Bunge Limited

First Quarter 2023 Earnings Release and Conference Call

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CORPORATE PARTICIPANTS

Ruth Ann Wisener - *Vice President, Investor Relations*

Greg Heckman - *Chief Executive Officer*

John Neppl - *Chief Financial Officer*

PRESENTATION

Operator
Good morning and welcome to the Bunge Limited First Quarter 2023 Conference Call. All participants will be listen-only mode. Should you need assistance, please signal a conference specialist by pressing star key followed by zero.

After today's presentation, there will be an opportunity to ask questions. To ask a question, you may press star then one on your telephone keypad. To withdraw your question, please press star then two. Please note that 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 first quarter earnings call. Before we get started, I want to let you know that we have slides to accompany our discussion. These can be found in the investor section of our website at Bunge.com under Events and Presentations. Reconciliations of non-GAAP measures to the most directly comparable GAAP financial measure are posted on our website as well.

I'd like to direct you to slide two and remind you that today's presentation includes forward-looking statements that reflect Bunge's current view with respect to future events, financial performance, and industry conditions. These forward-looking statements are subject to various risk and uncertainty. 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. I want to start by thanking the team for their continued focus and strong execution. While the volatility of the quarter was less than we experienced last year, we're still in a highly dynamic operating environment. The resiliency of our team, our deep partnerships with customers across the value chain, and our global platform enabled us to deliver another quarter of strong results.

Our focus is on continuing to invest in strengthening our business so that we can provide customers, from farmers to end consumers, with solutions to some of the most pressing challenges facing them not only today but as we look ahead. The work we have done to improve and integrate our operational, commercial, and risk management approach has enabled us to effectively manage through supply disruptions, severe weather impacts, the lingering effects of the pandemic, and the volatility in financial markets.

When we execute and capitalize on the options our global footprint provides us, along with our team's commitment to quality, service, and innovation, we create value for all of our stakeholders. In short, we continue to demonstrate that our team and our diverse platform give us the ability to succeed in any operating environment and help our customers do the same.

Turning to the first quarter, while many of the factors that drove extreme volatility this time last year are still in place, markets have stabilized somewhat. Our numbers this quarter reflect performance that was among the best in first quarters in Bunge's history, although down from prior year's record results, which reflected those major market dislocations.

Adjusted core segment EBIT in the first quarter benefited from a record performance in Refined and Specialty Oils, offset by lower results in the remaining core segments. This is an industry that requires a long-term view, and we're managing our business to maximize our earnings power over long periods of time.

Our EPS over the last four years demonstrates the impact of the team's hard work to drive operational performance, optimize our portfolio, and strengthen our financial discipline. Looking ahead and based on what we see in the market and the forward curves today, we are reaffirming our guidance for full-year adjusted EPS to be at least $11.00.

I'll hand the call over to John now to walk through financial results in detail and will then close with some additional thoughts on the remainder of the year. John?

John Neppl
Thanks, Greg, and good morning, everyone. Let's turn to the earnings highlights on slide five. Our reported first quarter earnings per share was $4.15 compared to $4.48 in the first quarter of 2022.

Our reported results included a positive mark-to-market timing difference of $0.84 per share and a positive impact of $0.05 per share related to one-time items. Adjusted EPS was $3.26 in the quarter versus $4.26 in the prior year. Adjusted core segment earnings before interest and taxes, or EBIT, was $756 million in the quarter versus $858 million last year.

Agribusiness started the year off well. However, results were down from last year's particularly strong performance. In processing, lower results in the quarter were primarily driven by soy crush. Improved performances in North America and Brazil, which benefited from strong protein and oil demand and reduced Argentine exports, were more than offset by lower results in Argentina, Europe, and Asia.

In merchandising, results were lower in the quarter as margins declined from last year's levels, which were impacted by market disruptions due to tight supplies and the war in Ukraine. Refined and Specialty Oils also started the year off on a strong note. All regions performed well, with notable year-over-year improvements in North America and South America, both of which benefited from strong food and renewable fuel demand, as well as effective utilization of our distribution network.

In Milling, lower results were driven by South America, where the small Argentine wheat crop negatively impacted our local upstream merchandising. This was partially offset by stronger structural margins in our Milling operations in Brazil. Results in the U.S. were down slightly. Segment results in the prior year benefited from very strong South American origination margins during a period of high market volatility.

The increase in corporate expenses in the quarter was largely driven by growth related initiatives, offset in part by an increase in other results, primarily related to Bunge Ventures. Lower results in our non-core sugar and bioenergy joint venture were primarily driven by lower Brazilian ethanol prices and higher costs.

Adjusting for notable items, net interest expense of $69 million in the quarter was up compared to last year, primarily due to higher variable interest rates, partially offset by higher investments in interest-bearing cash instruments and lower average debt levels.

For the quarter, reported income tax expense was $183 million compared to $108 million in the prior year. The increase was primarily due to a change in geographic earnings mix, as well as higher tax benefits in 2022 from releases of valuation allowances in Europe and Asia.

Let's turn to slide six, where you can see our adjusted EPS and EBIT trends over the past four years, along with the trailing 12 months. This performance trend not only reflects the strength and resiliency of our global network of integrated assets and capabilities, but also demonstrates the outstanding performance and agility of our team to adjust to the changing market conditions.

