Bunge Ltd | Barclays Global Consumer, September 2021

Benjamin Theurer: Good afternoon. And welcome back to Bunge, which is a world leader and sourcing processing, and supplying oil seed and grain products, as well as ingredients. ounded in 1818, Bunge's extensive network feeds and fuels a growing world, creating sustainable products and opportunities for more than 70,000 farmers and the consumers they serve across the globe. The company is headquartered in St. Louis, Missouri, and has 24,000 employees worldwide who stand behind more than 350 port terminals, oilseed processing plants, grain facilities, and food and ingredient production, as well as packaging facilities around the world.

We're very pleased to welcome Greg Heckman, CEO of Bunge. Greg has over 30 years of experience in agriculture energy and food processing. As CEO for over two years, Greg and his team have accomplished a great deal in terms of portfolio refinement, operational improvement, and risk management in spite of the constantly fluctuating operational environment. With that, Greg welcome and thanks for being with us today.

Greg Heckman: Thank you, Ben. Great to be here. Appreciate the opportunity and look forward to the discussion.

Benjamin Theurer: Perfect. So before going into questions, I'm pretty sure you want to share a couple of opening remarks on the current status of the different business.

Greg Heckman: Sure. First I'd like to start by continuing to thank our team for just excellent execution and working hard to keep everyone safe, whether that's what the protocols in the plants or the number of employees, we still have working remotely, but just incredible execution for the team continues here through this quarter. So as we look at agribusiness we've since the last time we were all together, I guess, at the last earnings release. We've definitely seen things here in the US on crush margin soften up a little bit. And I think that's, while we still have a very good oil demand, it's probably a little more balanced than what we thought we'd see. And then we've seen Canadian canola margins decrease a little bit here, and of course that's the weather impacts on the canola crop.

Although that's really been offset with a crush margins in the balance of the world and our global system with the EU soy and Brazil and China soy improving somewhat. And then we've also seen the EU soft margins improved to really offset what's changing in Canada. So Agribusiness continues to execute great and things about the same as what we saw last time we were together., Our Refined and Specialty Oils business continues to really be driven by the continued recovery in North America. As we kind of roll out of COVID with kind of the rolling start-stop with the new variants, but people seem to be adjusting and getting ready, trying to figure out how to roll through that. And then of course, we see the renewable diesel sector and the new demand that's been added there and the difference that that's made in our refining overages and our capacity utilization. So continue to see great execution.

Benjamin Theurer: Right. So, I mean, obviously Bunge, you guys have operations all over the globe and macroeconomic conditions in a number of key regions are important to your operations. So maybe could you perhaps provide some insight into what assumptions you have on a regional basis considered for the remainder of your 2021 outlook, especially considering some of the supply constraints down in Brazil what's been talked about just because of the weather down there.

Greg Heckman: Sure - few of the highlights, as we said, we've seen the soy crush margins improve outside of the US especially in Europe and Brazil. And we think some of that benefit we've seen as exports are a little bit lower out of Argentina. We continue to fight the low water levels there on the Paraná river. And of course, as we move towards an election cycle in Argentina, we're seeing a much slower farmer selling and the farmers really moved to spot.

We have seen improvement as well in China, in the soy crush margins. They’re still down from a year ago but some improvement and that's a little bit driven by we're seeing tighter oil situation tide or oil stocks as well as it looks like the government may begin to put pork back, build government stocks and seeing some improvement there. And then we continue to see the, the Rape and Sunseed crops in the Europe and black sea developing very well, which continue to support margins in those regions. Brazil, we've got a situation there where politics are starting to take the headlines again. And of course, we're lagging just a little bit on farmer selling versus historical on a percent of the next yearcrop sold.

Benjamin Theurer: Now staying within some of the weather conditions. I mean, obviously hurricane Ida has had an impact on the broader terminal industry in the Louisiana area. Could you elaborate to what degree your operations are impacted or not and what it means for the broader industry?

Greg Heckman: Sure. Number one, just so happy to report that all our employees were safe. We did not suffer any major structural damage. And our teams have been working hard down there to get things cleaned up and make minor repairs to get us back in shape. The big challenge is we are as everyone without electricity, originally it looked like that might be four or five weeks, and now it looks like that may just be a week or two before we're back up. So we continue to get good news each day. And lots of folks working hard to get the power restored down there. Of course, as that starts to come back up, there'll be the testing and to make sure that we can come up safely, but I think that'll be probably the next week or two. Once we do that, we'll be able to get our river logistics back on track and I think we'll recover pretty quickly and get flows back to normalization.

