BMO Capital Markets

Global Farm to Market Conference

Wednesday, May 19, 2021, 12:40 PM Eastern

CORPORATE PARTICIPANTS

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Ken Zaslow
Welcome back, everybody. Greg, thank you so much for taking the time to be with us today. Over the last couple of conferences you've been with us, talked about your 30 years of experience in the ag culture, energy, and food processing industries in my introduction.

I think this year is a little different because I get the sense that investors have a greater appreciation for you as Bunge CEO, as, in just two short years, you entered in one of the greatest turnarounds I've seen in my career. You've implemented wholesale, strategic initiatives, and actions that have enabled Bunge to fully realize its potential in a favorable, albeit volatile, operating environment. Specifically, you've transformed Bunge's operations across every facet of its business, including its portfolio mix, operational execution, risk management, and capital allocation.

Now, the hard part is to see how you're going to continue to maintain the growth trajectory. We're happy to have you here with us and grateful for the opportunity to gain greater insight into how you will be able to continue to guide Bunge's future. With that, I'll turn it over to you for some opening comments before we go to an open discussion. Thanks.

Greg Heckman
Thanks, Ken. Great to be here. Appreciate the opportunity. And thanks for the kind comments. Look, I couldn't be more proud. This team is really unbelievable. They've taken this great global platform that we've got, this great group of customers at both ends of supply chain, and we really listened to our customers and thought about where we had the right to win as we did the portfolio changes and as we put an operating model in place that would allow us to react to customers' needs, allow us to react to the changing market dynamics that are part of being successful in this business.

I sure didn't--nobody saw what was ahead of us two years ago when we stepped in here. We knew there was a trade war. We sure didn't see ASF and COVID or that we'd be operating with a lot of our people remotely. But, what the team has been able to do in instilling the financial discipline and the risk management--it just--just fantastic. And now that we've got that framework in place, we really think we've got the foundation set for growth. And, as you say, now the hard part starts. But, the fun starts.

Ken Zaslow
Great. Look, 2020 and early 2021 are kind of under your belt. How would you frame the contribution from your internal changes in supply chain, risk management, capital, and portfolio mix?

Greg Heckman
I think it was absolutely crucial that we got focused and that we got focused around our oilseed processing and origination business and that we got focused on creating the financial discipline every day and that we managed the risk to ensure that it's appropriate for our earnings power in the environment we're in. And the environment we're in continued to change and get tested, no doubt.

I think this really, really sets us up for the future. I think we wouldn't have been able to execute the way we have the last six quarters in a row if we hadn't made the changes that we did. And we're glad we did it before the environment started to improve, which--there's no doubt we've got a better environment. But, you still have to be there to serve customers and to capture that opportunity.

Ken Zaslow
When you first started, you and I had a conversation about generating 200 basis points above cost of capital. But, you said that was just a milestone, not an endpoint. Last quarter, Bunge generated nearly 19 percent return on invested capital. Can you frame how you think about return on capital now, given the set up, and where you go from here on this return on invested capital? Obviously not from 19 percent, but from that 200 basis points above.

Greg Heckman
Not unlike the cyclicality and the seasonality of this industry, nothing is a straight line, and our returns won't be a straight line. So, during the better times and as cycles are accelerating, you'll see those expand and be well above our target and well above our WACC. And in the bottom of the cycle, the point that we're putting this model in place is to also, at the bottom of the cycle, be above our WACC.

But, part of that is the discipline, the risk management, but also the cost base. And so, the team has done a good job starting on cost before we arrive. We've been able to build off of the work that was done there and continue to take costs out. And our goal is to be the low cost operator in the industry because that means, even at the bottom of the cycle, we'll have great cash flow and, frankly, the rest of the industry will provide an umbrella for us on the margins.

Ken Zaslow
Now, I'm going to go back to the first question because I think you just answered it very clearly, actually. So, at the bottom of the cycle, previous to your actions, you were not close to your WACC. Now, at the bottom of the cycle, you could be above your WACC. Is that a fair way of saying, "Alright, let me just kind of put this together and see." Because of the actions you've done, that's worth at least 200 to 400 basis points of WACC, of return on invested capital. Is that a fair way of saying it? I think you just answered it. But, I just want to clarify that.

Greg Heckman
I think you're right, Ken. What you've seen--you've seen the higher highs in our returns now. And what I'm telling is when the cycle--you're going to see higher lows at the bottom of the cycle in our returns. And we'll be able to earn above our weighted average cost of capital during the worst times. That's the--.

Ken Zaslow
--That's awesome--.

Greg Heckman
--That's the model we're building. That's the machine that we're operating.