Slide seven details our capital allocation of the $625 million of adjusted funds from operations that we generated in the first quarter. After allocating $86 million to sustaining CapEx, which includes maintenance environmental health and safety, we had approximately $540 million in discretionary cash flow available. Of this amount, we paid $94 million in common dividends and invested $87 million in growth and productivity CapEx, leaving approximately $360 million of retained cash flow.

During the first quarter, we did not repurchase shares. As we have discussed previously, we have a balanced approach to capital allocation, and share repurchases are absolutely a component of that mix. However, they have been on hold over the last two quarters as we've been actively engaged in a variety of discussions to expand our global platform's scale and core capabilities.

As we have been in the past, we will be disciplined and make the right decisions as quickly as possible. We believe our stock is undervalued and look forward to getting back in the market to continue our share repurchase program as soon as possible.

As shown on slide eight, at quarter-end readily marketable inventories, or RMI, exceeded our net debt by approximately $4.5 billion. This reflects our use of retained cash flow and proceeds from portfolio actions to fund working capital while reducing debt.

Slide nine highlights our liquidity position. At quarter-end, all $5.7 billion of our committed credit facilities was unused and available, providing us ample liquidity to manager ongoing capital needs.

Please turn to slide 10. For the trailing 12 months, adjusted ROIC was 19.8%, well above our RMI adjusted weighted average cost of capital of 7.7%. ROIC was 14.4%, also well above our weighted average cost of capital of 7%.

At the end of the quarter, we had an unusually large cash balance of approximately $3 billion, most of which is expected to be used toward repayment of upcoming debt maturities and increased working capital during the second quarter. When adjusting for this, the trailing 12 month ROIC and adjusted ROIC for the quarter were more in line with the previous 12 month period.

Note that we increase both our WACC and adjusted WACC from 6% and 6.6% respectively to 7% and 7.7% respectively, reflecting the current higher interest rate environment.

Moving to slide 11, for the trailing 12 months, we produced discretionary cash flow of over $1.9 billion and a cash flow yield of 18.2%. Similarly, we increased our cost of equity from 7% to 8.2%, reflecting the more recent market environment.

Please turn to slide 12 and our 2023 outlook. As Greg mentioned in his remarks, taking into account first quarter results and the current margin environment of forward curves, we continue to expect full year 2023 adjusted EPS of at least $11.00 per share.

In Agribusiness, full-year results are forecasted to be down from last year, as slightly higher results in processing are more than offset by lower results in merchandising. However, depending on how market conditions evolve over the remainder of the year, there could be upside to our segment outlook.

In Refined and Specialty Oils, based on our stronger than expected first quarter performance, full-year results are expected to be up from our prior outlook, but still below last year's record performance.

In Milling, full-year results are now expected to be down from our prior forecast, reflecting a more challenging than expected first quarter. In corporate and other, results are expected to be in line with last year. In non-core, full-year results in our sugar and bioenergy joint venture are expected to be in line with last year.

Additionally, the company expects the following for 2023: An adjusted annual effective tax rate in the range of 20% to 24%; net interest expense in the range of $360 million to $390 million, which is down from our previous expectation; capital expenditures in the range of $800 million to $1 billion; and depreciation and amortization of approximately $415 million.

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

Greg Heckman
Thanks, John. Before turning to Q&A, I want to offer a few closing thoughts. Looking ahead, we're focused on investing to grow the business so we can increase our ability to serve our farmers and consumers regardless of the environment we're operating in.

In the first quarter, we made strategic investments in our growth areas, including focusing on core origination and crush operations, expanding our innovative Refined and Specialty Oil products and solutions, and increasing our participation in renewable feedstocks and plant-based proteins.

As part of our culture of continuous improvement, investments we made in our origination and crush operations are already showing results. Improvements in maintenance and reliability processes reduced overall unplanned downtime to a record low for the company. Our energy reduction projects are showing strong results, and we put through record volumes in our ports in Brazil by adjusting our product mix to improve efficiency.

Within Refined and Specialty Oils, in April we announced the acquisition of Fuji Oil's newly constructed port-based refinery in Louisiana. This is part of our long-term strategy to expand our specialty oils business by increasing our ability to serve our food customers with a variety of feedstocks. The team did a fantastic job of on boarding our new colleagues, and we've already started serving food customers from that facility.

Investing in innovation and technologies to support local carbon initiatives are also a key part of our strategy. We've increased our participation in renewable feedstocks, announcing a collaboration with Chevron and Corteva Agrisciences to introduce proprietary winter canola hybrids to produce plant-based oils with lower carbon profiles.

This creates new revenue opportunities for farmers with a sustainable crop rotation. Our goal is to increase the availability of vegetable oil feedstocks serving the growing demand for the domestic renewable fuels market. It is also another step in our commitment to creating clear paths to support decarbonization.

We also announced a multiyear collaboration with Corteva to develop and commercialize soybean varieties that create new value for soybean farmers and feed customers. The protein meal from these varieties is expected to reduce the use of synthetic additives, lower costs, and shrink their carbon footprint. This is another example of how our role as the global leader in oilseed processing uniquely positions us to leverage upstream and downstream partnerships with leading and innovative industry players to unlock value for our customers along the value chain.

