Bunge Limited

Wednesday, May 6, 2020, 8:00 AM Eastern

CORPORATE PARTICIPANTS

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Greg Heckman - *Chief Executive Officer*

John Neppl - *Chief Financial Officer*

PRESENTATION

Operator
Good morning and welcome to the Bunge First Quarter 2020 Earnings Release and Conference Call. All participants will be in a listen-only mode. Should you need assistance, please signal a conference specialist by pressing the star key followed by zero. After today's presentation, there will be an opportunity to ask questions. Please also note today's event is being recorded.

At this time, I would like to turn the conference call over to Ruth Ann Wisener. Ma'am, please go ahead.

Ruth Ann Wisener
Thank you, operator, and thank you for joining us this morning for our first quarter earnings call. 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 Investor 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 two 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 risks 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 Greg Heckman, Bunge's Chief Executive Officer, and John Neppl, Chief Financial Officer. I'll now turn the call over to Greg.

Greg Heckman
Thank you, Ruth Ann, and good morning everyone. We know this is a difficult time for all. We appreciate you joining and we hope all is well with your families and loved ones.

Turning to slide three, you can see the agenda for today's call, starting with a few comments on how Bunge is addressing COVID-19 followed by an overview of the first quarter. I'll also provide some thoughts on the potential impact of COVID-19 on our business for the rest of the year and then hand it over to John, who will go into more details on our performance. I'll share closing remarks and then we'll open the line for your questions.

Before diving into the quarter, I want to take this opportunity to thank our Bunge team for their hard work and for taking on this challenge with camaraderie, poise, and commitment. Our thoughts are with those that have suffered as a result of COVID-19 and with all the heroes on the front lines of this pandemic.

I am tremendously proud of our team and their continued level of execution during this time. As a critical participant in global food supply chains, Bunge is without question an essential business, and we're doing our part to ensure that these critical products are getting from farmers to consumers. This is not an easy or straightforward task. Our colleagues around the world are going to work every day and, to put it plainly, showing great grit in getting the job done.

Protecting our team, their families, and communities as they perform this work is our top priority. Our global task force is working hard to ensure we have the necessary precautionary measures in place to keep them safe while continuing to serve our customers.

On slide four, you can see a summary of those measures, which vary by region and facility, but essentially included an expansion of our health and safety procedures, along with new protocols to support social distancing. We also created dedicated task forces to monitor developments and coordinate efforts to support our essential role in the infrastructure of food. We have not experienced any major disruptions to our plants or supply chains, and operations have functioned well.

We're also working to provide support to the communities in which we operate, and last month we announced a $2.5 million commitment to support health and hunger causes directly related to the pandemic in these areas.

All that said, we have remained sharply focused on running the business, and now let's turn to slide five for an overview of the first quarter and the outlook. Our underlying business performed well, and we're seeing the impact of the strength of our new operating model, which is allowing us to quickly adapt to changing market conditions and customer needs.

In agribusiness, we were able to capitalize on several key opportunities, with notably strong performances in soft seed crush, China soy processing, and grain origination in Brazil as farmer selling increased with the devaluation of the Brazilian real. Edible oils produced a strong quarter, benefiting from good demand in an environment of relatively tight vegetable oil supply. The negative direct impacts of COVID-19 were limited in the quarter, as lockdowns and restrictions varied by region.

COVID-19's impact on the global economy makes visibility difficult, but we expect 2020 EPS to be lower than we forecasted earlier in the year. Agribusiness is positioned to perform well given the strong start to the year and the soy crush capacity we have hedged into the third and fourth quarters. However, results in edible oils will be lower due to COVID-19 related demand interruptions in food service and biofuels. Also, lower ethanol prices and foreign exchange volatility will materially reduce results in our sugar and bioenergy JV.

Turning to slide six, despite COVID-19 and its impact on economies around the world, we're continuing to make progress on optimizing our portfolio. As you may have seen, a couple weeks ago, we reached an agreement to sell 35 U.S. interior elevators to Zen-Noh Grain Corporation for approximately $300 million in proceeds. This strategic effort supports Bunge's global value chain model and retains our strong presence elsewhere in the U.S. grain marketplace.

We'll continue to actively participate in global grain trading and distribution anchored to our center Gulf and PNW port terminals and continue to support Bunge's U.S. soy processing and milling businesses. Not only will this transaction allow us to reduce costs and operate more efficiently, we'll reinvest the proceeds into higher returning areas of the company and strengthen our balance sheet. I'm extremely proud of the team for executing this deal in this environment and market; really well done.