Ken Zaslow
Great. That's exactly actually--that was perfect. I have to ask this just because I always poo-poo it. But, we all discussed this $5 EPS number. What does it even represent, or is it even worth the representation of anything?

Greg Heckman
Remember, it was a baseline. So, the $5 baseline and--the CFO, John Neppl, likes to keep reminding me that it's only 11 months old. He said, "Tell Ken it's not a year old yet," before we redo it. Look, remember that that was built off of averages. That was built off--to give us a frame

of $34 soy crush or $40 soft crush. Of course, when you saw crushing margins higher than that last year, of course, we outperformed that $5 baseline.

I think it's as important to remember what's not in the baseline as we go forward. So, one, it's a baseline and a framework to adjust for current crush margins. And then, two, we had no impact for renewable diesel there. We didn't really have an impact on the new model and our approach. We've now run our new operating model for another year, and we're really getting to the late innings of our rewiring, which is giving the team more tools and more visibility to serve our customers and to manage our risk. It doesn't have any of the growth investments in there.

So, as we talk about what we're going to do in our specialty and refined oils and what--in the plant lipids business and plant proteins business, those will be added in as we roll these things out. And we also really didn't have any growth. If you remember, we were just starting to roll out what--trying to understand what COVID was going to mean to us when we rolled out the baseline earnings. And we didn't really build any growth in--off the historical. And we think now with--as we're starting to see recovery, especially in the food side, we're going to see some growth there as well as what we're seeing in the plant proteins and the renewable diesels. So, it's not often in the food and ag business you talked about multiple new sources of demand developing at the same time.

Ken Zaslow
Great. If I think about--so now, we have a base of how your actions have improved. What are your next internal actions required to keep the momentum? I really do think that this is now--the hard part is keeping the momentum as everybody--all the things you've done. What are your next internal actions? What are the key projects? What are the key capital investments that we should think about? And how do we frame it?

Greg Heckman
So, on the cost side, we're never done. It's continuous improvement. So, we'll continue to go after being more efficient in SG&A costs and how we run our operating model. And then, on the industrial side, we need a lot of change going on. And frankly, the job our industrial team did going in the plants every day during COVID, keeping our processing and distribution facilities and the ports all running and serving our customers the last year and a half, has just been unbelievable. So, I can't say enough about what they've done.

But, we hadn't had the time to do all the work around the industrial costs. Now, as we have one industrial leader, we're literally looking at the best of Bunge globally and applying that across our asset base to get to the best cost and the most efficiency. And you've seen just the focus of the industrial team working closely with the commercial team with our record capacity utilizations. We've had record unscheduled down time and been able to lower that. And we still think there's opportunity there. So, we've got some productivity targets. And as we begin to take that focus, excited about delivering on that.

And then, as far as--on the growth side--and starting to put capital to work--we'll continue to find those opportunities to consolidate, bolt on regional consolidation in our global oilseed processing and origination footprint, no doubt. We're going to protect our strongholds, and we'll continue to look for those opportunities to fill in any gaps.

And then, of course, the specialty and the lipids business, specialty and refined oils--we've got a number of opportunities for organic growth, continuing to take our capabilities into new geographies as well as continuing to build on our capabilities. And some of that will be--as well as organic, but bolt on acquisitions and tuck-ins.

And then, the plant protein ingredients--very excited about what's happening there. I mean, this trend is in place. We're already serving a number of those customers with our lipids business and providing a lot of products that go into these plant protein products and make them taste great and give them the mouth feel and the bite and the texture that people love. And those customers are telling us, "Hey, we want to see you in the plant protein supply." And we begin to make some investments in doing the work, but working with the customers backwards to put the plan in place to be their long term supply to meet that long term demand that is in place on the plant protein side.

And then lastly, of course, around renewable feed stocks--this is quite an investment that's been made here in North America and is planned to be made here in North America, in the U.S. and Canada, by the energy industry. And they're committed to renewable diesel. Biofuels are already growing globally. But, this is kind of really at a different level. And we're going to continue to work. We're already supplying those, and we're working with those customers to supply them as their demand continues to come on.

And that's going to be very interesting on the opportunities that creates, whether it's debottlenecking, which we're already doing a number of projects--of course, the lowest risk and highest return--whether it's brown fields or making changes to our current footprint, maybe adding a refinery where we have crush or converting a soy plant to be dual and be able to run--to crush soft as well, or putting a green field in where it makes sense and where it makes sense, not only for serving that demand, but our food demand and thinking about our footprint and our--and keeping our footprint low cost for the long term.

But, look, we'll be very, very thoughtful and disciplined about putting that capital to work. You can't fall in love with spot margins when you put assets in the ground that live for decades. So, we'll be disciplined and thoughtful about where we do that. It's an exciting time.

