Bunge Limited

Second Quarter 2021 Earnings Release

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CORPORATE PARTICIPANTS

Greg Heckman - *Chief Executive Officer*

John Neppl - *Chief Financial Officer*

PRESENTATION

Operator
Good morning and welcome to the Bunge Second Quarter 2021 Earnings Conference Call. All participants will be in listen-only mode. Should you need assistance, please signal a conference specialist by pressing Star, then 0 on your telephone keypad. After today's presentation, there will be an opportunity to ask questions.

To ask a question, you may press Star, then 1 on your telephone keypad. To withdraw your question, please press Star, then 2. Please note this event is being recorded. I would now like to turn the conference over to Ruth Ann Wisener. Please go ahead.

Ruth Ann Wisener
Thank you, Operator, and thank you for joining us this morning for our Second 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 Events and Presentations.

Reconciliations of non-GAAP measures to the most directly comparable GAAP financial measures are posted on our website as well. I'd like to direct you to Slide 2 and remind you that today's presentation includes forward-looking statements that reflect Bunge's current view with respect to future events, financial performance, and industry conditions.

These forward-looking statements are subject to various risk and uncertainties. Bunge has provided additional information in its reports on file with the SEC concerning factors that could cause actual results to differ materially from those contained in this presentation and we encourage you to review these factors.

On the call this morning are 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. So, turning to the agenda on Slide 3, I'll start with some highlights of the second quarter before handing it over to John, who will go into more detail on our performance. I'll then share some closing thoughts on how we're thinking about the remainder of the year before opening the line for your questions.

Let's start with an overview of the quarter, turning to Slide 4. I want to start by thanking the team for great execution in a highly volatile quarter. We're very pleased with how we've managed our operations as well as our earnings at risk where the--with the appropriate level of discipline. We also helped our customers navigate and manage through the volatility of this quarter that came from weather issues, domestic and international supply chain challenges, and other complexities in the current environment.

Turning now to our segment performance. Results in Agribusiness were down versus a very strong second quarter last year, but exceeded our expectations as the team effectively managed trade flows and capacity utilization. We set quarterly and year-to-date records in soy crush volume, capacity utilization and lower unplanned downtime. Additionally, we reduced power consumption to an all-time low in our European rapeseed crush operations.

While we faced complexities in the quarter related to freight, transportation and other areas that affected many other companies and industries, our results clearly demonstrate that with our commercial and industrial teams working closely together, we have built resilient supply chains that allow us to be successful through a range of macro environments.

Results in Refined and Specialty Oils improved in most regions, with particular strength in North America. In the U.S., we saw foodservice demand come back stronger and faster than anticipated, and are experiencing a greater impact from renewable diesel demand than expected.

In response to the higher demand for refined and specialty oils, we've been working to find greater efficiencies to increase supply. We also worked with our food customers to help them manage their risk as well as reformulate products where it makes sense. The multiple drivers behind the strength in edible oils give us confidence there are significant growth opportunities ahead of us.

I also want to highlight that this was a strong quarter for our non-core Sugar JV. As we've noted in the past, we continue to assess our strategic options regarding this business, but we are very pleased with the improvement over the last year.

Taking into account our year-to-date results, and based on what we can see now in the forward curves, we are increasing our outlook for the year, and expect to deliver adjusted EPS of at least $8.50 for the full-year 2021. Despite the global volatility, we have confidence in our ability to deliver in the back half of the year – based on the business already committed, the crush outlook, and demand for refined and specialty oils.

As we look ahead, we are confident that the performance of our operating model and market trends provide support for a higher mid-cycle earnings. So, in our June 2020 Business Update, we outlined our earnings baseline of $5 per share. With the changes we've made in our business, as well as the fundamental shifts in the marketplace, we are taking that baseline EPS up to $7, and that's a $2 increase. And consistent with last time, this reflects our existing portfolio only and does not include any future growth investments.

I will now hand the call over to John to walk through the financial results, the 2021 outlook and additional detail on the updated earnings baseline. I will then close with additional thoughts on some of the trends we're seeing.

John Neppl
Thanks, Greg, and good morning everyone. Let's turn to the earnings highlights on Slide 5.

Our reported 2nd Quarter Earnings Per Share was $2.37 compared to $3.47 in the 2nd Quarter of 2020. Our reported results include a negative mark-to-market timing difference of $0.24 per share.