And with that, I'll hand the call over to John now to walk though the financial results in detail.

John Neppl

Thanks, Greg, and good morning, everyone. You may have seen our announcement a few weeks ago that we have changed our segment reporting to separately disclose corporate and other activities from our reportable segments. This change more closely reflects how we manage the business and review financial information and builds upon our previously stated strategic priorities by providing enhanced visibility of segment performance, while also improving the comparability of our segment results in corporate and other activities with those of our industry peers.

Now let's turn to slide seven to the earnings highlights. Our reported first quarter earnings per share was a loss of $1.46 compared to income of $0.26 in the first quarter of 2019. Adjusted EPS was a loss of $1.34 in the first quarter versus income of $0.36 in the prior year. Our reported results included $0.12 of charges, of which $0.10 related to an adjustment to the 30% redeemable noncontrolling interest in our Loders Croklaan JV and $0.02 related to our corporate office move to St. Louis.

Total segment earnings before interest and taxes, or EBIT, was a loss of $170 million in the quarter versus EBIT of $151 million in the prior year. On an adjusted basis, total segment EBIT was a loss of $165 million in the quarter versus EBIT of $166 million in the prior year, primarily driven by results in agribusiness, where adjusted EBIT was a loss of $127 million compared to adjusted EBIT of $149 million last year.

In total, agribusiness results in the quarter were impacted by $385 million of mark-to-market losses on forward hedge contracts, of which a majority is expected to reverse over the course of the year.

In oilseeds, average soy processing margins were lower in all regions compared to a strong prior year with the exception of China, which benefited from tight soy meal supplies and reduced bean availability. Average soft seed processing margins were higher in all regions versus a year ago.

As COVID-19 began to spread globally, concerns about soybean meal availability caused global oilseed processing margins to spike toward the end of the quarter. As a result, we incurred approximately $100 million of mark-to-market losses related to forward oilseed crushing contracts.

In addition, as vegetable oil values declined during the quarter, we recorded a mark-to-market loss of $195 million on forward hedges held against deferred fixed-price sales to our downstream edible oil customers. As we execute on these contracts in the coming quarters, we expect these timing losses to reverse.

As Greg noted, results in our grain business were primarily driven by origination in Brazil, as the pace of farmer selling accelerated in response to an increase in local prices caused by the devaluation of the Brazilian real.

Ocean freight also had a strong quarter, benefiting from excellent execution. However, results were impacted by approximately $90 million mark-to-market losses, primarily related to forward bunker fuel hedges driven by the decline in global energy prices. These hedges are held against forward fixed-price sales commitments, which we expect to reverse in the coming quarters as we execute on these contracts.

In edible oils, improved results in North America, Europe, and Argentina were more than offset by lower results in Brazil and Asia. Excluding approximately $20 million of net unfavorable timing differences, $6 million of which will reverse in future periods, results were higher than prior year. Recall that in the fourth quarter of 2019 we benefited from $13 million of favorable timing differences, which reversed during Q1.

While the COVID impact was relatively limited to the segment in total as lockdowns and restrictions varied by region, we started to see reduced demand from both food service and biodiesel channels toward the latter part of the quarter. We expect to see a more pronounced negative impact in edible oils in the second quarter.

In milling, improved performance in Brazil, which benefited from higher volumes from food processors, was more than offset by lower results in North America due to a decrease in U.S. margins and lower corn yields. In sugar and bioenergy, segment results for this quarter reflect our share of earnings in our 50/50 joint venture with BP that we formed in December of 2019. By contrast, first quarter results in 2019 reflect our 100% ownership of the Brazilian sugar and bioenergy operations. Additionally, results of the joint venture are reported on a one month lag.

The $50 million loss in the quarter reflects the seasonally slow intercrop period, where the business is selling inventory from the previous season, as well as an approximately $25 million foreign-exchange translation loss on U.S. dollar-denominated debt in the joint venture due to depreciation in the Brazilian real during the quarter. With the continued devaluation of the Brazilian real during the second quarter, we expect the JV results to be further negatively impacted by foreign-exchange translation losses unless the Brazilian real were to recover a large portion of its recent decline.

In fertilizer, higher segment results reflect an improved performance in our Argentine operation, which benefited from higher margins more than offsetting lower volume.