Ken Zaslow
What capabilities do you need in refined oils to accelerate your growth there? And any anecdotes or something like that would be helpful. I'm not as familiar with that.

Greg Heckman
I think, on the refined oils--you think about it--there's the food and then the fuel. So, slightly different. And we ended on fuel. Let me start there, and then, I'll move to food.

On the fuel side, it's what our business is. It's about logistics. It's about transportation. It's about risk management. It's about working with those customers and understanding their needs and working with them and making what investments make sense in our transportation logistics processing infrastructure to be able to serve them and make the right returns.

On the food side, what we added when we brought the tropical oils in with Loders Croklaan to make us core now in all the oils globally, is really--the timing couldn't have been better. The innovation capabilities, the ability to work with customers on reformulation, which is always going on with customers whether innovating for new products or looking for cost.

But now, as you have North America basically moving from being surplus vegetable oil to being deficit vegetable oil over the next few years--the increase we've seen in refining margins--we're working with our food customers on reformulation as they change a number of their formulas around what's happening in the oil markets, the oil flows, and price and cost advantage. So, those capabilities are just in the right place. We definitely saw them pay off earlier when we saw the switch from food away from home to food at home, between food services CPG. We'll now see some of that shift back as well as a shift in the oil mix.

Ken Zaslow
How do you frame the renewable diesel opportunity? How do we kind of put into context how much is going to be built--how does this pull on your model? Because it seems like this is different. This is a structural change that--we don't usually see in agribusiness.

Greg Heckman
I think it's continuing to play out, and that's why we're doing a lot of work and being very thoughtful. Because the demand and the capacity--it looks like it's going to be installed for renewable diesel--it's definitely beyond what capacity exists or has been announced. We've seen some capacity announced on the soft side in Canada, which makes sense, canola being much higher in oil content than soy and some of the capacity that's expected to be built in Canada as well as in the U.S. And so, some of that canola that was being exported, of course, will be crushed. The oil will be used in North America, and the meal will be exported.

So, we're seeing some of those shifts happen. And then, thinking about--as the other oils--if you think about the used cooking oils and the corn oils and the animal fats and that--get soaked up with the amount of demand as they move into the vegetable oils, which we're already seeing at scale. What's the right footprint to be able to serve those customers?

Ken Zaslow
I see. Can you talk about the interplay between refined oil and more commodity oils? And how does that--the refined and specialty oils--how does that play out because it seems like right now the refined oils are off the moon. And then, will they come down? And then, will your crush margins go up? How does it all play out? How does the interconnection between those work?

Greg Heckman
We'll watch it play out. But, it looks like--of course, right now, the refined oils are very, very tight because until some of the energy industry builds the pretreatment capacity, they need the refined oil. Depending on how much of that gets built and the economics of building pre-treatment versus buying refined oil, you'll probably see the demand shift more to crude. And you'll see the refined versus crude demand kind of get back in balance. I think the market will do its work and send a signal for that capital to be put in place to really get those in balance over time.

But, this is going to play out multi-years. Even projects that are announced in the best environment are two and a half plus years to get built. So, in the meantime, we've got to solve that through flexing our global system to serve all the customers in the feed and fuel.

Ken Zaslow
Are you surprised by one of your competitors announcing in the U.S.? And what are your plans and how do you--you kind of lifted gear, brownfielding, potential greenfielding? How do you assess that? So, part one is--are you surprised by the announcement in the U.S.? Does that change any of your dynamics or how you think about it? And then, what will your investment plans be? Over what time frame will we start to see announcements from you?

Greg Heckman

We've got an enormous amount of work underway. And the numbers will drive which projects we do first, green field, of course, having the most complexity and the most risk. So, when you see--we're not about kind of announcing things way out in front of when we do them. We'll get them in position, and then, you'll hear about them.

But, absolutely, we've got a role to play. We also think about our footprint for the long term to not only serve the new customers but our existing customers. That work is underway. More to come. But, I'm not surprised by some announcements. The industry needs--is going to need the capacity.

Ken Zaslow
What--can you talk about the China demand? That's the other--I'd say renewable diesel definitely is structural. China demand--how do you kind of compare that to the renewable diesel in terms of either structural, temporal, multi-year? I'm trying to figure that out. And does that change how you think about the growth algorithm for Bunge over the couple years as well?

Greg Heckman
I think that's one of the hot topics for anyone trying to do forecasting here. The China demand is definitely multi-year. I think a lot would say that it's structural. If you look at the amount of corn that they've been buying--we saw the structural shift in beans years ago, as an importer. That's continued. You look at the demand numbers long term here.