Executing on our growth strategy will enable us to deliver on our purpose of connecting farmers to consumers to deliver sustainable and essential food, feed, and fuel to the world. Many of the investments and partnerships we've announced, along with others in our pipeline, offer new tools and solutions to connect farmers with markets that value sustainable operations and production.

And with that, we'll turn to the Q&A.

QUESTION AND ANSWER

Operator
Thank you. We will now begin the question and answer session. To ask a question, you may press star then one on your telephone keypad. If you are using a speakerphone, please pick up your handset before pressing the keys. To withdraw your question, please press star then two. At this time, we will pause momentarily to assemble our roster.

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

Ben Bienvenu
Hey, good morning. Thanks so much for taking my questions.

Greg Heckman
You bet. Good morning, Ben.

Ben Bienvenu
I want to start just with the guidance. You maintained the guidance of at least $11.00 this year. Obviously, the operating backdrop has been dynamic to start the year, and I think the composition of it looks a bit different now for the year versus when we last heard from you to start this year. So, maybe if you could talk to us a little bit about kind of the shape of that at least $11.00. And you talked about the potential for guidance to be conservative depending on how the landscape evolves through the balance of this year. So, maybe if you could talk a little bit about both the opportunities and threats you see in guidance.

Greg Heckman
Okay. Maybe I'll let John talk to the shape of it, and then I'll kind of talk to the opportunity.

John Neppl
Yes. Thanks, Ben. Yes, we look at the year, we had obviously a good start to the year in Q1, and you did see some softness in the curves in Q2. But we had largely hedged heading into Q2, so the impact on us in Q2 won't be as significant as maybe what the curves may imply. But we are seeing a little bit of softness in Q2 versus where we were before.

But we've seen upside more in Q4, so we're probably slightly skewing the earnings from where we were last quarter, at maybe 55/45. We're a little bit maybe less in the first half, more in the second, but still expecting over 50% of the earnings in the first half. But, again, with the improvement out on the backend and a little bit more visibility, we felt like we could take Q4 up to offset any softness in Q2.

Greg Heckman
Yes. And I'd say, if you kind of step back and why we feel good about the at least $11.00, I think it's really the size of the plus is what we'll be trying to figure out the rest of the year. If you look at the meal and oil demand drivers, they definitely continue to be in place for the full year. You look at global poultry and pork, those numbers are stable and in total a little higher. The food and fuel demand for oil continues to remain very solid.

And then when you think about the upside, right, merchandising, that's always the toughest one for us to forecast. We're not exactly sure of the timing or where along the value chain that that's going to fall. But what we are confident in is that our team has the ability, when those opportunities are there, to execute against them. And it continues to be a pretty complicated place globally, right?

We've got a real crop problem in Argentina, which is going to cause some dislocations and tighten things up globally in merchandising flows as well as and crushing. And then, of course we're off to a good start but very early in the soybean planting here in North America, and we still need to make a big crop in North America.

And then the other, right, China, the demand's improving, so we'll continue to watch that and see how much better that gets. And then I mentioned Argentina on crush. That dislocation's in place. It is going to call on crush around the globe, and I think it'll really be how those margins play out over the year.

And then lastly, the U.S. RD capacity, we're starting to see them catch up where they had been a little bit slow bringing online some of the capacity that's in place. But those orders are starting to come in, as well as some of the new RD capacity that is coming up here in the second half. And we're starting that position with a better book of sales on in our Refined and Specialty Oils not only in the fuel side, but in the food side as well as that continues to develop.

And then you look at B12 just kicked off. We went from B10 to B12 in Brazil here in April, as that begins to play out. And then the big Brazil bean crop, of course that's helped margins in China. That's helped crushing margins in Brazil, and it's helping crushing margins in Europe as well as less pressure from oil and meal shipping out of Argentina. And then as far as our merchandising import business, it looks like we've got a big corn crop coming in Brazil. So, that could be pretty favorable too.

So, there's just a lot of moving pieces. We don't have visibility to exactly what they'll be. But frankly, versus when we talked 90 days ago, I think we feel definitely more confident in the at least $11.00 today than we did last time we were all together.

Ben Bienvenu
Okay. Very good, very helpful. My second question is related to the sugar business. I know we've been talking about this and asking about this for a while. Can you give us any update, to the extent you can, on the potential timeline for a sale? Does this very strong sugar price market globally positively influence the potential price you might realize for that business? And maybe just more pointedly, do you think that's a 2023 event, the sale?

John Neppl
Yes. Ben, it's hard to predict timing. We continue to work on that business. We've made it clear that long-term it's not core. And so, we are still actively working on that. Sometimes it just takes time, a lot of nuances when you have a partner and others involved.

But fortunately in the near-term, margins are very good. Sugar prices are high. And we think the business is going to perform extremely well until we don't own it. And we're hopeful to be able to pull some cash dividends out of that here going forward and continue to manage it, run it like we own it til we don't.

Ben Bienvenu
Okay, fair enough. Thanks.

Operator
Thank you. Our next question comes from Ben Theurer with Barclays. Please go ahead.

Ben Theurer
Yes. Good morning, Greg, John. Thanks for taking my question.

Greg Heckman
Good morning.

Ben Theurer
Congrats on the results.

Greg Heckman
Thank you.