For the quarter, we recognized an income tax benefit of $55 million. Based on our current outlook, we expect our full-year effective tax rate to be toward the upper end of our 19% to 23% guided range. Interest expense was up slightly during the quarter compared to last year due to interest charged on the settlement of an arbitration matter in Brazil, as well as foreign-currency borrowings in certain countries where interest rates were high.

However, the incrementally higher borrowing costs were fully offset in gross margin from currency hedges on underlying working capital being funded with those borrowings. We continue to expect full year net interest of approximately $230 million.

Let's turn to slide eight, cash flow highlights. Due to the approximate $410 million mark-to-market losses incurred during the first quarter, our trailing 12 month adjusted funds from operations was considerably down from where we ended 2019. Adjusting both 2019 and the trailing 12 months for these mark-to-market timing differences, results would be comparable as shown in the chart on the right.

As you can see on slide nine, at the end of the first quarter, approximately 90% of our debt was used to finance readily marketable inventories. Our net debt, excluding readily marketable inventories, was approximately $500 million.

Turning to slide 10, we have committed working capital facilities of approximately $4.3 billion, all of which was available at the end of the quarter, and we had a cash balance of $193 million.

Moving to slide 11 and our summary of capital allocation. As I discussed earlier, Q1 adjusted funds from operations is distorted due to the impact of the large mark-to-market loss on forward hedges that will reverse during the course of the year. CapEx spending was $55 million, of which $38 million was invested in maintenance and environmental health and safety standards. We paid $79 million in dividends to shareholders.

Please turn to slide 12 and our return on invested capital. Our trailing four quarter average adjusted return on invested capital was 6.5%, up approximately one percentage point from the prior year.

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

Greg Heckman
Thanks, John. I know I'm not the first one to say this, but it's a fact that we're operating in a time of unprecedented volatility, complexity, and uncertainty. As John and I mentioned, we expect to see a greater impact from COVID-19 in our business in the second quarter, primarily in our edible oils business. However, the work we've done to improve our operations, to streamline our portfolio, and hone our approach to risk management has allowed us to remain nimble and adapt to the evolving business and operational demands.

We've stayed very focused and we've accomplished a great deal despite the environment, from continuing to invest in technology and drive our strategic initiatives to evolving our innovation processes to the current reality of working remotely. I remain impressed by the team's steadfast commitment to the execution of our priorities, especially in the face of these challenging times.

Given the evolution of the COVID-19 situation, we have decided to postpone our full Investor Day to a later date, but we will hold a virtual investor event in June where John and I will provide an update on our progress and the impact of our key initiatives to our operating model. We'll be providing more details in the coming weeks.

And with that, we'll open the call to your questions.

QUESTION AND ANSWER

Operator
Ladies and gentlemen, at this time we'll begin the question and answer session. To ask a question, please press star and then one using your touchtone telephones. To withdraw your questions, you may press star and two. If you are using a speakerphone, we do ask that you please pick up the handset before pressing the numbers to ensure the best sound quality. Once again, that is star and then one to ask a question. We'll pause momentarily to assemble the roster.

And our first question today comes from Ken Zaslow from Bank of Montreal. Please go ahead with your question.

Ken Zaslow
Morning, everyone.

Greg Heckman
Morning, Ken.

John Neppl
Morning, Ken.

Ken Zaslow
So, just a couple questions. One is does COVID-19 affect Bunge's earnings power beyond 2020, and then what will you be doing with the proceeds, the $300 million in proceeds? And my last question would be, when I think about food service, it seems like it's starting to kind of come back a little bit. Is that in your expectations for the edible oils business, or did you kind of include the edible oils business at the time of the press release? And I'll leave it there.

Greg Heckman
Okay. I'll leave the proceeds to John, but let me work backwards. On the edible oils and the outlook, no, we're receiving information, as everyone is, daily and even some, I guess to use a term we all heard before, green shoots of demand coming back even this week. So, no, our original outlook, of course, when we put it together was the best information we had at the time, which is continuing to move quickly as the states open back up.

As far as COVID-19 on 2021, we're grappling with Q2 and what effects it's going to have in Q2. But I think the key, Ken, is that we're really pleased with the changes we made to the operating model and how the team is able to stay connected with the commercial and industrial folks and responding to the challenges our customers have got and we're able to adapt to this situation. So, we'll continue to improve the business and be in a position to handle whatever challenge is in front of us.