Look, there--one of their--couple of their goals is to continue to grow their own corn yields. But, that can only go so fast. They have demand growing consistently. We've seen the increased demand from not only the rebuilding of the hog herd, but the poultry that they put in place while they were rebuilding the hog herd. That continues. That demand is in place and installed now. And these are commercial feeding operations. So, the rations they're feeding--we've absolutely seen more meal demand.

So, we believe that's structural. And even as their demand grows and they're able to grow--yield improvements on their own corn, I think they've made some pretty strong statements about building their own ethanol production long term. And that's more corn demand. So, there's a lot of levers and a lot of flags to watch. But, it all appears to be more demand.

Ken Zaslow
And just going to your asset footprint--can you tell me about your ownership or soybeans and how--where your footprint is, how that plays out? Because there seems to be--we're heading right into a probably pretty hard shortage of soybeans in the next couple months in the U.S. Does it free up in South America? How does it all work? It's a lot going on. And I'm just trying to figure out how the process works in that respect.

Greg Heckman
Well, sure glad to have a great global footprint to manage times like this. But, you look in South America, from an overall, the safrinha crop is really--the weather has kind of stabilized. And so, that has quit getting worse. And so, from the feed grains, that stabilized.

From the marketing of soy, from the farmers--slightly ahead of average. But, that's, of course, well behind last year, which last year was really kind of an aberration. But, we're in good shape there.

And then, Argentina--we saw good marketing as we just came through--coming from harvest and that's allowed the crush to run very hard, which the global market was sending a signal on price. We needed Argentina to run hard. We do expect here in the second half, as they move towards an election, we'll see the farmer marketing slow down. They were slightly ahead of normal. But, they have slowed recently.

And then, in the U.S., farmer marketings have been just slightly ahead of normal on soy. And I think the key to watch there, of course, is now weather in the U.S. It's definitely going to be a tight situation as we go through. But, how that crop develops is going to be important. Producer was able to get in the fields early. That always generally means they get more acres planted. I think everybody believes we'll see more acres than we originally thought.

And then, it's how that develops. So, you'll want to watch the yield, and, of course, how that crop develops will have a lot to do with price direction and price path. And that'll mean different things for consumers and what they need to do as well as for the farmer--and when they are comfortable, they're going to make that crop--and when they want to do the marketing, not only of any old crop they've got left, but of the new crop. So, it should be an exciting summer, Ken.

Ken Zaslow
And the European crush margin--and obviously, the improvement in South America should offset the near term of the U.S. margin. Or is the U.S. margin, given your risk management, really--we shouldn't be looking at the spot market as much as we all obsess about it?

Greg Heckman
The spot market, each month if you think about crush, really kind of has its own supply and demand battle, as you move out on the curve. And as you talk about margins, they're best in the U.S. and second best in Europe. South America has been a little more volatile in crush margins, but about the same as Europe. And we'll see those, we think, improve as you move into the second half.

And then, of course, China has been the weakest. And part of that was around--they did feed some wheat. They released some wheat from the reserve, some to hold down inflation and to--they needed it with corn prices where they were. So, when that wheat was fed--of course, it's about four points higher on protein than corn. So, that hurt meal demand here in the short term. But, that's a temporary situation, not a long term structure. And based on their continued purchases, I think we've seen it's temporary.

Ken Zaslow
Changing topics, sustainability is becoming increasingly important to investors. We hear about it all the time. How do you consider sustainability as an impact? How do you make day to day decisions on this? And where is Bunge on the progress on where you're going to go on sustainability?

Greg Heckman
Sustainability is a huge part of everything we do. Bunge has been doing it for decades and had wonderful programs in place when I got here. We've had a sustainability committee at the board level since 2016. I put one of our commercial people in as the head of sustainability in Rob Coviello. He's lived around the world, different parts of the world, worked in different industries, really knows Bunge and our leaders and our business very well.

And I want us to have a commercial lens and really connect with our customers as well as be able to connect with the farmer and really all the stakeholders in the value chain because the way we're going to make long term systemic change is all work together and drive sustainability through the value chain. So, Rob has been great in connecting us.

We've made changes all the way that we look at sustainability as part of any capex investments that we make now. We were talking earlier about feed stocks. I mean, each feed stock has a different carbon intensity score, carbon index, which will not only drive the prices, but it's going to drive change back at the farm gate on what we have the producer do to drive down that CI score. And that's going to create a number of new opportunities because it's not going to be just in fuel. People are going to want that in food, and they're going to want it in the feed products as well.