We did see the market react to the concern with not knowing how long we would be down. And there was some business shifted to the Texas Gulf and some business shifted to the Pacific Northwest. And we saw a little bit of buying out of South America, but I guess folks adjusted their pipeline., But we weren't in the busiest time of year here in North Americao folks were able to make some adjustments. And then the real thing to watch here long-term, of course, will be what the trade-off between what capacity was unused in the Gulf versus the programs that were on the books. But whatever the case, I feel really confident in the Bunge team to be able to take advantage of whatever, whoever dislocations and take advantage of our global network to serve our customers. So we're thinking it'll be a neutral to positive for us.

Benjamin Theurer: Okay, perfect. Now, one of the things, and you've talked about this in the past is obviously to be have flexibility around a certain situation that might arise the importance of technological innovation and the effects on productivity. So where do you feel in that sense on these stands today and or where do you think it's heading to?

Greg Heckman: Oh, and we continue to put a lot of focus. We say on a transforming Bunge by hacking ourselves and continuing to challenge who we are as a 200 year old company. So we made significant investments in technology to transform how we operate and that's across the entire business. So whether we're embracing technology to enhance our operational efficiency, not only in the facilities, but in how we process orders, how we work with customers, but especially with the interaction with our customers. And remember, we think of customers at both ends of the supply chain, both our farmers and our consuming customers, both on the B2B and the B2C and in being easier to do business with. We spent a lot of work and effort around data and predictive analytics. And that's not only the markets, but around the efficiencies in our assets.

And some of our plants, we're using AI, we're using robotics, predictive planning, and we'll continue to make a number of changes there and kind of excited about some of the things on the forefront. And then we're doing some things that have been announced in the industry, our handheld app Vector for booking truck freight. We've gotten a very high acceptance rate of over 90% of our truck freight in south main Brazil being booked through our Vector app. And now we've stood that business up with our partner to be a standalone business and be able to provide those solution to others in the industry. So excited again about how that business develops. And then we're part of an industry solution really about improving the efficiency of how we handle ocean freight globally with Covantis an important partner with other industry there. So we'll continue to look for all those opportunities.

Benjamin Theurer: Now, obviously within that, and just a little over a year ago, you laid out your path to get to baseline EPS of $5. Now, you just increased that to $7, a nice 40% up. Could you walk us through the changes in your assumptions? How comfortable are you with those in the medium term and a little bit of also what you've just said on the call around your preliminary efforts for 2022?

Greg Heckman: Sure. Well, I'd start by we're very comfortable. When we moved the baseline to the $7, remember that's not earnings power, that's a mid cycle baseline, it's an earnings framework. So people can look at what they expect the earnings power of Bunge to be in different environments. They can look at what you believe that volumes and crush margins will be in the industry and make those adjustments. Of course, we're in a very different environment right now over the mid cycle baseline of $7. We delivered $8.30 last year. And of course in Q2, we guided to at least $8.50 for this year. So environment continues to be very good. The drivers, when we did move from $5 to $7 in that baseline probably worth mentioning. One of the big drivers, of course, our operating model, which we now had in place for another year.

And I think really understand what we're able to do as we execute was definitely part of it. We saw the demand from the renewable diesel industry and the positive impact that's had on our soft seed crush margins. We did move those up $10 a ton driven off that demand for refined oil. And then in our Refined and Specialty Oils business, we moved earnings up by 30% and that's the higher capacity utilization as well as, refining overages we're seeing here in North America, driven on the back of the COVID recovery, but especially driven by the demand from renewable diesel. I think also worth mentioning while we have that in there in the short term for the next couple, three years that we do have those, I think very conservatively returning back to historical levels over the long-term on the refining.

Benjamin Theurer: Okay. Now, along those lines, and you've talked about the structural shift, which you just mentioned, and part of the expectations of future demand, looking a few years out, how confident are you with the future demand for different products, be it on the soft seed side, be it on the crush side, which segments do you actually feel you got the biggest opportunities in the future?

Greg Heckman: Well, we're excited to be at this stage after two years of really focusing on the portfolio and the operating model, our discipline around capital deployment and our discipline around risk management. That rebuilding is that frame is in place. And now we're really focused on the growth. We'll always, of course, stay close to the real core of this business, which is our leading oilseed value chains. The position that we have as a leading global oilseed crusher and kind of everything we'll do, we'll continue to lever off of that. So whether that's find key acquisitions to strengthen us regionally, or if we find the right larger acquisitions, of course, we'll look for those opportunities on the M&A. We'll continue to also build our origination and distribution that not only supports our crushing business, but our third party customers.

