Bunge

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Moderator: Despite its enviable global asset base, Bunge is at a crossroads for its future strategic direction. Here to shed light on the direction for which Bunge will go is new CEO Greg Heckman. For those reading up on Greg, the following title from an article stood out to me. And it was, quote, Greg Heckman Never Takes the Easy Way Out in Business. The article suggested that rather than taking the easier part of potentially becoming CEO at ConAgra after 24 years, he decided to pursue a management buyout of ConAgra Trading Group and launch Gavilon. From there, Gavilon enjoyed incredible success under his leadership, growing to the third largest grain handler in North America from seventh. More than 10 years later, Greg is at it again. But this time, he will need to leverage Bunge's superior global assets to course correct after years of challenges. With that, I'll kick off the discussion with a big picture question. Thank you very much for coming.

Greg Heckman: Thanks for having me.

Moderator: While you were at ConAgra, the company went through a period of structural change. Can you talk about the parallels between ConAgra and Bunge now that you've become CEO? And then how do kind of do some compare and contrasts?

Greg Heckman: It's I think a great opportunity to take a number of the tools in the toolkit out and be able to utilize them. I think both companies had gone through a period of growth and I saw the refocusing and turning around some businesses, making some choices, focusing a portfolio. I think another key part of the journey was moving from a very decentralized operating model to a more centralized operating model built around businesses and the customers and the assets that serve them with the products and services. And that's pretty invaluable. And Bunge has begun that journey and I'm looking forward to going the next steps.

Moderator: How do you go about changing this regional autonomy or decentralized nature to more centralized with a company with a long history? It seems like that's always been a hard thing for CEOs at Bunge to overcome. Do you need to change the culture? How do you incentivize change of the culture? Can you talk about that?

Greg Heckman: I'm a little bit fortunate on timing. Bunge started this journey a couple of years ago with the global competitors' program. We've made some excellent progress on bringing together the functions to support the businesses, on taking costs out, on standardizing processes that are really focused around where we spend money, where the costs are, automating low value work and getting people focused on high value work. And that taught the organization to change and started down the change path. The organization also went through a tough decision about how to best position the Loders Croklaan acquisition which just turned a year old in our Bunge portfolio. And instead of dropping it into the regions, they were very thoughtful and created a global platform with the legacy Bunge B2B, the business to business oils platform. and have been driving the power of the combined platform with our customers and refinery efficiency and debottlenecking the Loders portfolio, the legacy assets within that portfolio, and bringing a different package of products and services to be more relevant with the customers. And again, not through the regional lens.

And then probably the third thing that was helpful was Bunge announcing they'd made a strategic decision around exiting sugar and had started down the path to go through an IPO. And as they unwired that business from the Bunge matrix regional and stood that business up alone to prepare for the IPO and the ramifications of the unwiring and really focusing around the lean cost model to be able to run a top quartile in the industry and have a cost structure for the cyclical business that it is. And the practice had been taking out those stranded costs that existed when it was part of the larger portfolio. The market ultimately didn't materialize to allow us to execute on that IPO. But those 3 muscles showed the value of moving that. And the decision that we made to make the announcement to change the operating model was built on the back of that, but it's also listening to the employees. As I traveled around the globe and heard where they frustrations were and where their pain points were to be able to execute better, when I heard about the opportunities and how we could get at them faster, and as we thought about what work we stop doing to free up resources to do the higher value work, it just became very clear it was time for this change. So we've got momentum, we've got engagement, and we've got energy.

Moderator: And you're not finding any resistance?

Greg Heckman: No. What I found, and the reason that we quickly announced the leadership structure, to go forward and make the rest of the these changes with the team, was that one, I wanted it to be very clear who was going to be accountable starting last Wednesday at 8:00 A.M. for every P&L in the company. But that we set about doing that work with the rest of the key employees that are really passionate about helping this company reach its full potential. So one, doing it this way and engaging the team together, being very clear about where we're going, but now doing that detailed unwiring of the regions and rewiring around the businesses where customers and facilities and employees live and where we serve close to the markets and make decisions and drive value. We've got everyone working on that. And that allows us to continue to drive operating performance in the here and now. It allows us to stay on pace with the work we're doing around optimizing the portfolio to really what we're going to run and how we run it the best. And lastly, to also apply all the changes we made in how we're doing both of those with a lot more discipline and rigor, especially around financial discipline.