So, I think there's a variety of new products and services that are going to flow out of having a much more climate friendly focus on everything we do in that value chain and try to connect what the consumer wants to what the producer needs to do and getting some of that value through the value chain to the producer.

Ken Zaslow
Do you think when you make these decisions on sustainability that the return on investor capital has different criteria to ensure that it gets done, or can it be more of a financial goal where it can be in line with your return on investor capital? We've heard different sides of both arguments to it. What's your thinking on that?

Greg Heckman
I think that we have to be good stewards of capital, no doubt. But, some of it will be like safety. Some of it's just the right thing to do and the returns don't matter. But, we will be very disciplined and be good stewards of capital where it makes sense.

Look, we're proud of our record. We've got the industry leading commitment on deforestation for all commodities. We have continued to engage. We're involved in a number of industry organizations. We work with producers in a very transparent way. We've got 100 percent traceability to all our direct purchases on soy in all the sensitive areas. And we continue to make our tools available and transparent to the marketplace. So, we're going to continue to engage and be part of the solution and couldn't be more proud of our team and the work that's being done.

Ken Zaslow
Does the idea of deforestation limit the amount of production that can go on soybeans going forward as well? Is there that balance as well? Through continuing to limit deforestation as demand grows, there's not as much area as we once thought there would be in South America for soybean expansion. Is that fair?

Greg Heckman
I think looking at this all globally is going to be very important. Yields are always part of it. But, part of communicating is that we ensure that we are producing products in the areas of the best comparative advantage, that we are building the most efficient supply chains--because transportation is part of the carbon footprint as well--and doing that and working together through the value chain, that people can make investments at the farm level, in the supply chain, with that at the consumer, whether it's the B2B or the B2C customer.

Ken Zaslow
Great.

Greg Heckman
So, this is an industry problem that we've got to do. How it's exactly going to play out on each continent and each country--we can transparently get to those solutions together.

Ken Zaslow
When will we start hearing about announcements and thought process for the sugar asset?

Greg Heckman
We just crossed the date here. We're about to. We're able to market it--that business privately. And then, of course, here, at the end of the year, we could IPO it. But, look, we got a great partner in BP. We've got a fantastic leadership team down there. They're doing a great job. They're ahead of all their targets on synergy and operating metric. And the environment is improving.

So, we'll find the right time to maximize our value as we exit that. That is a focus, and we'll bring that money back into the core business and let the teams compete for it. So, kind of depends on the environment down there. As we get kind of post COVID in Brazil, will be helpful as well.

Ken Zaslow
In my opening comments, I clearly said you made one of the greatest turnarounds I've seen in my career, personally. Now you've course corrected Bunge. What gets you--what gets you out of bed? Because it seems like you are a fixer. You fixed it. What do you need to do now to keep you excited? And what's your next move?

Greg Heckman
Well, one, I didn't do anything. We did it. We've got an incredible team, and it takes thousands of people doing a lot of things right every single day. And I've been so impressed with the passion that this team has for our customers, the passion they have for this 200 plus year old company and the passion that they've got to go out and win. So, that keeps me coming in every day.

I love the business. We love to compete. We love to delight customers. You'll see us continue to do that. And I think--I mentioned when I first started, this is a really important company in the space that we're in. And this is not only a really important company, this is a really important space. We're helping feed the world, and we're helping do it in a more sustainable way. And we're helping balance between feed and food and fuel.

And it's complex. I mean, the governments and weather--and it's challenging. But, we also want to help shape this industry. So, long term, we think we're back here. We're on the front foot. We've shown that we can execute and do what we said we're going to do. We've shown that we can manage risk. And we've shown that we can be very disciplined in our capital allocation.

But, as we've gotten the cash in from our divestitures and as we continue to perform and bring that cash in, then we'll make the choices about where to put that to work. But, we're excited. We deserve to lead in this industry, and you'll see us do that.

Ken Zaslow
Do you need to be part of--is there any sort of big acquisition or something transformational that you feel like you need to do at this point, or it's just stay on the track and keep on finding these,

not small, but incremental pieces, but nothing transformational that needs to be happening at Bunge? And I'll leave it there.

Greg Heckman
I think everything is on the table with us. We let the numbers drive it. We look at the risk adjusted. We'll stay absolutely focused on driving our day to day results in delighting our customers, on building our asset base, on putting the money to work. But, if we see the right opportunity to do something transformational, we think we're as good as anybody else to do it in this industry. So, every day is a new day.

Ken Zaslow
As always, we love to see the progress at Bunge. And I appreciate your insight. Thank you so much.

Greg Heckman
Thanks, Ken. Thanks for having us.

Ken Zaslow
Yep. Be well. Be safe.

Greg Heckman
You, too.