Adjusted EPS was $2.61 in the second quarter vs. $1.88 in the prior year. Adjusted Core Segment earnings before interest and taxes, or EBIT, was $550 million in the quarter vs. $564 million last year, reflecting lower results in Agribusiness, partially offset by improved performances in Refined and Specialty Oils and Milling.

In Processing, higher results in North America and Argentina were more than offset by lower results in Europe, and to a greater extent in Brazil, which reflected a decreased contribution from soybean origination due to an accelerated pace of farmer selling last year.

In Merchandising, improved performance was primarily driven by higher results in ocean freight, due to strong execution and positioning, and our global corn and wheat value chains, which benefited from increased volumes and margins.

In Refined and Specialty Oils, the outstanding performance in the quarter was largely driven by higher margins and record capacity utilization in North America refining, which benefited from strong food service demand and increased demand from the growing renewable diesel sector. Improved results in South America were due to the combination of higher margins and lower costs, more than offsetting lower volumes. Europe benefited from increased volumes and margins from higher capacity utilization and product mix.

In Milling, higher volumes, lower costs and good supply chain execution in South America were the primary drivers of improved performance in the quarter. Results in North America were comparable with last year.

The increase in Corporate expenses during the quarter was primarily related to performance-based compensation accruals, a portion of which was not allocated out to the segments as was done in previous years. The increase in Other was related to our captive insurance program.

Improved results for our non-core sugar and bioenergy joint venture were primarily driven by higher ethanol volume and margins. Prior year results were negatively impacted by approximately $70 million in foreign exchange translation losses on U.S. dollar denominated debt of the joint venture due to significant depreciation of the Brazilian real.

For the six months ended Q2, income tax expense was $242 million compared to an income tax expense of $113 million for the prior year. The increase in income tax expense is due to higher YTD pre-tax income, partially offset by a lower estimated effective tax rate for 2021. Net interest expense of $48 million was below last year primarily driven by lower average variable interest rates partially offset by higher average debt levels due to increased working capital.

Let’s turn to Slide 6. Here you can see our continued positive earnings trend, adjusted for notable items and timing differences over the past four fiscal years along with the most recent trailing 12-month period. This improved performance not only reflects a better operating environment, but also the increased coordination and alignment of our global commercial, industrial and risk management teams due to our new operating model.

Slide 7 compares our YTD SG&A to the prior year. We have achieved underlying Addressable SG&A savings of $20 million, of which approximately 80 percent is related to indirect costs. Through our team’s disciplined focus on costs, we were able to continue to achieve savings, even when compared to last year, which was already lower as a result of the pandemic and the actions we took to reduce spending. Looking ahead, we are monitoring cost inflation in many markets, especially in Brazil, and will be working to offset this impact where we can, while still making the necessary investments in our people, processes and technology.

Moving to Slide 8. For the most recent trailing 12-month period, our cash generation excluding notable items and mark-to-market timing differences, was strong with approximately $2 billion of Adjusted Funds from Operations. This cash flow generation was well in excess of our cash

obligations over the past 12 months allowing us to strengthen our balance sheet. Shortly after the quarter end, we closed on the sale of our US interior grain elevators, receiving additional cash proceeds of approximately $300 million and another $160 million for net working capital.

Slide 9 details our year to date capital allocation of adjusted funds from operations. After allocating $76 million to sustaining capex, which includes maintenance, environmental, health and safety, and $17 million to preferred dividends, we had approximately $800 million of discretionary cash flow available. Of this amount, we paid $141 million in common dividends and invested $57 million in growth/productivity capex, leaving over $600 million of retained cash flow. As you can see on slide 10, readily marketable inventories exceeded our net debt with the balance of RMI being funded with equity.

Please turn to Slide 11. For the trailing 12 months Adjusted ROIC was 18.4 percent, 11.8 percentage points over our RMI-adjusted weighted average cost of capital of 6.6 percent. ROIC was 13 percent, 7 percentage points over our weighted average cost of capital of 6 percent and well above our stated target of 9 percent. The spread between these return metrics reflects how we use RMI in our operations as a tool to generate incremental profit.

Moving to Slide 12. For the trailing 12 months, we produced a discretionary cash flow of approximately $1.7 billion and a cash flow yield of 23.8 percent.

Please turn to Slide 13 and our 2021 outlook.

As Greg mentioned in his remarks, taking-into-account our strong Q2 results and our outlook, we have increased our full year adjusted EPS from $7.50 to at least $8.50, above last year's record of $8.30. Our outlook is based on the following expectations: In Agribusiness, full-year results are expected to be up modestly from previous expectations, but still down from a very strong 2020.