Moderator: I want to take each one of those components separately. Let's start with risk management. You've changed that, you brought back a guy who hasn't been here for 5 years. You look at the 5-year performance, the last 5 years, and then you look at the 5 years when he was here, it seems like that was a vastly different process to risk management. So a couple of questions. What do you think is the biggest change that's happening in the risk management? And how much profitability do you think you left on the table for the last 5 years?

Greg Heckman: I think the biggest change, I love Brian's philosophy, his philosophy is similar to mine. The two big changes is that the risk that one, that sometimes we have to take in order to maximize the earnings that exist in that asset base and in those businesses until we can place it in the market and hedge it off. Or the risk we choose to take to maximize those earnings, it has to be appropriately sized for the earnings ability of the individual business and it has to be appropriately sized for the operating environment. And we've been in some pretty dynamic operating environments here lately. I don't expect that to change in the near term. And then we also have to look at the remainder of those 2 risks and that that risk is appropriate for the earnings power of the total Bunge portfolio and for that the volatility of that risk is appropriate for a public company, which Bunge definitely is.

Moderator: Taking about operational performance, you've said you've been on site visits for the last I don't know how many days or weeks, what are your most salient takeaways in terms of operations and execution? What operational improvements are possible near-term and what will take longer to work on? I know you've had startup delays, excess downtime at plants. Things like that. Can you talk about what you've seen and the most salient takeaways?

Greg Heckman: I think the really good news is, again, I'm able to inherit a lot of great work that has been done the last 2 years to create a lot of transparency. To create that common scorecard and those common KPIs. We kind of like the one version of the truth. And the team has been doing the analysis and rallying around that. And they are the ones that showed me the analysis and pointed it out and said, look, the market would have allowed us to run at this capacity utilization. And we've done the analysis and here is what it was, here is where it was a mechanical issue, and here was the root cause and what we're going to do about it. Here was where it was a commercial problem and why it occurred and the root case and what we're going to do about it. And so they've set about putting those plans in place. And part of solving those problems again is around the speed to act, the operating model and the accountability. We have the authority lined up with the responsibility and as close to the market, close to the customer, close to our assets so that we can make decisions in commercial speed for the environment that we're in.

The other great example, and again, I'm taking what exists in this engaged workforce and what they're showing me and enabling them to execute, is where they're looking across our own assets. We've got certain external benchmarks we can chase, but we've got the internal benchmarks and we can chase the worst to first of our own operating expenses and a number of other common KPIs. And the team can see that and they can evaluate what the size of the prize is if we can raise to the average and if we can get all the way to our best facilities. And we can do that with our own colleagues. And so that's exciting. We control that. That's up to us.

Moderator: How long will it be before we would see it from the outside, meaningful impact on this?

Greg Heckman: You have to define meaningful, but our goal is that we're going to be able to show you a little progress very quarter. There is action underway and I've talked to the team. We are in the show me stage. The market has been very clear. We need to show every quarter that we're making improvements in our performance and in shaping our portfolio and what we believe can make the kind of returns that shareholders expect.

Moderator: You talked about portfolio optimization. You discussed categorizing projects in 3 buckets. Have you characterized all the assets in all 3 buckets yet? Is there going to be a lot of transition through the buckets? And what are the key criteria in each categorization?

Greg Heckman: I think large companies constantly under pressure for growth at times become a bit of collectors of assets. It's hard to say no and to make choices to part with things. They're all absorbing overhead and we're an optimistic bunch by human nature. So I think the opportunity that we have here is to make some choices. And so what we did is we went through a very detailed analysis, and through that it became very clear which set of assets should be getting the outsized proportion of our focus and those that needed to exit the portfolio right now. And we set about in that first category of doing the work and putting the plans together on how to do that. And so the dedicated teams of internal and now external resources are doing that. And so we looked at the financial metrics, we looked at growth, we looked at how they performed the last 7 years. We looked at how relevant we were to customers, how big we were in the marketplace. And where we thought we could get to and whether they met the mark where we were going to be. So those things are underway, and as we have the ability to conclude those, then we'll announce what we've done and give the strategic rationale for what it means for our shareholders.

Moderator: How do you expect to participate in the industry consolidation, either from a buyer or a seller's perspective? It seems you're more of a seller than a buyer at this point, is that a fair assessment?