Ben Theurer
Just following up on the guidance piece and maybe digging a little bit into the refined and specialty oils, it was clearly a very strong start to the year, round about $50 million up just in absolute terms, but you're still guiding for the results to come in softer for the year. So, help us understand what you're seeing in the market, where you see the risks to not reach that little over $800 million level you basically had in the last year. So, what are the risks within it, and how realistic do you think those risks are? That would be my first question.

Greg Heckman

Sure, let me start. Yes, I think you've called out another area where we think we have some possibility for upside. Yes, it's very strong in Q4 and Q1. But as we came out of Q1, right, you'd seen palm supplies coming back globally. And so, the global oil supply was definitely a little bit heavier. We'd seen the RD industry having trouble with startups and some of the capacity that is in shape. And so, things were definitely a little softer at the end of the quarter, and that was kind of how things felt for RS&O.

Now, I would repeat that we've got our strongest sales book on for the balance of the year with both food and fuel customers, with about 80% of our volume still goes to the food industry. That's generally a very good situation as we book out the balance of the year. So, we're, I think, thinking that palm will kind of tighten up as the balance of the year and oil demand continues to be there as the RD demand comes up.

And even while we were a little concerned about recessionary concerns, our place kind of in the middle of the value chain, we don't feel those same impacts. And then we haven't seen demand come off on the food side. We have seen some switching from brands to private label. We've seen some switching in channels, maybe more QSR volume coming our way. But net-net, the volume continues to be in place.

So, I think it's hard to see, but we're pretty constructive. The challenge, where we don't have as good a visibility to Europe, is probably the place on the softseed side where we're a little concerned that may be a little softer year-over-year. But I think the rest of it looks pretty good.

Ben Theurer
Okay, perfect. And then my second question is just around CapEx. And obviously, you reiterated the $800 million to about $1 billion guidance. You're running a little behind on a quarterly basis, but clearly up versus last year. So, how should we think about the CapEx throughout the year? And what are kind of the scenarios to get to the higher versus the lower end of these CapEx plans, and what's the focus of that CapEx? Thank you.

John Neppl
Yes. Look, I think we're starting to see some good momentum on the projects. And we do believe, and I think right now we've got a good shot at being at the high end of that range in terms of CapEx for the year. Obviously, a lot of things gotta keep rolling ahead, but we're finally getting in line on the cost side. We're getting -- projects that have been maybe a little bit slower to start are now underway, and we've cleared ground on some things.

So, optimistic that we can really get rolling on the CapEx side. And a good chunk of that is going to be on larger projects. We've got a handful of what we kind of call internally megaprojects, but it's the bigger ones, some of which we've talked about, certainly the projects related to our Chevron JV, Moorestown, the Rotterdam plant in Europe that we've talked about, our Krishna plant in India, which should be up and running here a little bit later this year. We're getting close on that one, a lot of those projects.

And then, of course we've got a number of debottlenecking projects. And Greg alluded to some of those and the benefits we've been seeing on some of those, but those continue. So, looking good on that front, I think. And then I would say, out beyond this year, probably next year if we can keep the momentum going, a shot at probably being a little bit higher next year on CapEx.

Ben Theurer
Perfect. Thank you very much.

John Neppl
You bet.

Operator
Thank you. Our next question comes from Salvator Tiano with Bank of America. Please go ahead.

Salvator Tiano
Yes. Thank you very much. So firstly, I wanted to ask a little bit about the working capital, a very big inflow in Q1, which is not also traditional seasonality. What, I guess, drove that? And also, how should we think now about working capital and operating cash flow for 2023 in total?

John Neppl
Yes. I think, look, from a working capital standpoint, usually Q2 is our peak. And so, as we see the harvest in Brazil and kind of things getting full swing and farmers get paid, we should see a working capital increase over the second quarter and typically peak.

But you can see we were down year-over-year in terms of working capital usage, and a lot of that's driven by prices. And so, that's the big driver really, even more than volume generally, is our commodity prices. We do, I would say, at this point probably expect to be lower year-over-year overall for the year. And post Q2, it will taper off in Q3. And then in Q4, typically it can taper off a little bit because we pay a lot of the U.S. farmers. Even during harvest, they defer payments into the following year.

But again, I would say year-over-year right now, our bias would be that working capital is going to be down a bit. So, it'll be a net cash generation for us from a cash flow from operations standpoint, although when we talk about funds from operations and free cash flow, we set aside the changes in working capital, and we don't include that in our FFO calculation.

Salvator Tiano
Okay, perfect. And I wanted to also follow up on the comment you made earlier, essentially, if I understood correctly, you're more confident right now in your guidance than 90 days ago. And I found that a little bit surprising because, when you think what has happened in the meantime, lower crop prices, potential for a really good harvest in the U.S. and perhaps next year in Latin America, and of course the crush margins, I would have thought that it would -- we would see exactly the opposite, meaning that, no matter how conservative your guidance would have been, you would have less confidence today verse 90 days ago. So, can you elaborate a little bit on that, and what is essentially helping you, despite market conditions getting worse, have more confidence today?

Greg Heckman
Sure. I think it starts with the global footprint that we've got and the team, the job they're doing executing. So, if you look at our global crush footprint, while it's going to be definitely tough in Argentina with the size of that crop down from last year at 44 million metric tons to what could be 27, that's going to call on capacity to run in the rest of the world to provide that meal and oil. And we're well positioned there. And then the big crop in Brazil allows us to feed that crushing and has helped those margins.