And then, John, the proceeds?

John Neppl
Yes. So, as Greg mentioned in his remarks, we had first proceeds of $300 million coming from the sale of the grain assets. That's not expected to be closed until late Q4, probably, or early Q1 of next year, just given regulatory timing. But at this point, we don't have any specific plans other than initially we'll reduce any revolver debt that we have outstanding, and then we will look at what our alternatives are.

We have a bond coming due in November and, depending on timing of this and how we feel about capital markets at the time and our liquidity, we may very well just pay that off at the time. We'll keep an eye on markets between now and then to determine if refinancing that debt makes sense. But other than that, we will put it basically back at the top of the house and look back at our capital allocation mix and see what the best alternatives are, but nothing specific right now.

Ken Zaslow
Okay. Just be clear, but as you assess – just going back to the first – as you assess COVID-19, do you think that there could either be positives or negatives that would affect it, or do you think that, once it settles down, you will emerge similar, better, or worse? Is there a way to just kind of think about that in terms of your earnings power, your return on invested capital? Will you have to reconfigure how you're thinking about your return on invested capital? And then I will really leave it there.

Greg Heckman
Yes. I'll let John opine as well. It's an interesting question, Ken. I believe any time you're challenged – I don't think six months ago we would've thought you could run an operation this big and this complex remotely. And I will say the team's done a phenomenal job, as we've continued to run the business with no major interruptions to our supply chain or serving customers. So, all of these challenges make you better.

We continue to focus on all our initiatives and continue doing the things that we wanted to do to improve the business for 2021. And I will say during this time of stress that, for the globe and for everyone, capital spending has slowed down for everyone. And so, I think overall the capacities probably end up tighter as things improve and as we see demand come back. And I think we're in a great position with the changes we've made to the portfolio, the operating model, and having the global footprint and the flexibility to respond as we see things improve. So, I sure don't see it as a negative. So, I think it's a flat to a positive.

I don't know, John, if there's anything. Okay.

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

Adam Samuelson
Yes, thanks. Good morning, everyone.

Greg Heckman
Good morning, Adam.

John Neppl
Morning, Adam.

Adam Samuelson
So, I guess the first question, Greg, John, just trying to think kind of size and quantify kind of the change in outlook. And so, any way to frame kind of the magnitude of the impact in edible oils, and especially in sugar, relative to what you'd thought previously in February?

Greg Heckman
Well, on agribusiness, no change. Yes, it's happening a little differently and in a more challenging way than we thought, but in our biggest business, really unchanged and think we'll be able to deliver the same as our earlier outlook.

On the edible oils side, that really is going to depend on the recovery and the shape of the recovery and how quickly that it is. And so, at this point, we've used the best information that we have looking at the forward curves, and we'll continue to update you as we go forward on that.

I will say it looked about as dark as it could at the beginning of the month, and things have started to improve just in the last six business days with some orders and with some of the opening up. So, it really moved quickly on the way down as demand was cut, and now the key will be how demand comes back, which will definitely be more gradual.

And then on the sugar and bioenergy, again, we're really pleased with our partner. The team's executing very well down there on the synergies and getting the business in the best shape it can be. From an overall industry and economics, of course, with the COVID-19 impacts on demand and the overall outlook on energy prices with what's happened in crude oil, I think we're in as good a shape as anyone in the industry. And we know it'll be lower, but it's not clear. And there's some talk now of maybe some aid for the industry, but it's all too early to tell any impact of that as well.

Adam Samuelson
Okay. And then just thinking about the portfolio, and congratulations on getting the U.S. grain elevator announcement kind of done –

Greg Heckman
Thank you.

Adam Samuelson
--How much is left? And can we size – there's $300 million of proceeds on that transaction. Is that the invested capital you have in that, or is there an additional working capital release that comes upon closing? And then just how much is left in terms of portfolio actions from where we are today?

Greg Heckman
I'll take the portfolio actions. Then I'll let John talk to the numbers. On the portfolio actions, we continue to try to work against the internal deadline we gave ourselves of having everything substantially done, or at least to a point where we could talk about it at Investor Day, so we could give you a clear look at kind of our go-forward portfolio in late June.

Even though there have been some things to slow people down here with COVID-19, we've still got dedicated teams working on all of those deals. We probably have one left of size and two or three that are smaller and cleanup. But our goal is to still try to be in a position to talk about that.