In Refined and Specialty Oils, we expect full-year results to be up from our previous outlook and significantly higher compared to last year due to our strong first half results and positive demand trends in North America. We continue to expect results in Milling and Corporate and Other to be generally in line with last year.

In Non-Core, full-year results in our sugar and bioenergy joint venture are expected to be a positive contributor. Additionally, the Company expects the following for 2021: an adjusted annual effective tax rate in the range of 17 to 19 percent, which is down from our previous outlook of 20 to 22 percent; net interest expense in the range of $220 to $230 million, which is down $10 million from our previous expectation; and capital expenditures in the range of $450 to $500 million, which is up $25 million from our previous forecast; and depreciation and amortization of approximately $420 million.

Shifting to our updated mid-cycle baseline. The waterfall chart on Slide 14 shows the areas and magnitude of increased earnings being primarily driven by what we see as a structural improvement in the oilseed market fundamentals. This is due to increased vegetable oil demand by the renewable diesel industry and greater benefits as a result of the change in our operating model to a global value chain approach.

Turning to slide 15 and the drivers behind these increases. Consistent with our approach in June 2020, we introduced--when we introduced our $5 baseline, we are defining our long-term

average oilseed crush margin range by using the weighted average of our footprint for the past four years plus the trailing 12 months.

This increases our average soy crush margin by $1 a metric ton to a range of $34 to $36 per metric ton, and more significantly, it increases our average softseed crush margin, which is more sensitive to oil demand, by about $10 a metric ton to a range of $48 to $52 per metric ton. We feel both these ranges reflect more reasonable normalized numbers in the go-forward structural market environment.

We have also increased the normalized earnings of our oilseed origination and distribution businesses and our Merchandising sub-segment, reflecting the more coordinated and aligned approach within the value chains from our new operating model. The approximate 30 percent increase in Refined and Specialty Oils earnings is being driven by higher capacity utilization in North American refining and increased contribution from Specialty Oils due to improvement initiatives that are underway. Importantly, we assume that margins in North American refining normalize back to historical averages as we expect in time that the renewable diesel industry will add pre-treatment capabilities to their facilities.

There are no changes from our earlier baseline in Milling. Corporate and Other are down primarily due to higher performance-based compensation from the increase in our baseline. There is no change in the assumed contribution from our Sugar and Bioenergy JV. Net interest expense is reduced by approximately $25 million compared to the $5 baseline, reflecting debt paydown from strong cashflow in 2021 and normalized working capital. Given potential tax policy changes in the future, we are increasing our estimated effective tax rate by 2 percentage points.

It's important to note that our earnings baseline of $7 per share is not earnings power. Aside from upside that may come from a higher margin environment, we have a number of opportunities that we are pursuing that can drive earnings upside as summarized on Slide 16.

Strengthening our oilseeds platform with targeted acquisitions is a top priority. Expanding our industry leading refined and specialty oils position to serve new and existing customers with differentiated products and services is an area of opportunity.

We're also excited about the growth in demand for renewable feedstocks and plant-based proteins. And finally, we're continuing to invest in technology that will drive increased efficiency throughout our global operations.

Turning to Slide 17. At a $7 per share baseline, we should generate approximately $1.4 billion of adjusted funds from operations. After allocating capital to sustaining CapEx and preferred and common dividends to shareholders, we should have about $800 million of discretionary cash available annually for reinvestment in the business or returns to shareholders. This is an increase of approximately $200 million of cash per year from our $5 baseline.

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

Greg Heckman
Thanks, John. Before opening the call to Q&A I want to offer a few closing thoughts. From where we sit, it's clear there is a structural shift underway in consumer demand for sustainable food, feed and fuel. The conversations we've been having, with existing and new customers, are significantly different than they were even just six months ago.

We're pleased with our position to help support meaningful change, and with our global platform, we have the ability to do so at scale. Consumers have demonstrated they will pay more to get what they care about, and it's our job to provide these alternatives to our customers. To meet this demand, we work with customers on sourcing sustainable alternatives and/or helping them reformulate. We help food and feed customers source ingredients to minimize the carbon impact of moving them, and we work with fuel customers to source and transport feedstock for renewable fuels.

Importantly, we do all of this with a goal of driving value back to farmers to allow them to invest in stewardship, to support regenerative agriculture, and to encourage production in optimal locations, which means getting the highest production per acre using the least amount of inputs. We're really excited about the unique role we can play in this accelerating shift.