The other thing -- when I make the comment versus 90 days ago, the other thing that we know, right, we executed very well during Q1. And then if you remember, we're always more liquidity in

the next quarter and especially in the next 30 days. So, while things are softer here, our team did a good job of managing the risk, managing the earnings at risk in our assets in getting this nearby softness hedged up.

So, we have some visibility in how we'll perform through here in the second quarter, and then the curves have actually improved in the back half, especially in Q4. And so, as we replenish the beans in North America, and we've got to make that crop but I think that's expected and the acres will be there, and then what we're seeing from demand and what the markets are telling us, and the curves in demand for meal and oil improving, that that outlook has improved as well.

And then, of course, the big corn crop that's going to need to be handled right on the back of a big bean crop in South America for our distribution and merchandising system, that that should also put us in good position. So, just we've got more visibility to not only what has been executed, what we have hedged, and what we expect to be coming.

Salvator Tiano
Perfect. Thank you very much.

Greg Heckman
Thank you.

Operator
Thank you. Our next question is from the line of Steven Haynes with Morgan Stanley. Please go ahead.

Steven Haynes
Hey, everyone. Thanks for taking my question. Wanted to ask a follow-up on I guess the comment about, kind of in lieu share repurchases, maybe reinvesting back in the business and building out the platform a bit more. I mean, can you give us a little bit of color about how you're kind of thinking about the various buckets that you've broken out in terms of sizing that, and then maybe from a geographic perspective also, where you would be looking to invest more and less? Thank you.

John Neppl
Yes. I'll start and Greg can jump in as needed. Look, in terms of share repurchases, I think it continues to be an important part of our allocation. And we have $300 million remaining on our current authorization that we'd like to -- we'd hope to get used up this year. We'll see. That would be our goal, and then seek a further authorization there. And that going forward, we believe, needs to be a continued part of our allocation strategy.

In terms of capital allocation in general, I think we really look to strengthen across our broader platform not only in crush and origination and continuing to look for opportunities there to consolidate the industry where we can, focus on expanding that in areas where we're weak, potentially improving our origination strength, getting closer to the farmer, which really fits well into our regen ag and some of the other efforts we're putting there, also continuing to look for opportunities, as we demonstrated with the Fuji plant, our refined and specialty oils business, which is an important part of our business going forward. That was a great acquisition example of something where we have a bolt-on that is up and running right away; continuing to look at, obviously through these capital projects, expanding our plant-based protein, and so really kind of expanding all the way across our core businesses.

From a geographic standpoint, I'd say largely North and South America at this point, just given some of the dynamics elsewhere. But, as you know, we've got two plants, a plant in Europe under construction and a plant in India that's being wrapped up here soon. So, it is spread out across the globe, but I'd say probably more bent toward North and South America at this point.

Steven Haynes
Okay. Thank you.

John Neppl
You bet.

Operator
Thank you. Our next question comes from Manav Gupta with UBS. Please go ahead.

Manav Gupta
Good morning, guys. I just wanted to follow up first on the March 14th announcement, you working with Chevron and Corteva to develop/produce winter canola. Help us understand where this partnership is heading, which are the key milestones we should look at. And again, it looks very promising, so when should we start giving you some credit in your earnings for this kind of work that you're doing with Chevron and Corteva?

Greg Heckman
We're really excited to be working with those two great partners. I think it's a great example of us connecting the value chain to really help make change at scale in developing renewable feedstocks.

So, this, like many of these programs, will develop as these seed varieties become available, then we commercialize them with the farmers. And then, of course, we've announced that we're expanding our crushing facility at Destrehan. And of course, we have the investment in CoverCress as well. So, these novel seeds, and as you know, softseed has a higher percent oil, we'll have switch capacity industry in Destrehan so that -- not only to feed it whether it makes sense with soy or whether it makes sense with CoverCress or whether it makes sense with softseed canola domestically, or being there on the port if it makes sense globally to be able to bring softseed globally.

That's the kind of flexibility we want to build into our system when we invest. And that's not only on feeding it with the seed, but also to the point that the exports that meal is calling on demand globally as meal is buying its way into the rations more heavily, that we are sitting there at the port so we can feed those customers globally. So, it won't be a light switch or a big stair step. It'll be continually, and we'll continue to report on that as we move forward over time.

And then, of course, the other project we talked about with Corteva, which we're very excited, and that's a multiyear program that has been going on for a period of time and is getting to the point where we and Corteva decided it was time to talk a little bit about it. But that could be really exciting. Again, it's a profit opportunity for the farmers to grow a soybean that has a different amino acid profile when we then turn it into meal, and that will create value for the farmer and it will create value for the feed manufacturer versus the synthetic amino acid.

So, that one is a little farther out, but really exciting on the magnitude that it can be. But I think it just shows the investment that we're making in the business for the long term, and it's in our core strengths. It's where we really deserve to win. And we're excited that our great partners

have recognized that, and we're committed to helping them be successful and the end customers be successful.

Manav Gupta
Perfect. And just some more details. I mean, you initially mentioned about this refinery you have acquired from Fuji. Why is this the right strategic fit for you guys? What are the benefits of it? Can you help us understand why this was the right transaction for you guys?

Greg Heckman
Sure. We're super excited about this. And as we said, we plugged it right into the network. There's a great team down there that's now part of our team, and we're already serving customers out of that plant. We had already -- we're out of capacity domestically on the tropical oil side, so this was a great fit for our network just to continue to grow with customers and serve them with additional solutions and alternatives.