And then we move on to the continuous improvement, which is continuing to challenge the lowest returning parts of our portfolio and improving them or figuring out if they need to be out of the portfolio. And that'll never stop, as John and I have talked about. Managing a portfolio isn't an event. It's something you do every day, every month, every quarter. So, as you see it, it'll be an ongoing process.

And then John, I'll let you speak to the numbers.

John Neppl
Yes. Adam, in terms of the grain assets and how to think about invested capital, as you can imagine, we've owned these elevators for quite a long period of time, so the book value, the carrying value of those was really quite low, a pretty small percentage of the total proceeds. So, we will be reporting a gain on the sale.

But probably as importantly, we didn't carry a lot of working capital in these elevators. Between farmer payables, deferred farmer payables on average and the fact that they basically sourced products for our pipeline, we didn't carry a lot of working capital there. These were really flow-through elevators for us primarily. So, we don't expect a significant impact on invested capital. The real benefit is taking the proceeds and paying off debt initially and taking some of the costs out.

Adam Samuelson

Got it, that's helpful color. I'll pass it on. Thank you.

Greg Heckman
Thank you.

Operator
Our next question comes from Vincent Andrews from Morgan Stanley. Please go ahead with your question.

Vincent Andrews
Thanks and good morning, everyone.

Greg Heckman
Morning.

Vincent Andrews
I'm just curious if you can speak to the different hedges. And I believe you used the word majority in terms of recouping in the balance of the year. Could you kind of put some parameters around majority, and then just help us understand what, if any, risk is associated with the recovery of those hedges?

John Neppl
Sure. Let me walk through the pieces, Vince, because it is pretty comprehensive. So, overall we had, as I mentioned, about $385 million in the agribusiness, a total of $410 million altogether across the business.

The $100 million that we mentioned associated with our soy processing and oilseed processing, that really will largely execute over the balance of this year. It was representative of coming into the quarter, into Q1, largely covered. And then we had mentioned that at the end of the year, I think on our year-end call, that we came into the first quarter fairly heavily covered.

And so, as the market moved at the end of the quarter, we recorded that $100 million. And that'll largely unwind, really a big chunk of it, in Q2 as you think about where we were booked out. And then beyond, most all that is expected to come through here in the fiscal year.

The $195 million associated with hedging our oilseed pipeline or our veg oil pipeline into our edible oil customers is a little bit longer time period as that flows through. But again, expect the majority of that to execute during the year. Really not necessarily any real risk in whether or not those execute, it's just timing.

And then the other $20 million we had mentioned – we mentioned the $90 million on ocean freight. Again, the vast majority of that will clear out this year as we execute on the underlying contracts. And then we had mentioned on the remaining $20 million on edible oils that $13 million of that was really a carry-in of income we took last year, so we have a small $6 million carry-out.

So, we really expect that to roll out, again, a vast majority by the end of the year. But with the market moves we saw in April, a big chunk of our mark-to-market that we recognized in March, as you can imagine, has been affected already just given the decline in processing margins in April. But we feel confident that it's just execution to get most of this cleared off by the end of the year.

Vincent Andrews
Okay, very good. And then, if I could just ask on the Loders Croklaan business, have you had time to go back and see how that business performed in a recession, as I suspect, even if COVID subsides later this year, we're still going to be in recessionary conditions well into next year?

Greg Heckman
I don't know that we've had it long enough to do the analysis versus that, as well as the changes that we've continued to make to bring along not only the Loders Croklaan portfolio but the combined legacy Bunge portfolio of products and services together with customers.

What we are seeing, of course, in some of those areas where people are staying at home and eating different things, we're seeing demand be the same or higher in some areas. Of course, where you have food service, of course, that's where the demand has really been hurt across the entire fats and oils portfolio.

I will say from a total customer outlook, we've had good momentum the past couple of years and grown our share of wallet, the value-added products we're offering them, the breadth of the portfolio, and really changing the way that we've worked with people around innovation. I will say since COVID that has all accelerated. I think customers really appreciate the breadth of the portfolio. They've appreciated our reliability. They've appreciated our ability to solve problems and adapt and continue to do some innovation from a distance.

And what we're seeing through that is changing the nature of these relationships more quickly, on the trust, on these going from less transactional to more partnership, to bringing more products to them. So, one of the net positives, I think, of the direction we were going with customers and the changes we were making, it has actually accelerated that. And so, some of the positive, I think, will be the strengths of the customer relationships coming out the other side of this as the demand improves.