I want to end by thanking the team again for their continued incredible execution. And with that, I'll open the call to your questions.

QUESTION AND ANSWER

Operator
We will now begin the question and answer session. To ask a question, you may press Star, then 1 on your telephone keypad. If you're using a speakerphone, please pick up your handset before pressing the keys. If at any time, your question has been addressed and you would like to withdraw your question, please press Star, then 2. At this time, we will pause momentarily to assemble our roster.

The first question comes from Robert Moskow with Credit Suisse. Please go ahead.

Robert Moskow
Hi, thanks for the question. Good morning.

Greg Heckman
Morning, Rob.

John Neppl
Morning, Rob.

Robert Moskow
Hey, I wanted to know, when you developed your baseline assumptions, did you consider a what if scenario, if soybeans suddenly go back to historical levels, like $8/$9 a bushel because of a supply response, does that affect your baseline, and--or do you just think the margins that you can make with all the renewable diesel activity and plant-based are structurally high so it doesn't matter?

Greg Heckman
Yeah, I'll start and let John come in. But, yeah, it's a holistic look at history, as well as what's currently happening with the key supply and demand factors. And sure, we're seeing, coming forward in the next couple years, the market's doing its work. We're drawing more supply out, but the thing that is different this time is it wasn't one big crop shortage that's caused these higher prices. It's been demand and a structural demand shift in a number of areas. So, yeah, we rolled--we-rolled all that into the thinking.

Robert Moskow
Okay, and then one quick follow up also on the baseline. Some AgTech companies are introducing soybean varieties that require less processing so that the--I guess the protein can be extracted cheaper. Is that a structural benefit to you? Is it material enough to improve your earnings or--because I guess you would get cheaper byproducts as a result.

Greg Heckman
Yeah, how we think about technology, look, as the largest global oilseed crusher, we're of course working with people on seed technology. We're working on cover crops. We're working at continually becoming more efficient in our own operations.

So, as we're seeing the demand not only on the traditional food business and the feed customers, but now on the renewable diesel and the growth in the plant proteins, it's going to draw more innovation into the space and as the largest operator here, it's our job to be in step with that and find ways to take advantage of that. So, we're excited about it.

John Neppl
But, I would say--Rob, this is John. We haven't baked any sort of, I'll say, new technology into our thinking and our numbers, so it's really based on what's here today, what we're operating today, and what we think is a reasonable outlook on margin environment. So, anything that would bolster/improve the margin environment for us going forward would be additive to that.

Robert Moskow
Okay, great. All right, thank you.

Greg Heckman
You bet.

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

Steve Hanes
Hey, this is Steve Haynes on for Vincent. Just wanted to ask--it might be a little early to start talking about 2022, but when we think about your $7 baseline and maybe what might be implied for the second half of 2021, it might suggest something a bit lower than 7 bucks. So, can you help us kind of think about where the exit rate for this year would kind of put us relative to your new baseline?

Greg Heckman
Yeah, no, I'd say we see that differently. I think part of the confidence of raising the baseline to seven years is--or to $7 and doing it this year is what we see in the momentum for the balance of this year and then the structural shift in demand carrying into '22 and '23, we were very comfortable putting that baseline out there because we feel we can exceed it here with what we're seeing right now for the next couple years.

John Neppl
Yeah, I think it's important to note that the baseline--and maybe it wasn't clear enough in my remarks--that it doesn't include the refining premiums that we're seeing today. It does include additional volume from refining as we go forward from the demand, but we did pull back the refining premiums to a more normalized level, assuming long term that the energy consumers

end up doing their own pre-treatment, but for now, we're realizing much higher refining premiums than what we have built into the $7.

Steve Hanes
Thank you.

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

Adam Samuelson
Yes, thanks. Good morning, everyone.

Greg Heckman
Morning, Adam.

John Neppl
Morning.

Adam Samuelson
So, I guess maybe first question just on the revised 2021 outlook and from the way you had characterized the increase in the press release and the prepared remarks, it doesn't seem like your second half outlook has really changed all that much from where you were in the first quarter--or coming out of the first quarter. And, I just wanted to confirm if that's true and if so, just help us think about kind of the puts and takes around the world in terms of farmer selling in terms of kind of the crush margin outlook that you see and the opportunities and risks as we think about the second half.