We already have plans to expand that plant. We had some equipment already ordered that was headed for a different location that we are going to point in there, and we're going to significantly expand that plant and much faster than we could with a greenfield. So, that's how it fits in. And if you think of all the oil flows that are changing because of biofuels in general and renewable diesel specifically, that that's going to be needed to continue to import some of these different oils on the tropical side and serve our customers as they reformulate. So, really excited about the role that'll play in our solutions.

Manav Gupta
Thank you so much for taking my questions.

Greg Heckman
You bet. Thank you.

Operator
Thank you. Our next question is from Thomas Palmer with JPMorgan. Please go ahead.

Thomas Palmer
Good morning. Thanks for the question.

Greg Heckman
Morning, Tom.

Thomas Palmer
Based on your volume disclosures, I think a challenge both merchandising and in milling has been the availability of corn and wheat in your regions. Just any visibility as to when the volume picture might get a little better for those products. I mean, you just alluded to a better corn crop, for instance. Do we start seeing benefits of this in the second quarter, or is it a bit more second half weighted?

John Neppl
Maybe, Tom, I can maybe touch on what's been kind of the drag from a volume standpoint versus the prior year, and then Greg can touch on kind of the outlook. But if you look at from a volume perspective, particularly on the crush side, volume was down versus last year really driven by Ukraine shutting down for the full quarter, versus last year we operated part of the

quarter. And with high energy costs, Europe in general, for softseeds, we maybe didn't run at full utilization this year.

On the merchandising side, where we had a bigger volume decline, you look at the global -- kind of global corn flows were not as robust, and that was probably the biggest area where volume was down. The margins just weren't there to handle a lot, and we just didn't have the same sort of export opportunities as we did last year. And then really looking at, on the Milling side Mexico milling we had, we had ownership of for part of the quarter last year, or most of the quarter. And this year of course, it's out of the numbers. So, those were the big drivers from a volume standpoint year-over-year.

But maybe, Greg, want to comment on kind of the outlook here?

Greg Heckman
Yes. I think in Brazil, right, the initial shock here in Q1 from the smaller Argentine crop and some of the challenges that we expect to see on the quality there as well. Where our South American wheat Milling business is set up, Argentina is a real important supplier to that, so that can make a difference year-to-year. But we reflected the challenge in Q4 and then are rolling that forward in the balance of the year. So, the big change, of course, won't be next year until that crop comes off and seeing where that opportunity comes.

As far as in North America, our core Milling business did have good demand and good yields. And then, of course the quality of the new crop in North America will be key later in the year. But they've done a great job in our North America corn billing business with lower unplanned downtime, and then we had some nice key customer wins and getting some new business. So, kind of plugging along, and continue to feel good about that.

Thomas Palmer
Thanks for all the detail. And then maybe on the crushing side, so you've kind of alluded to this at various points on the call, but maybe I'll ask a little more explicitly. Could we just get a recap of what you're seeing directionally in different parts of the world today from a crush margin standpoint, and then which regions are kind of showing the biggest rebounds as we think about the back half of the year at this point?

Greg Heckman
Sure. If you take soy in total, right now '23 structural margins in total look in line with '22. So, while we see U.S., it's down slightly versus an exceptional year last year, China, the curve looks similar. Now, that's been a bit of a roller coaster, right? Last year was tough. Margins were better early in China and then started to get soft. But now with the new Brazilian bean crop coming off, those margins are improving again. Now, there's not much liquidity in the China market. It's always pretty spot and fairly volatile. But the team's doing a good job, so I think that's similar with maybe some upside.Brazil, the curve is up versus last year. And of course, that's on the back of both the record Brazilian bean crop as well as the lower Argentine production. And then, of course Argentina is the drag by itself. The curve's much lower with what's going on there, with the small crop hurt by weather. And so, volumes will be lower there all year that has to be picked up by the rest of the system.

And then the EU definitely looks better than last year. Energy prices have moderated. And then, of course there's less exports of Argentine meal into that market, which helps help margins there as well. And then in softseed, the curves are up versus 2022, and that's in both North

America and Europe, so improvement in the softseed side. That's really on -- seed supply is really a driver.

Thomas Palmer
Thanks so much.

Greg Heckman
You bet. Thank you.

Operator
Our next question is from the line of Andrew Strelzik with BMO. Please go ahead.

Andrew Strelzik
Hey, good morning. Thanks for taking the questions.

Greg Heckman
You bet. Good morning.

Andrew Strelzik
Maybe my first one to start, I heard your comments on the renewable diesel demand that you're seeing. I'd love if you could elaborate on that. I think you said you're seeing some catch-up and maybe some demand from new capacity, so anything else you can share on that. And then in light of that, do you think that the futures curves are accurately reflecting where crush margins could go in the back half? I mean, you'd mentioned some improvement in 4Q. We know what's going on in Argentina. I mean, do you think whether or not it was a fair representation?

Greg Heckman
Yes. On the oil demand, yes, it had been a little heavy here at the end of the quarter domestically. And a lot of that was they were having start-up problems, some of the RD guys. And of course, they're a good size, and that can make a difference in logistics. But even in the last week to 10 days, we've seen those orders come in not only on schedule, but some actually looking to have some of that volume shipped early.

