for us to stay on top of that.

We also, aside from just watching animal numbers in the US, the other thing we're watching is Argentina crush. Because that certainly is creating the disruption there and the lack of margin in Argentina is supportive of margins elsewhere, both US, but also Brazil and especially Europe. But all of it we think is short-term in nature, and will ultimately work its way through.

Adam Samuelson: Okay. That's helpful. So maybe on the grain side, and maybe this probably ties into the unknowns for the balance of the year. How should we think about kind of the big swing factors impacting the grain outlook for the rest of 2020? I presume kind of the pace of US exports of soy, corn, wheat is a big factor there. But what are the big kind of swings to the outlook as we sit here today?

John Neppl: Well certainly on the US side, the big question is going to be exports. I think absent a weather event, there's going to be plentiful beans and corn produced. You're talking about a lot of acres of those. And with current yield projections, there's going to be a lot of stocks, a lot available, and it's really going to be a tail of what happens with phase 1 trade in exports. Certainly with plentiful abundant soybean crop is favorable for our business. And so we're watching that. I think the biggest needle mover will be what happens on export side, absent some sort of unforeseen weather event that we don't really see coming at this point.

In South America, in Brazil in particular, we had a -- Q1 was extremely favorable from an origination standpoint. Farmers with the real weakening substantially over the course of the first quarter, farmers came in record -- sold in record amounts. We were actually well ahead of our five-year average in buying crops, and probably a record sale ahead by the farmers down there, both of current crop, but also new crop. So we had a real opportunity to buy what we thought was very good pricing on the Brazil side, especially soybeans.

Argentina, you know, the farmers are basically locked up. And again, that's spilling over

into the crush market, which frankly right now, despite the fact that we have crush assets there, is favorable to the broader footprint of our business. So we're just watching it, but we're fine with the disruption there at this point.

Adam Samuelson: That's very helpful. So maybe the last near-term one and then I want to pivot to some more kind of longer-term strategic questions is on the sugar side. And really trying to just think about framing the magnitude of the earnings pressure that you're facing in that relative to where you came in the year. Obviously it's joint venture, and it sounds like there's some accounting kind of noise that's part of it. But the underlying pressures seem to be there. Just help us think about kind of framing what that risk is.

John Neppl: Yeah. It's really the risk is two things to the P&L as it's reported. One is ethanol margins, and the other is the real-dollar exchange rate. If you look at the business, there's three really revenue sources; Sugar obviously, code generation of electricity is a small piece of that business. Then the third one of course is ethanol. The first two, sugar and co-gen we're fairly locked in for the year. And so when we were entering the year, ethanol margins were good. We felt really good about where that business was going to perform this year, and we're quite optimistic, in fact, that we were going to have a pretty decent year there.

We had a modest number in for the year in terms of our view of forecast. And probably most importantly, didn't anticipate any sort of cash coming out of that joint venture. Really wasn't the reason we set it up, it was more about creating a partnership with someone and getting the business into the hands of someone long term. I think this is a first step for us to ultimately change ownership in that business over the long run. But what we're watching really now currently is really ethanol in terms of the underlying operations. But overarching that is the exchange rate on the real versus US dollar. The joint ventures, we mentioned on our other call, has US dollar-denominated debt. And so part of the loss in Q1 that flowed through to our books and resulted in a write-down of our investment was the impact of the exchange range on the US dollar debt.

And again, I think we tried to clarify it, but that was effectively a write-down of the asset. We don't have an obligation to put more equity into that joint venture, and at this point no specific plans to do that. So this write-down in Q1 was largely -- well, it was noncash in nature. It was under equity accounting.

Adam Samuelson: Okay. That's very helpful. So maybe that's a good time to pivot and we've already gotten a couple of question from the audience and again we'd encourage everybody to type those into the Q&A window that they see in the webcast screen; but on the strategic kind of transformation that's been underway here. Maybe we'll just start by trying to just think about how far along are we in this transformation. And you and Greg and a whole bunch of other senior leaders came into the company in the early parts of 2019. And really I think from the outside it's been more challenging to assess kind of what has changed internally, and then obviously you've made some specific actions on the portfolio. But how far along are we in this process?

John Neppl: Yeah. We have progressed very well on this I'd say over the last year. So we're largely -- I think we're largely done with our portfolio activity, at least as we've identified it at this point. We just recently, as you all know, announced the sale of 35 grain elevators and that

was one of the last kind of bigger projects we're working on. We have one more in that neighborhood of magnitude that we're hoping to be able to get signed and announced here by the end of Q2. That's progressing along. And then there's some smaller deals here and there that we're doing, more portfolio clean-up sorts of things on small businesses that are viewed as noncore assets that we view as nonessential. And that's always going to happen as we go forward.