Greg Heckman
Sure. Yeah, you see that correctly and in fact, as always, we're looking at what we've delivered and then we're looking at the curves for the balance of the year. The curves are definitely weaker than the last time we talked, and so we've reflected that in the outlook. Now that being said, if you look historically, we'll be really surprised if they stay there, but that's what we see right now.

You probably--if we kind of talk around the world on the crush margin side, of course, North America is the strongest with China probably being the weakest. Europe has definitely felt some pressure as Argentina has run harder this year and that meal got pushed out and into Europe. But, we're seeing Argentina now, traditionally starts to slow down after harvest, as well as the producer as we move towards an election and maybe perceived higher risk of devaluation now starting to slow the marketing, so we'll see Argentine crush start to slow down.

As far as the farmer selling, of course, in Brazil, on the corn side, the producer has not been as--quite as sold as prior because you had a tough weather situation there and a smaller safrinha crop. Black Sea a little bit behind in corn, but in the U.S., just slightly ahead of history and so the next kind of wave in corn selling will be I think as people see how the U.S. crop as the weather continues to play out and get a look at kind of what people feel comfortable about the yields and we'll see the next marketing.

The U.S. farmers are pretty sold up on the 2021 crop, a little bit ahead of last year and I think that's really the story again of getting through the weather, which has kind of got to play through August here, get comfortable with the yields and then we'll probably see another wave of

marketing. And, then in Brazil, of course, we're behind prior year, which last year was pretty special with the way things formed up and with what happened with the effects and the heavy marketing, so we didn't really expect that to repeat. But, overall, the curve is pretty weak but historically, we'll be real surprised if they stay there and in fact, we're starting to see a little glimmer of improvement in China even this week.

Adam Samuelson
Hi, that's really helpful. And, then just a follow up on the new baseline. I guess I'm trying to think about kind of where some of the pluses could come from on the capital allocation front. I guess first, it doesn't include really anything significant in terms of the sugar JV or potential proceeds from kind of eventual sale or IPO of that business. Then if I'm looking at the excess kind of funds from operations that you would be generating in that scenario, just how have we thought about the reinvestment or our repurchase kind of benefits of that in the $7?

John Neppl
Yeah, Adam, this is John. We haven't assumed anything. So, let's take sugar. We kind of assumed the status quo for sugar, so not any additional contribution in terms of from earnings or additional impact from a divestment of that business. We've kind of left it as is, which we think is pretty conservative.

And, on the growth front, we have not assumed any big growth capital investments in that number. So, as we talked about on one of the slides, anything that we do from an investment standpoint in growth projects will be additive to the number.

Adam Samuelson
Got it. So, to be clear there, I mean, after your common dividend, you're going to be--there's a 7 percent of equity cap today per year roughly that's been allocated--

John Neppl
--Right.--

Adam Samuelson
--effectively from a growth capital perspective, or a return to shareholder perspective.

John Neppl
Correct. So, you can kind of think of that baseline as being sort of a 2023-ish number. But, clearly over time, either we're going to invest in growth projects or we're going to buy back stock, one or the other. We're not going to continue to accumulate cash forever and both of those would be upside from the $7.

Adam Samuelson
All right, that's really helpful. I'll pass it on. Thanks.

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

Ben Bienvenu
Hey, thanks. Good morning, everybody.

Greg Heckman
Hey, good morning.

John Neppl
Hey, Ben.

Ben Bienvenu
I want to follow on Adam's question there, just on capital allocation, and if I look on Page 16 in your slides, the buckets you provided, are those in order of importance or attractiveness and/or the opportunities that exist today? And, if so, could you talk through that? If not, could you also just talk about where you see the greatest opportunities and how you think about--I know you've talked about wanting to make a risk adjusted return profile in your investment paradigm that you put into place. Can you talk about that relative to the decision to buy back stock? To Adam's point, on a yield basis, the stock is going to be quite cheap, so I would imagine that increases your hurdle rate for the stuff that you would want to buy.

Greg Heckman
Yeah, let me start on the projects and then I'll let John take it from there. But no, I think what's exciting now as we've turned to the growth phase is the teams are really working across all the growth platforms and they will be competing for that capital as we put it to work and then as you said, and I'll let John talk to that, it always competes versus buybacks. That's always a baseline as well.

But look, we're excited what we're doing on our oilseeds platform, as well as the origination distribution businesses. So, we're doing all the debottlenecking. We're looking at some brownfield opportunities and then of course, even look into some greenfield opportunities because there's going to be more capacity needed to meet this demand growth.