So, that's a real change. That feels different. And so, that's coming on, so it feels like they're getting the bugs out of the system. And I don't know what other drivers on profitability within their system is driving that, but it feels broad-based. It's more than just one of them.

Yes, we use the curves to forecast. We never say we're smarter than the curves, and that's what they tell us today. But I think we feel good about the setup. And we've got to develop the North American crop, but right now the demand looks to be there. And we know we've got the big crop in Brazil, and now we see if we can make the crop here in North America, but feel good about how things are setting up.

John Neppl
Yes. In terms of, Andrew, the RD side, renewable diesel side, things have probably been a little slower in terms of the ramp-up of some of that. There have been some operational issues at some of the renewable diesel facilities. Some of the transformation of some of the plants has taken a little bit longer. But we think the long-term fundamentals are still there and the long-term trend is still there.

We've got revised RVO coming out here in June, and we'll see where that goes. But I think we're hopeful that's favorable to the industry. But again, we're starting to feel some tightness on the oil demand side. It's been -- I think first quarter reflected a little bit of heaviness on the oil side, not that the demand wasn't there. There was just a lot of oil in the market. But I think the view is that we're going to see some improvement here as we go forward.

Andrew Strelzik
Okay, great. That was super helpful. And then my other question, maybe if I could try to press a little bit on the magnitude of the plus and how that's evolving, I guess a couple of pieces. Number one, how was 1Q versus your internal expectations? Obviously, we see where it was versus the Street, but relative to what you were thinking. 2Q, you've maybe muted some of the softness, 4Q getting better. So, on the ag side, it seemed stable. I would assume refined maybe outweighs milling, the improvement versus the decline, just given the sizes of those segments. And then obviously, interest is a little bit of a help. So, can you maybe put all of that together in terms of the magnitude of the plus? I hate to maybe parse that so finely, but any color would be great. Thanks.

Greg Heckman
Yes. I think if you take the chunks, right, we don't expect as much volatility in Milling as we talked on Refined and Specialty Oils. We feel that's pretty conservative based on the momentum we've had and the setup of how much we have on the books for the balance of the year here in North America and what we expect to come on in RD.

And then on the crush, I mean, I mentioned Argentina. But what really makes this year different, and it's hard to get at the magnitude of it, is that crop is under 30 million metric tons, right? They're saying now maybe 27, and there's some quality problems in Argentina. So, that's going to run here during harvest and then really, really pull back in Argentina, and that's going to be worse than we've seen.

And then we still haven't seen how farmer retention is going to play out. The farmer is seeing a shrinking crop. They're watching the government to see the soy dollar 3.0 or what next -- are there going to be larger government incentives. And that's -- even with a small crop, that's changing how they're commercializing that crop, which has a big impact.

So, this is going to play out until the next Argentine crop comes out. I mean, we even saw beans moving from Brazil to Argentina early. That's going to stop, so that makes the second half really tough there. So, I think that's the one that's tough to call.

And then, as we said, China, demand improving, and how much will that demand improve, and not only for the soybean demand but on the corn demand. And then even their demand outside of the ag commodities will have an effect on the ocean freight market, which can kind of bleed over and have a big fact on dislocation in margins and opportunity in the ag commodities business from the ocean flows. So, a lot of moving pieces. And generally, some of that dislocation and uncertainty ends up creating problems that we've got to help solve for our customers. So, that's how we're seeing it.

John Neppl
Yes. And Andrew, maybe on the calendarization question, I think we were largely in line in Q1 with kind of where we saw things, so there were no real surprises there. I think as we looked at

Q2, and I kind of alluded to it earlier, a little bit softer maybe than where we looked at it last call, still skewed slightly toward the first half. But strength and some improvement in the curves in Q4 gave us confidence to increase our number for Q4, kind of how we look at it internally. So, that's why we felt like we were in good shape in terms of the full year.

Andrew Strelzik
Got it. Okay. Thank you very much for all the color. Appreciate it.

John Neppl
You bet.

Greg Heckman
You bet.

Operator
Than you. Our next question is from Adam Samuelson with Goldman Sachs. Please go ahead.

Adam Samuelson
Yes. Thank you. Good morning, everyone.

Greg Heckman
Good morning.

Adam Samuelson
Morning. So, my first question is I want to come back to the capital allocation discussion. And I guess I appreciate that you may have been blacked out and restricted from kind of open market repurchases in the quarter, as you were last quarter. But more philosophically, John, Greg, with the net debt where it is and the leverage where it is and where your internal kind of cash from operations after dividends, after funding growth CapEx has meaningfully exceeded cash usage over the last two years, how do we think about the excess capital balance that you guys are sitting on at this point? I mean, I just think about the $300 million of target for this year on buybacks, and it just seems like it pales in comparison to the balance sheet and the underlying cash generation of the business, both retrospectively and prospectively. And just kind of how do we just think about your comfort in kind of running with that much excess capital?

John Neppl
Yes. Look, Adam, I don't think our long-term model is to be sitting on such a low leverage ratio and so much cash availability. I think that what we've been is disciplined about how we look at it. Certainly, from a share buyback standpoint, when we looked at our five year plan, we were going to commit to at least $250 million worth a year. I think certainly, if the opportunity is there, we'll exceed that when we can.