Vincent Andrews
Okay, very good. Thanks very much.

Greg Heckman
You bet.

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

Ben Bienvenu
Yes, thanks. Good morning, everybody.

Greg Heckman
Morning, Ben.

John Neppl
Morning, Ben.

Ben Bienvenu
I want to ask on sugar and bioenergy. It sounded like, Greg, your commentary was that 2Q, or it could have been John, that 2Q could be a little bit worse than 1Q. Recognizing that you probably have somewhat limited visibility and it's dependent on the recovery of demand, how representative of the year do you think the first half looks? And then what can you do operationally with BP to mitigate these losses?

Greg Heckman
I'll take just a start on that and I'll let John finish. Look, what we've done with BP is our combined teams have been down there. They're exceeding the cost synergies, executing very well on the plan. So, we've got a stronger business with two great partners.

We're coming out of the seasonally slow intercrop period. And overall, as we get started on the crop from a business and how it's operating and how the team's working together, fine. We'll be in position to get our share of the opportunity. The external factors, that is the one that will be the tough one to see how that plays out. And as we've talked, you've got the underlying economics and then you've got if there ends up being any aid to the industry, but I think we're trying to be on the front edge of that.

And then specifically, I don't know, John, if you have anything else.

John Neppl
Yes, I think a couple things. One is, as we mentioned during the remarks, they were reporting on a one month lag. So, we have pretty good visibility into March, what happened in March, and that's the basis for our comments.

Regarding Q2, we saw continued appreciation. In fact, most of the real depreciation in Q1 occurred in March. And so, that's going to be reflective of Q2, and a big part of that will be additional impact on the translation losses on the U.S. dollar-denominated debt.

This business is a combination of USD and real – it's a USD-real business. The team was working on hedging that U.S. dollar debt. It's just been a difficult market environment, as you can imagine, to get something like that done in Brazil. But they're continuing to work on that. We believe it probably makes sense to hedge part of that debt just given the fact that part of the business is based on the underlying real and part of it's USD. So, that's going to be part of the headwind, and I think just some of the carryover kind of in the first half from Q1 into Q2. But I would say largely I don't necessarily think that's indicative of full year.

Ben Bienvenu
Okay, great. I want to ask on the mark-to-market impacts. And with respect to your debt to EBITDA metric, how do the rating agencies account for that? Did they pull out those mark-to-market impacts when assessing your ratings?

John Neppl
Yes, they do have a good understanding of those. And so, we take the time to explain those. And I would say that our feedback this week from the rating agencies as we talked to them ahead of time, they understood that impact based on what has happened with the market and the volatility in the crush margins and veg oil market.

So, they understand it. They're used to that conversation with us, and they understand it's just timing and not necessarily cash related.

Ben Bienvenu
Okay, great. Best of luck.

Operator
Our next question comes from Tom Simonitsch from J.P. Morgan. Please go ahead with your question.

Tom Simonitsch
Thanks. Good morning.

Greg Heckman
Morning.

John Neppl
Morning, Tom.

Tom Simonitsch
So, could you expand on what is sustaining the agribusiness outlook, given where broad crush margins are today versus last year?

Greg Heckman
Sure. From an outlook, what we're seeing is we do have a fair amount of crush hedged into Q3 and some into Q4.

The kind of key factors, if you think about it from an overall how we're thinking about the flags or the puts and takes, on the risk side, it's COVID, okay? If it continues to grow and dampen oil demand and biofuel demand, it takes longer before we see the recovery. The other risk is if ASF would return to China in a big way or spread somewhere. And if we got some trade disruptions again, that could cause a lot of volatility and, frankly, make it more difficult for customers and just managing margins overall. And then if Argentinean crush increased significantly, that could be tough on global margins.

The other side of that – that we based our outlook on the curves without making any topside adjustments. But the other side of that coin is you've got reductions in the ethanol run, which of course reduces the amount of DDG. With where wheat is priced globally right now, there should be less wheat fed. Both of those are good for soybean meal inclusion in the feed rations, so that helps the demand side there.

And then currently, Argentina, the farmer is really – he did some selling early when they were worried about the tax, but now the farmer's really stopped selling. And just the overall difficulties there, we don't see that changing. That probably limits Argentina's runtime. And then their competitiveness is also hurt right now with higher freight costs because of the low water in the Paraná River, and that looks like that's going to persist for a while. And that generally, when Argentina is lower on volume, that's better for our global crush margins.