We'll continue to support our strong areas, but we'll also look into fill in some areas and whether that's with bolt-ons or if we can do something meaningful on the acquisition side, I mean, we feel as good as anyone to do that. We've shown that we can execute and we're building the cash and looking for those strategic opportunities.

Our specialty oils business, you saw better performance there across that business and really gaining momentum, so we'll continue to look at not only their organic growth, but where we have bolt-on acquisitions or tuck-in acquisitions in that business. We really like that and with all the reformulation and innovation that's going to be going on with customers with what's happening in the oil complex, we're really glad to have that in the portfolio.

And, then of course what's happening in plant proteins, that trend is firmly in place. That's a business that'll be a slower build for us. We're working with the customers and really working backwards and how we build that business, and so we'll be thoughtful and again, it is about the returns. We're not going to run out and overpay for anything to do that. We're going to maintain our discipline around capital allocation.

And, lastly on the renewable feedstocks, it supports really all of the business, but it's not only the products to serve that new demand, which is in the oil, which is really important. As you know historically, a lot of times, the oil has been the drag for crush, which just makes that no longer the case. But, it's not only the products, but it's the services that'll be wrapped around that and as we work with people--because the conversations are everybody wants a lower carbon impact and that's whether that's in feed, food, or fuel. And, so as we work with the producers to help them deliver that lower carbon product and work it all the way through the value chain into our customers, whether it's on the B2B side or the B2C side.

So, teams are working very hard. The portfolio rationalization over, we've turned to growth and this is--we're doing the hard work now, but lots of great opportunities and we're excited about it.

John Neppl
Yeah, Ben, in terms of returns, I think we've talked before about how we think about the allocation process. We look holistically from the top of the house on where the best opportunities are and we obviously adjust return requirements based on geography, based on familiarity with that business, how it bolts in closely with what we're doing or if it's an adjacency. But, in any event, we're looking at things that are accretive to our target ROIC.

So, and again, it's a pretty disciplined centralized approach and we do expect, frankly, as we're generating additional cash down the road, to utilize that availability to continue to look at growth opportunities. I do expect for next year with the pipeline of capex that we have, that we'll probably see a ramp-up in capital spending next year over what we're expecting this year.

Ben Bienvenu
Okay, great. Greg, you mentioned China crush starting to maybe get a little bit better. Could you talk more broadly about China and the demand backdrop there? I know there were some corn cancellations a couple weeks ago that rattled the grain markets. We've seen what pork prices have done. How do you feel about where we are on the curve for demand from China and how that bears out both in crush and origination as we move forward?

Greg Heckman
Sure. Look, let's start by the demand's been very solid there. If you look at the USDA is forecasting corn imports to be three times last year, so that's a different story than we have seen historically. And, so yeah, there will be some ups and downs, but the trend has been more and been up and we think that that's going to repeat and be sustainable.

The higher corn prices did cause some wheat feeding. One thing about as they've rebuilt that commercial industry, they're running least cost formulation now and when there was some wheat released from the reserve with the corn--high corn prices, they reformulated and wheat being four points higher on protein, that did hurt meal demand. So, we felt that. We think we're kind of getting to the tail end of that.

And, then as you said, hog margins have softened, but that seems to have stabilized. And, then crush margins were under pressure. This was kind of all happening at the same time, but again, that seems to have stabilized and historically, if you look at that, in that industry, the marginal producers will pull back and those crush margins will recover. So, we feel good about the long term there, but there will always be some ups and downs in the demand look.

Ben Bienvenu
Okay. Thanks for the comments and congratulations.

Greg Heckman
Thank you.

John Neppl
Thanks, Ben.

Operator
The next question comes from Luke Washer with Bank of America. Please go ahead.

Luke Washer
Hi, good morning.

Greg Heckman
Morning, Luke.

John Neppl
Morning, Luke.

Luke Washer
I wanted to ask about the refined--the premium on the refined soybean oil versus the crude soybean oil. John, I think you talked about you expect that to come down as it relates to your new $7 EPS baseline. But, we're seeing a lot of renewable diesel capacity coming on over the next really three to four years and this premium seems to have blown out to near double of what it historically has been.

So, when you think about that going forward, do you see that coming down sooner than later or do you think with all this renewable diesel capacity and most likely a lot of them aren't bringing on those pre-treatment facilities too soon, we could see that premium really last for a few years here?