The other part of this whole transformation that's been critical for us is really developing -- kind of changing the model itself in terms of moving from a very regionalized group of collection of kind of independent operating businesses around the globe to a globally managed company, really driven around the value chain concept, which is thinking about the origin and the destination flow of our business, and how we should be managing all along that chain, rather than having each geography be their own little world, and creating extra complexity and cost in the organization. And that we are well along the path.

I think we're operating for the most part -- have been able to transform our commercial side of the business to that model already. What's catching up now are the systems and the reporting and the accounting side of it, which we are expecting to be done by the end of the year so that we can issue in Q1 under our new structure. And as part of that as well, we're looking at standardization across the company. In a lot of areas, it's going to create extra efficiency, whereas maybe things weren't as standardized before. Not only information flow, but how we do things, how we measure the business; what metrics we look at internally, and how that benefits us from an efficiency standpoint.

And then overarching all of that is we've got to continually look at the cost side of the business. We finished the GCP program we had at the end of last year, where the company had endeavored to take out $250 million dollars of SG&A out of the company. That started in mid-2017. We largely completed that effort at the end of the year. But ongoing, it's an ongoing process. And Greg and I have always had the philosophy that you don't need a big named project to what's right with the business. You just have to make those decision every day. And so ongoing portfolio modification and cleanup and optimization and ongoing looking at our cost structure; those are things we have to do every day, and we'll continue to do so.

But we feel, given it's only been about a year since we really go everybody together and started on this journey, I think we feel pretty good about where we are today.

Adam Samuelson: Okay. So maybe this actually ties into two question that we've gotten kind of from the audience and something you just referenced on the SG&A and corporate expense side. And both questioners are trying to assess kind of what's the SG&A and/or the corporate expense, just a newer disclosure, what's that run rate exiting this year? And is there any tailwind that we should be thinking about as we think about the 2021 model?

John Neppl: Well, I think we've -- I think Q1 was probably a good indication of where we think we'll be for the year in terms of on a calendarized basis, if you think about -- I think we were around $58 million of corporate expenses or something like that, roughly $60 million in Q1. That's probably a good proxy for the year in terms of a run rate. But I think as we go through the year, we had a stated goal of taking at least another $25 million of cost out.

That may not come just necessarily from corporate, but SG&A across the entire platform. We want to take maybe $25 million to $50 million out. We kind of set $25 million as a base target. But we'd certainly like to get $25 million to $50 million out of the corporate costs.

And as well on the other side too that isn't necessarily visible, is on the operation side of our plants as well, is putting time and effort into looking at where we can become more efficient there. There's been work underway for a while on that. But that's always an area too that we're looking at for opportunity.

Adam Samuelson: Okay. That's helpful. And so maybe then to kind of roll it up, the company talks to return on invested capital goal of at least 9%, 200 basis points above your weighted average cost of capital. Just I'm trying to think about the components on both the numerator and denominator of that equation. And on the denominator, how much is left to do in terms of invested capital reduction, in terms of portfolio actions? And then on the numerator, how much of that improvement is simply a function of better cyclical conditions versus internal actions that you have control over?

John Neppl: Yeah, well if you just look at the gap roughly, I mean if you say that we've got a gap of 200 basis points today, and that's not just of our WAC. But if you look at where we finished last year and if you adjust for a couple of things, we reported 7.9% last year. But if you take out the benefits of Beyond and a couple other things, let's just say for argument sake we were near 7% at the end of last year. You know that 200 basis point gap is roughly equal to $280 million of EBIT for us. That's not going to come just through earnings. It could in any given year, if the market is right. But we're not waiting on the market to be the solve for closing that gap. It really is going to come down to a number of things.

One is continuing to look at our portfolio, and like as you mentioned, we're largely done with the portfolio actions. But ongoing, as we realign the company around value chain, we're also going to be looking very granularly inside each one of these value chains for any pieces of them that are not hitting our requirements. And so it's really going to be focused around improving the underlying performance of any assets or any businesses that are not meeting our minimum requirements. Cost savings is always going to be a piece of it. We have to continue to get more efficient as a company.

We have to improve our effective tax rate. I think a lot of it has been earnings mix issues over the last several years with loss entities. Particularly sugar has been a big impact there, but continually looking at that as well. I mean it's going to be a lot of different things that are going to get us there over time. It's not going to be a 1-year event, because we want to get there sustainably. And so I look at it as a multiyear effort to get us to the target of 9. And that is going to come through, just continuing to challenge all those areas going forward.

Adam Samuelson: Okay. And that actually brings up the question that -- another question from the audience, just you previously kind of have been planning on doing an in-person Investor Day in June, just to lay some of these out in more detail. Just what is the plan today? I think it was originally doing something virtual on the earnings call. But what should investors actually be expecting when we go into that?

John Neppl: Yeah. You're right, Adam. We're going to have a virtual kind of I'll call it mini investor day at the end of June, late June. We are at that point in time, we're not going to be able to cover everything we had hoped to cover in Investor Day by bringing our whole commercial team out and give people a chance to hear from them, and hear a little bit more details about the business. We are going to focus on a number of things. One is really kind of finalizing the view around our portfolio changes and how that's impacted the company, and what our go-forward footprint looks like.