And then the others that we see, food service and biodiesel demand, gradually improve. And if we saw meat exports to China, that of course would help the S&Ds, help protein prices to recover and offset some of the risk on the lower animal numbers that we've seen kind of in tandem with this quick cutback in food service demand.

Tom Simonitsch
That's helpful. Thank you. And could you maybe just provide some more color on the food service exposure of your edible oils business by region, and maybe just some more detail on why Brazil was so weak in the first quarter?

Greg Heckman
Yes. Food service, if you look, we're of course more heavily indexed to North America, U.S. and Canada, and to the larger QSRs, which, quite frankly, they have fared better through this, and probably expect them to recover more quickly.

If you think about geographically, we saw this happen in China first, then Europe, and then it's moving east to west in the U.S. and arriving in South America last. So, as we start to see the recovery in China, of course we're watching that very, very closely. Brazil, generally when we get the depreciation of the real, that is good for agribusiness, which of course is the bigger part of our business, but that does provide some headwinds on the food side of the business. And I think that's what we were seeing down there.

Tom Simonitsch
That's great. Thank you. I'll pass it on.

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

Heather Jones
Good morning. Thanks for taking the question.

Greg Heckman
Morning, Heather.

John Neppl
Morning, Heather.

Heather Jones
So, I wanted to ask just a real quick detail question. The elevators you sold, did they generate any meaningful positive EBIT?

John Neppl
Not really, no, just minimal.

Heather Jones
Okay. And then just going on to edible oils, and I fully appreciate the lack of visibility, but just to give us some sense of – you mentioned at the beginning of the – at the end of the month, I guess April, it was about as "dark as could be," and now you've seen green shoots. Could you give us a sense of are we looking at edible oils going back to Q2 2018 levels when it made roughly $10 million, could it be a loss, if you could just give us a sense of the range of outcomes for Q2.

Greg Heckman
Yes, I think it's too early, right? We saw in late March, early April, right, the U.S. down a combined 40% and the full service restaurants were off 70%. So, how this opens and comes

back, if we have any reinfection rates and reclosing, it could really change that. We're trying to understand what's the restocking versus the demand. So, look, we're seeing some positive signs and we're seeing some orders pick up, but it's way too early to declare any victory.

John Neppl
Yes. I would just say though, Heather, I don't – I'm sorry, this is John. I was just going to say I don't think we're anticipating any kind of a negative result out of edible oils in Q2 though.

Heather Jones
Okay, perfect. Then I wanted to talk about animal protein production around the world. So, there are signs, not just anecdotes, but the data showing that there's some liquidation efforts underway in broilers, and a lot of anecdotes that the same thing is going on on the hog side. And it seems like fortunes for the protein producers in South America have started to get much more difficult. So, I wonder if you could walk us through what your anticipation is for meal demand in the early part of the year and then how you see that evolving in late 2020 going into 2021. I hope that question makes sense.

Greg Heckman
Yes. Let me take a cut, and if I don't hit the mark here, you can redirect. How's that? No doubt, as hard as food service came off, we're seeing reductions in poultry here in the U.S. It is coming off a high base in 2020, and I think everyone's trying to figure out how quickly it'll come down. And as we restart, that starts to send a signal where it stabilizes. There's not as good of data, of course, on the hogs, but definitely reduction there as well.

And I think that's also related to when do we start to see some demand come back and how does the industry – where does it stabilize and/or do we see exports of protein to China, which helps the pricing and leads. So, as that's down a little bit, I think that's where we were looking at some of the offsets of higher wheat feeding and less DDGs around so that inclusion rates offset some of the lower animal numbers.

The other, if you just look at the S&Ds, is we ran hard here so far this year on our crush rates. Margins were good. We also were uncomfortable having third parties in our facilities doing maintenance. So, things that we could push back around maintenance, we did, and ran hard. We're now starting to do those projects. So, that alone will bring crush down a little bit from a supply side. And then as we said last year, we're managing margins, so we'll run for margin and we'll run the crush to meet demand. But even in the U.S. here, we've probably – between maintenance and adjusting to some of it, we've cut crush almost 10%.

And then the rest of the world on animals, China is definitely seeing — definitely the sow herd's up, and then seeing chicken up. And in Brazil, chicken was only up slightly with the numbers we were seeing, but pork was up. And of course, COVID's just arriving to South America, so we're going to have to all watch that closely.