John Neppl
Yeah, we're really looking at normalization over time, but it's tough to predict how quickly that will happen. I think our view would be over the next year or two, it's going to be--it'll remain elevated. You're right and we're seeing premiums nearly double what they have been historically and a lot of the demand that's coming on in the near term won't have pre-treatment. So, it's really going to be a question of how fast and over what period of time, so we wanted to be conservative in our $7 baseline that we didn't assume extended time period of elevated margins in that area, but certainly it's possible that that'll happen.

Greg Heckman
Yeah, here in the near term, you're exactly correct. We're starting to see the benefits of that already and we really haven't seen the volume really start to pick up yet. That'll happen here in the second half and then to your point, it'll take a couple years for some of that to get built. But, we wanted to separate the near term environment from what we put in the long term baseline.

Luke Washer
Yeah, to take advantage by, it looks de-bottlenecking some of your oil. Are you exploring any greenfield potential too to fill the new crush plant or right now, it's just really focused on de-bottlenecking?

Greg Heckman
No, everything's on the table.

Luke Washer
Got it, okay, helpful. And, maybe just one more quick one. We're hearing a lot about supply chain disruption, particularly as it relates to ocean freight, and it sounds like in your merchandising business, it's almost helped you to some extent. I guess could you frame how that's helped your results or hurt your results and whether this disruption could last for a while, what that means for the back half of your year?

Greg Heckman
Yeah, the one thing about having a global system and over 30 of our own ports, when there is tightness and there is dislocation, it allows us to be able to help solve problems for customers and to manage our own processing businesses to serve customers with product. So, from that standpoint, it becomes somewhat of an opportunity. Is it difficult? Is it challenging? Does it create a lot of complexity? Absolutely.

Some of the other things, a little more problematic, no doubt, but they're not unique to us in our industry or unique to this industry alone. But, if you look in North America, the shortage of truck drivers and the tightness in truck freight and that's really challenging on the logistical side and we're all working through that. And, then of course, the tightness in containers globally has made some supply chain management very difficult.

But, you switch modes of transportation where you can and work through stocks, try to manage stocks with customers to manage where you've got logistical risk. But, that's part of having a great global platform and having a great team.

Luke Washer
Sounds good. Thank you.

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

Ben Kallo
Hey, thanks for taking my question and congrats, Greg and John.

John Neppl
--Thank you.--

Ben Kallo
First, just a housekeeping question on--you're welcome--on the JV. Could you just remind us what the period is where you can't--you couldn't do anything, spin or sell it? And, then I have a much broader question.

John Neppl
Sure. Ben, now--we're now in a--we're passed the timeline in which we could go out and market our half of the ownership of the JV, so that was at 18 months and so we passed that about a month or so ago. So, we had the ability to go out and market our half. At the same time, we'll have the ability to trigger IPO at the two year mark, which is December 1st, and certainly we're talking to our partner. We're assessing our opportunities down the road here. We'll keep an eye on what's happening in the Brazil financial market, as well as what's happening with Raion and their recent IPO of a portion--it's a small IPO relative to the size of their business, but we're watching that to see how the market reacts over time here and certainly keeping our options open.

Ben Kallo
Got it. And, then Greg, you've been at the helm since April 2019 and with the new $7 baseline and ADM establishing a baseline, a new baseline yesterday, I guess what of this $7 number has been under your control and your team's control of getting there versus macro environment, whether it's a structural change or it's a temporary change, and if you could--I know that's a lot

there, but if you could slice it up into what you think has led to that $7 number from where you started from, that would be helpful. Thank you.

Greg Heckman
Sure. Look, a lot of it are the things within our controls. We're not assuming any big macros in that. That is--if you think what we've lived through the last two years, put aside the fact of trade war ASF and COVID, what we've lived through is we changed this portfolio. We're running a different set of assets and we've gone through all the work at the same time of unwiring those from the machine as we did the divestitures. I mean, these are distracting, tough projects and super proud of the team and what they've been able to do.

We changed the operating model on a global company and that took rewiring, rewiring the systems and the processes and we're still in the final throughs of that and getting better information more quickly to all of our industrial and commercial teams. And, then the disciplined approach that we're taking on risk management and really focusing on the assets and how we're running the assets and how we're managing the earnings at risk in those assets in the tens of thousands of customers that we've got.

And, then as we've talked about, the disciplined around our industrial and seeing--making improvements in how we run those assets and how the industrial and commercial teams work together in looking at the best of Bunge globally to learn from ourselves as we think like a global company and make that systemic improvement that we get to keep.