We've got a lot of capital projects underway. We're continuing to look at a lot of M&A opportunities and growth opportunities. We have some -- just one small thing. We have some bonds we're going to pay off here shortly, utilize a little bit of that capital, and we expect working capital to grow here in Q2. But as you look over the long run, for sure I think we're well below where we think we'll operate long term from the leverage standpoint.

But again, it's staying disciplined and putting that money to work in the right places, which, again, will be a combination of M&A, the big pipeline of CapEx that we have underway that we'll see -- you'll see continued higher than historical CapEx over the next couple of years. And then

there's small bolt-on things and debottlenecking, all those things where we'll invest. But again, share buyback an important part of that, and will continue to be as we go forward.

Adam Samuelson
Okay. And then I guess a second on the market outlook. And you talked a bunch about kind of the outlook for soy crush around the world. From a demand side for meal, how do we think about wheat as a competing kind of feed protein? It's getting a lot more competitive price wise with meal. Meal supply is tight with Argentina out of the market. Are you seeing kind of substitutions into wheat, and how do you think about that impacting kind of meal demand this year?

Greg Heckman
We've seen a little bit. But net-net, if you look at the increase in poultry numbers and pork basically flattish, we believe the demand is there. And soybean meal and protein meals in total, they're a big part of the ration, and the market does its work to get it priced in to where it needs to be on the volume. So, we feel comfortable with it.

Adam Samuelson
Okay. I appreciate the color. I'll pass it on. Thank you.

Greg Heckman
Thank you.

John Neppl
Thanks, Adam.

Operator
Thank you. Our next question is from the line of Salvator Tiano with Bank of America. Please go ahead.

Salvator Tiano
Yes. Hi. Thanks for taking my follow up. So, I just want to go back a little bit before. You mentioned a little bit in terms of where you want to expand, and you had already given some indications with your prior presentation last summer mainly you want to expand, if I heard correctly, in origination, be closer to the farmer in North and South America, and generally remain in the Americas. So, as we're thinking -- you mentioned that you are in active discussions on M&A, and I know you cannot talk about specifics, but when you think about a bigger move, how important would it be to have -- to expand your crushing, actually, footprint or refining footprint, which has been the focus of growth for a couple of years versus just origination? Is it important for any big moves to have such assets or it doesn't -- or it's not a deal breaker?

Greg Heckman
Look, number one, we're going to remain disciplined. And one of the things that we like is that we do have all of those areas, all those levers to pull, whether it's in the origination and crush operations, in the Refined and Specialty Oils, in the renewable feedstocks, or in our plant-based protein. So, we can be disciplined about where we put that to work.

And it's an interesting environment right now, right? You've got higher interest rates. You continue to have global dislocations. You continue to have weather disruptions. And frankly,

we're seeing some deals that we'd seen earlier that didn't develop over the past few years. So, things are changing and that's exciting.

But the other thing that's really interesting is the farmer, in getting some of the value, all of our customers, feed, food and fuel customers, all want a lower carbon footprint. They all want lower carbon intensity products. And to really make change at scale, we've got to drive that value to give the consumer what they want, drive it down to the farmers so they can make changes that are sustainable, that are repetitive, and that they can do it at scale. And that's how we're really going to make a difference.

So, that farmer touch has always been really important to serve our processing and to serve our other customers with our merchandising business, but it's also getting even more important to drive that value to the farmer and work with them around lower carbon intensity products, renewable feedstocks and, frankly, regenerative ag.

And we're on the front end of that. This is a completely different focus than within even three years ago. So, as it develops, we've got to continue to kind of turn the dial and turn the focus. But exciting time for Bunge. We've shown we can execute. So, we know we can do -- when we find the right deals and be disciplined, we know we can execute against them. We've got the money to put to work. We've got the capital and the dry powder, but we'll continue to be disciplined and we'll pull all the levers of value creation, including share buybacks.

So, we're excited about it. We like where we are. We like the way the team's performing, and really looking forward here to the balance of the year.

Salvator Tiano
Perfect. And just one last one. You made the comment that you're investing in a crushing facility to make it more flexible to take, for example, the pennycress that CoverCress will be producing at some point. I'm just wondering, as you invest more into making your crushing plants more feedstock flexible, how does this affect margins overall? Perhaps it makes it a little bit more capital intensive. I don't know if it has an impact on margins. And also, as we think about cover crops overall, including the one CoverCress is developing, what do you -- how do you think the new market will play out in terms of margins verse traditional oilseeds, like canola and soybeans?

Greg Heckman
Yes, we've got some switch plants today. And it goes into the analysis. It's part of the analysis. If you're going to have a switch plant, it does have some incremental cost to have that flexibility, but that's because we believe that optionality -- you'll get paid for that optionality and for that flexibility. So, that's where the switch plants -- for ourselves and other players in the industry globally, where those switch plants exist today.

And with the changes with where winter canola can be grown, as CoverCress gets developed, as other novel seeds get developed globally, the numbers will tell us where to put that softseed crush or where to put that flexible crush that can flex between soy and soft and make those returns. But our return standards are the same regardless.

Salvator Tiano
Thank you very much.

Greg Heckman

Thank you.

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

CONCLUSION

Greg Heckman
Thank you. We'd just like to thank everybody for joining us today. Thank you for your interest in Bunge, and we look forward to speaking with you again soon. Have a great day.

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