As far as the demand, we are excited. This is an exciting time in our industry. If you look at Ag and food, we rarely get one big structural change in demand, but to have multiple going on as really fantastic renewable diesel is a new source of demand. It has come on much faster than we thought here in North America. It has the support we've seen from the consumer is demanding it. Policymakers are demanding it, the investors are demanding it, and it's a great opportunity. So we'll continue to debottleneck our asset base in crushing to meet that demand for oil. We'll continue to look at brownfields and greenfields and be part of that transition that vegetable oil can help the energy companies play for the next 10 to 15 years.

Additionally, as we look at our Refined and Specialty Oils business, we continue to make improvements there. A new plant in India, a new plant that we'll be building in the Netherlands - and those are about really future-proofing our cost structure and having the product mix to feed our customers long-term with the speciality fats and oils, our specialty lipids business, as well as continuing to develop some areas where we have a right to win in the specialty ingredients and lecithin in nutritional lipids. And then plant-based proteins is another one of those new structural demands. And we're already enjoying that growth the last few years with our specialty lipids business, as we provide a lot of the products that give the mouth feel and the bite and the taste and those plant protein based products that people love.

And now we're working with our customers backwards and to be a supplier of the plant protein. And now that's something you'll see us develop over the next couple of years, that won't be an overnight flip the switch, but we're excited about that demand that is in place. And our customers are asking us to get involved. We've been a commodity supplier there before, and now it's time to be a value-added supplier. We've made some improvements in our creative solution center, our product development center, how we work with customers and excited about the things we'll be able to announce in the future.

Benjamin Theurer: Okay. Now, one of the things that you've talked about, it obviously the policymaker is consumers demand for renewable green diesel and the context you just announced an MOU with Chevron, could you walk us through what it is about that 50-50 JV? What's your role going to be calling exclusive or not exclusive this is going to be in, what does it actually mean for your business in the future together with the energy companies?

Greg Heckman: Well, we, couldn't be more excited about this $1.2 billion joint venture with Chevron, as you can imagine, as the largest global oilseed crusher, we've been talking to all the energy companies, and we've been very thoughtful about how we were going to make a decision here on the first entry into what we're going to do and thrilled that it's with Chevron. I think the two companies see the world a lot the same and everything from capital allocation to our cultures and how we expect to work together. So us contributing the two assets of them contributing the 600 million in cash will double the production of those assets. We have a relation, a commercial relationship with Chevron today. We've been supplying them oil for months from our existing assets. They don't have pre-treatment today. So we're supplying them from different assets and the two that are going in the JV.

But we really look at that new JV, it's a platform where we have the ability, the two companies that now touch the entire value chain from the farmer. And if you think about the stewardship and the developing the lowest CI products, and then taking them through the processing value chain until Chevron turns it into renewable diesel and puts it through their retail system all the way to that retail customer. So, we've got the ability to plan and look at opportunities end-to-end, and that is working together on policy, working together on economic analysis, bringing our engineering and planning groups together. We're really excited about where this can go. So, we'll continue to look at really all the opportunities, whether that's building some pre-treatment together, whether it's looking at developing other low CI feedstocks, maybe looking at cover crops. And the beauty is none of those things are in there. That's all upside for us as we develop, but this is a long-term relationshipthat’s really using the expertise of two global platforms in Ag and energy to really make difference at scale on renewable feedstocks and sustainable energy. So excited about it.

Benjamin Theurer: That's, I can tell. Now climate change clearly has become one more relevant issue and there was being growing emphasis on ESG criteria in the past, you've been very proactive, taking steps towards a more sustainable business model. How satisfied are you with the progress you've made so far? And is there some sort of the roadmap for the plans, the company is having in terms of like around deforestation, its efforts and traceability. I mean, there's always the issues that you have to deal with. So just to understand where you stand and where you want to go.

Greg Heckman: Sure. Look, we're very proud of what we've accomplished here at Bunge, but there's lots more to do, but we start with right at the beginning of any capital decision that we make, we're thinking about the cost of carbon in the future, and thinking about the investment of those assets and how it's working all the way through the chain, from the farmer to our feed, food and fuel customers. We've been a leader for more than a decade. We've got the most robust goals reporting and disclosure in the industry. We recently had named in the last two years, Rob Coviello to be the head, our chief sustainability officer and Rob reports directly to me. He's on the executive leadership team, he's got a seat at the table as we're driving sustainability through everything that we do. We've had a sustainability in corporate responsibility committee at our board of directors since 2016 and great credentials and really helpful that to driving all of our strategies and policies.