And, then we've done this in some really tough environments and with a lot of people remotely and that's given us a lot of confidence, even since a year ago when we were putting this baseline out amidst this change. So, this is the underlying--the company here, the great global platform, the great team, and the way that we're operating and getting some miles with it.

Now, the environment has improved, so when you say a $7 baseline, remember that's a framework. So, when you see the crush margins higher than what's in the baseline, that's showing how the over improvement is there and that's happening in soy and soft crush. And, when you see the edible oil volumes and now margins on the refining overages higher than what's in the model, and that's what we were speaking to, that's overperforming the baseline. And, that's what we talked about, we're comfortable with what we're seeing here for the next couple years and that's why it was time to raise the baseline and also why we were comfortable raising the outlook for this year.

Ben Kallo
Thank you.

Operator
The next question comes from Ken Zaslow with Bank of America--excuse me, Bank of Montreal. Please go ahead.

Ken Zaslow
Hey, good morning, guys. Still staying with Bank of Montreal.

Greg Heckman
Morning, Ken. Good to know you didn't change jobs.

Ken Zaslow
Just a couple questions. One is, I wanted to confirm that you're actually increasing your implied EBITDA from midcycle more than what you're increasing the EPS given that your reason to tax assumption. Is that a fair assumption, that the EBITDA assumption is actually stronger than even the EPS raise from 5 to 7, if I did an implied?

Greg Heckman
Yeah, that's--the biggest driver is tax and then we do have a small increase in share account, just over time, through normal comp--equity comp structure, but that's pretty minimal. But, those would be the two drivers.

Ken Zaslow
So, the EBITDA is going--is increasing--your midcycle EBITDA is increasing at a faster pace than your EPS, right?

John Neppl
Correct.

Greg Heckman
Yep.

Ken Zaslow
Okay, so cash flow matters. Okay, I just wanted to make sure. The second question--

Greg Heckman
--Oh, it definitely matters.

Ken Zaslow
Right, that's what I'm saying.

Greg Heckman
I was just kidding.

Ken Zaslow
Effective tax rate is less important than the EBITDA that's associated with it. That's what you're saying. I just wanted to make sure. If I did it implicitly, I can back into what the EBITDA calculation would be and it would be higher than the EPS. That's why I just wanted to make sure.

Greg Heckman
Yep.

Ken Zaslow
Second question, is there any reason not to believe that 2022 will be at least midcycle numbers? Just making sure I got that just through all the context.

Greg Heckman
Yes, you're correct. With what we see right now, we expect it to be above midcycle numbers. I think the next couple years--yeah, the next couple years with the momentum and what we see here and look, it takes time to build things, whether that's capacity or pre-treatment or some of

the things that have to happen, some of the oil that has to find its way into the U.S., that's complicated. So, there's a big shift going on and it's going to take some time for that to happen.

Ken Zaslow
Okay, and not getting ahead of myself, but I get the sense that you're trying to continue to build on the midcycle earnings over time through capex. So, if in three years or whatever the years are, as you build the capacity and use your capital judiciously, there is a--you are trying to build a higher midcycle earnings over time as well, right? This is not the end of the midcycle number. Is that a fair way of thinking about it?

Greg Heckman
That is correct. No, this the beginning if you will. So, if we make an acquisition, we'll come in and talk about what change that makes to the baseline. When we make a sizeable capital investment, we'll come in and talk about what change that makes to the baseline. So, those will be probably the next things you hear about the baseline are when we make investments and the difference that makes to the underlying earnings power of the machine.

John Neppl
Yeah, think of it another way, Ken. To hit $7, over time as we reinvest capital wisely in the company, it lowers that bar on the need--the margin we need to get to $7 will drop. So, today we're at--call it 35 and 50. Over time, as we reinvest, those numbers would go down in terms of the margins we would need to hit 7. That's another way to look at it.

Ken Zaslow
Great. With that, I appreciate it, guys. Thanks a lot.

Greg Heckman
You bet.

John Neppl
Thank you.

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

CONCLUSION

Greg Heckman
Thank you. Just want to thank everybody again for your interest in Bunge. To wrap up, we're really pleased with the continued outstanding performance. We're pleased to be able to revise our outlook. This global platform just continues to demonstrate its resiliency, and with our role in the global food supply chain, we are in a great position to benefit from what we see is an accelerating shift in demand for sustainable food, feed and fuel, and we look forward to talking to you again soon. Thanks again.

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