We're going to talk about earnings power. And what we believe this platform, as it exists now with this completion of all these portfolio changes, what do we believe this machine can earn going forward in a given environment? And we'll demonstrate that and talk about that.

We're going to talk about financial metrics. I'm not a huge fan of ROIC. It's one measure, but I think there's a couple other measures that I think that are better and more relevant for our business and the model that we have. So we're going to introduce a couple of different concepts. They may not necessarily be new to people, but a different way to think about how we believe is a better way to look at the business.

We're also going to talk a bit about strategy going forward, how we're thinking about that, as well as just the underlying, any other things we have in terms of efforts around the completion of our rewiring of the business and capital allocation. We get a lot of questions about that, and we want to be really clear about our view on capital allocation going forward.

Adam Samuelson: Okay. Well, you're not alone in getting questions on capital allocation. Because I've gotten a couple from the audience, and maybe that's a good segue. So one is just thinking about a more base level, is the expectation for continued dividend growth. And is that something that investors should reasonably expect? And the second is a little bit more offensive in thinking about kind of what would it take, given kind of where your stock trades, to see buybacks become a more meaningful part of your capital deployment?

John Neppl: Sure. Yep, and as you can imagine, we've gotten a lot of questions over the last several months about stock buybacks. Let me just give you a very brief view of the allocation, and then we'll talk about return to shareholders, whether it's dividends or buybacks. You know ultimately our first priority is to take care of our assets. And so it's maintenance and it's health and safety. That's our first priority and the capital we need to allocate to that. Secondly then becomes where are we from a credit rating standpoint. We want to try to maintain a good solid BBB equivalent rating. And so that puts us in the sweet spot of a 2x to 2.5x time leverage ratio. And that's really we want to make sure that we are either in that realm or trending that way solidly. Because we think that's an important part of our balance sheet and management going forward.

But then once you get beyond those two things, It really becomes sort of alternatives. What's the best next use of that capital? This fall, we've got $500 million of debt coming due and we're talking about everything from refinancing that to just using cash to pay it off, and everything in between. So we haven't come to a conclusion on that yet. But that's part of what's in our mix. As well, we're watching what's going to happen in the market

over the next 6 to 9 to 12 months in terms of the COVID impact. We have a view. But undoubtedly, things are going to happen differently than maybe how we feel today. But we understand that shareholder returns are important. We certainly at this point don't have any reason to believe we're going to change our dividend down or up. I think it's very safe on the downside, at least that's our view today.

In terms of upside, we'll look at whether it makes sense to, if we have the ability, to increase our dividend or buy back stock. Those are always in the mix, as well as looking at growth projects and growth opportunities, and which of those are the best return. But I think our view on the stock side is we think we obviously view the company that there's value there. Management has made some pretty significant purchases here over the last 4 to 6 months, which we hope speaks volumes for our view of the company. And we're just trying to be very prudent on the capital allocation side. But rest assured, the things that are mentioned here around dividend and buybacks are a very frequent and continuous discussion point with management and the board.

Adam Samuelson: Okay. And maybe that's a good -- we'll I think close with one final one and tying all that back together a little bit, and thinking about kind of where the stock is today. What do you think the market is not properly appreciating in your stock, trading near book value, relative to your own view of the forward earnings power of the company? Just where do you think the disconnect really lies? And what can you do to change it?

John Neppl: I think if we knew exactly what that was, we'd certainly be all over it. We are a bit mystified, frankly, at the stock price. We believe we have a great company and we have a great management team. And we have the tools to perform as well or better than anybody in the industry. We're very bullish on the future. And I think that if we look at it and say, what is it that isn't getting across? We certainly -- mark-to-market and the understanding of that and how that affects our business, and getting people to understand that is not a spec trading. That's hedging and protecting the business. And there is a massive difference between the two of those. Getting people to understand the underlying cash flow of this business, and that's really the best indicator of the long-term performance of this company has been cash flow in the past, and should be into the future. We probably haven't done a good job as a company of laying that out. And we need to do that.

And I think ultimately it's making sure people understand the benefits of our geographic diversity. I think when you get uncertainty in the market like this, and sometimes people are less familiar with what's happening globally than they are locally. We see the strong presence in Brazil and in Europe and in China in our crush business in particular, a strength of our company. And the fact that we're very evenly balanced across all those major geographies, North and South America, Europe and Asia; we think is a distinct advantage. And I think in the long run that will play out.

Adam Samuelson: All right. Well, great. Well I think with that, we're just about at the end of our allotted time. So I think that's a great place to stop. John, I want to thank you and the Bunge team for participating today. I want to thank everyone on the webcast for dialing in. And everyone have a great rest of the day and a great weekend. Thank you.

John Neppl: Thank you, Adam.