And then in June, we just released our 10th report on our progress against our 2025, non-deforestation commitment for all commodities. And that is the earliest of anyone in the industry. And we're very proud of that. Proud of the progress we continue to make, because we want to make scalable and lasting solutions and those have to come from multi-stake collaboration. So we're active in Abiove, the Cerrado working group there, we work with the Soft Commodities Forum, and we really work across the lines with all our partners along the value chain, as well as with the NGOs, because to make a difference at scale, we have to be inclusive and we've got to really work together all the way along the value chain.

Benjamin Theurer: Yeah. Perfect. Well, that's good to hear. Now I have to touch on that on, although it's non-core, it's been the interesting piece, the sugar bioenergy JV, which you have down with BP in Brazil. I mean, it had a notable recovery compared to 2020. It's just as funny because it happened right after you put it into the non-core bucket. What might the future of the segment in particular look like? I mean, in upcoming years, considering the opportunity you may be selling participation, maybe take it public by an IPO. I mean, there's a lot of things you have been talking about how important are trends and consumer demand? And I mean, ultimately the shape of the Brazilian financial markets for that JV, particularly in light of what's going on today on the Brazilian market.

Greg Heckman: Sure. Well, look I just start by saying, what a great partner BP is and how much we really love the leadership team down there and we respect the job that they're doing. The business is operating very well and they've hit their synergy targets and they've done a great job even down there this year where you've got dry weather. They've managed to the favorable ethanol prices and hedge the sugar very effectively. So, we think that'll offset the lower volume and the business will perform very well, but that doesn't changeour intentions to exit this business, but the timing has to be right. Then we've got a great business it's performing well, we are passing the key dates here where we will have the ability to market the business and/or trigger an IPO. But, of course, the timing needs to be right. But we do the work and listen to lots of advisors. And at the right time, we definitely feel we've got some value there to unlock.

Benjamin Theurer: Which ultimately should help you to further strengthen the balance sheet, which brings me to one of my final questions around capital allocation. I mean, clearly you've been increasing a lot cash just as a result of the operations that are running. We touched on the $5 baseline up to $7, but actually more like $8.50, at least. So obviously that brings a lot of cash. Now going forward, what are all the plans? What are you going to do? What's, the use of that liquidity? Is it investing in organic growth projects? Is it dividends, is it stock buybacks M&A? So where do you want to take the company to in a couple of years’ time, just considering all the cash that's coming in?

Greg Heckman: Well, we're very proud of the turnaround and we're really proud of how strong the balance sheet is. A strong balance sheets, critical. Very, very important for this business. We have spent a lot of time with the rating agencies this year and making sure that that all three understood the changes that we've made here at the company, in the things that we are doing different than the past, and that this is a new Bunge. We feel we've got good momentum, and we're almost where we should be with all of them and hope to get there. And that's been our goal. We'll continue to have a balanced approach. The allocation, as you know, we just increased our quarterly dividend in May up by 5%. We'll review it again next year. And we've got a great list that the team is bringing forward of a number of organic growth investments.

And one of the things that is different now around our capital allocation is all the money comes back to the center and then we've put the best and brightest of our team challenging each project to make sure that when we put assets in the ground for the long-term, that we're comfortable with returns they're going to make through all the cycles. And then buybacks are always on the table. We know that's an important tool for creating shareholder value. And if we don't find the right investments that meet our targets on a risk adjusted basis, then we'll return that cash to shareholders. But the balanced approach always - this is about the investors.

Benjamin Theurer: Perfect. Now you've taken over a little over two years ago, and obviously you've achieved a tremendous amount of change within the company. Is there anything where you would say you could have done better or you think that could have been something that ultimately fell through the cracks and you would have done maybe different in retrospective, putting aside all the good things you've done over the last two years?

Greg Heckman: Well, you always feel like you can go faster, right? Hindsight is 20/20, but overall, we knew when we got here, this is just a great global footprint that we've got here at Bunge. We've got great customers at both ends of the supply chain. And this employee group is just fantastic. The amount of change we've driven and all the external challenges, the rate of change that we've done it and the passion that they have for Bunge and for Bunge winning and for Bunge's customers being successful. I don't know that we'd do it a lot different, you'd always love to do it faster. And now, as we've moved to the growth phase, the real fun begins and the hard work continues because this team loves to work hard.

Benjamin Theurer: Perfect. Well, Greg, thank you very much for coming on this afternoon as well for hosting some of the one-on-one meetings, was great catching up. Thank you very much for your time giving all these responses, we're good. Looking forward to the next earnings and get you raised that guidance again, like it's almost gotten tradition now.

Greg Heckman: Thanks so much for having us today. Really appreciate the opportunity.

Benjamin Theurer: Thank you.