Heather Jones
And how would you characterize the industry in Brazil? So, with the decline they're seeing in demand there because of COVID, if protein producers need to scale back, I know the U.S. is the most rational, but is the industry down there relatively rational? Would we see a pullback in crush there, do you think?

Greg Heckman
Well, we're the largest down there, and it's always a tradeoff for us there. If it doesn't make sense to crush, we'll export the beans. So, we're running this machine for the best returns and the highest profits.

Heather Jones
Awesome. Thank you so much.

Greg Heckman
Thank you.

Operator
Once again, if you would like to ask a question, please press star and one. Our next question comes from Robert Moscow from Credit Suisse. Please go ahead with your question.

Robert Moscow
Hi.

Greg Heckman
Good morning.

John Neppl
Morning, Rob.

Robert Moscow
Morning. My questions have been answered, but one follow up on the debt for the sugar JV. You said it was complex or difficult to fully hedge the currency out of it. Can you explain a little bit why? If you just had a futures contract that was short the real, wouldn't that have hedged out that currency exposure, or does it just not work that way?

John Neppl
Well, yes, the team was working on this really kind of methodically after the close of the transaction, and it was on the slate to actually hedge out about half of the debt. And frankly, they just got caught with COVID. And they were working with a number of banks down there to do the hedge transaction.

It just got cost prohibitive, really is the issue, and the banks – the markets down there were probably, I'll say, more reactive than they were here in terms of the impact of COVID. And the financial markets down there were in a bit more disarray, and it just become cost prohibitive and difficult to get it done. And so, they're continuing to work on it.

I think that we're optimistic we'll get it done. Timing hasn't been great, but the team is focused on it, as well as executing the underlying business. So, we do expect to be able to get something done here hopefully this quarter.

Robert Moscow
Thanks. So then, and maybe you've mentioned this already, but just in terms of FX exposure, how should I look at it from a forecasting perspective for the segment? If the currency stays the same, what kind of a hit should I expect in 2Q and maybe 3Q?

John Neppl
Well, if the currency stays the same now, I think you'll see a similar impact in Q2 as we saw in Q1. Again, we closed March around 5.2, I think, on the real. And that was about a comparable uptick to what we saw in Jan/Feb, or Dec/Jan/Feb. So, I would expect a similar impact on the debt side on the translation loss.

In terms of the underlying business, it's going to depend on a lot of things because it is – the ethanol/sugar portion of that is dollar business, and so that's going to depend on a number of other factors, not just the currency exchange rate. But on the translation loss side, I think for Q2 I would expect something similar, absent a big change from here. Q3, really no way to predict that at this point.

Robert Moscow
Well, this is a big swing versus expectations at the start of the year.

John Neppl
Yes.

Robert Moscow
You also said that overall EPS you expect to be lower than what you had thought at the start of the year. To what extent could we say that that's related to the sugar business versus the core business?

John Neppl
Yes, I would say probably the biggest delta we've had from our initial forecast is sugar. We've got, as Greg mentioned, a little bit of weakness on the edible oils side. We feel good about agribusiness. But sugar is the biggest delta for sure. And we're supporting the team down there to try to see what we can do.

But we've got a good team down there. It's just a tough environment right now for that business. But BP is committed to it. We're committed to it. We're having a lot of dialogue with the team and feel confident we've got the right team running it. It's just a tough environment. But that is definitely the biggest mover right now.

Greg Heckman
Yes. And to reiterate, on the agribusiness, we still see the line of sight to delivering our original outlook on edible oils. Of course, with what's happened here with COVID and food service, that'll be off some. And it just depends how quick recovery is how much that's off. And then the big delta, as John said, is sugar and bioenergy. And there's a lot to play out there, as we've just come out of intercrop and seeing how things shake out. But the team's doing a good job. We've got the right team. We've got the right partner. And we'll keep you updated.

Robert Moscow
Okay. Thank you.

John Neppl
You bet. Thanks, Rob.

Greg Heckman
Thank you.

Operator
And ladies and gentlemen, at this time I'm showing no additional questions. I'd like to turn the conference call back over to management for any closing remarks.

CONCLUSION

Ruth Ann Wisener
Thank you very much for joining the call today, and I'm happy to assist with any follow-up questions you have.

Operator
And with that, ladies and gentlemen, we'll conclude today's conference call. We do thank you for joining today's presentation. You may now disconnect your lines.