Greg Heckman: I think you have to think about every lever that we can pull. Everything is on the table. So as we look at the portfolio, some things we'll sell, some things Bunge has done a real nice job in the past of doing some regional consolidation where things moved into joint ventures that still play a key role the way they work with our overall portfolio, that we've reduced our investments in some places. And that, at the end of the day, we're going to let the numbers drive what should happen for us. First, we need to shrink. We need to get the platform performing. We put a lot of money to work and now it's time to improve the operating performance, improve the returns, and position our self for when we have the right to grow again And we have to earn that right to grow and I've told the team we need to create that fuel through better performance. And the other is by from sales proceeds of things that are leaving the portfolio. At the same time, we have to do the work to refresh our strategy and start to put our priorities together for when we have the right to grow, where we would put that capital to work. But that's early stages. First thing is run what we've got and decide what we're going to run.

Moderator: Last year the industry benefited from a short crop in South America, although Bunge didn't truly enjoy that, but let's assume that you should have enjoyed it I guess. But nevertheless, it was fairly short-lived. The industry may be on the cusp of another favorable operating environment. How is this different than a year ago? And why does this have a longer-term impact and is Bunge -- how long will it take for Bunge to be positioned to capitalize on this?

Greg Heckman: Well the team is working every day to capitalize on the opportunities that we have. So that is ongoing and we believe some of the changes we've made in structure and personnel and ongoing will continue to support that. What we have to do now is take advantage of the opportunity that is in front of is and ensure that we're protecting the company against any of the stroke of the pen risk that could occur with a trade deal. Timing and content of that both unknown, and so that's more from a protection standpoint. On the ASF issue, that's a longer- term structural thing and I think the marketplace is trying to understand what that shift is going to be. But we like the fact that only 15% of our crushing is in China today with the macros that are going on. I think the belief is with the reduction in the hog herd there that there will be fewer beans going to China, there will be more beans to crush in the rest of the world where 85% of our crushing assets sit. And that there's no doubt the margins are better in our crushing franchise than they are in our distribution franchise, so we would always rather crush a bean than move it. And then meet demand when we start to feel that pick up. The market's got to get the price signal and then they've got to make the moves and we're a second derivative, we'll feel that demand later. But we want to be in position for that and we feel that demand will be where our crushing exists. So we want to be in position to capitalize on that, have our assets ready to run and have our commercial teams ready to work against that.

Moderator: Just a couple of follow-ups here. Will Bunge benefit from a potential resolution of China/US trade deal or does it really not matter given the South American/North American business? And if so, what do you, besides the rhetoric of wanting free trade, what really does effect Bunge?

Greg Heckman: Long term stability is always better. I mean for deciding where to put capital for long hold assets, for stability of the trade flows, for ourselves and for our customers on both ends of the supply chain, for the decisions they're making and for people to not only invest in capital, but they're then making plans and working out farther on the curve. So that's always a better environment. In the short term, yes, there will be some disruptions and as long as there is no resolution, we are trying to position ourselves to take advantage of that.

Moderator: But no resolution, the US crush margins go up, South American crush margins go down. Resolution means US crush margins go down and South American crush margins go up? I mean I know that's probably overly simplistic, but like why does it matter to you? Do you really care?

Greg Heckman: Well, as long as we're taking full advantage, we don't really care. It's our job to execute against the opportunity in front of us.

Moderator: Just going with the African Swine Fever, what is the timing to which you think that they will start to see an expansion of the herds to see the demand pull? And then can you discuss the nuances associated with China not importing soybean meal, but soybeans? And what about replacing pork with chicken? Is there -- just go through that. That's a very complicated scenario to understand and we're all grappling with that.

Greg Heckman: It is very complicated because you have to make a number of assumptions. The number one assumption, what the actual loss in the herd will be, how long for a vaccine. What we're hearing is multiyear. How long to rebuild the herd? And then in the meantime, how much of that protein demand gets shifted to which species which has an impact on demand. And where? But directionally, we know it should be less beans, more crush. That's net positive to us. We think for it to be noticeable, it's beyond -- you might feel a little in 2019, but it's beyond 2019 and it's multiyear, so we think that's benefit. And that whichever species it is, from cattle dog culture, it's more feed and feed ingredients which net net is constructive to soybean meal prices. So we believe we have the right asset base and we're glad it's very geographically diverse.

Moderator: If this does actually happen the way people this it's going to happen, is it the risk management improvement that will let you realize it? Or do we have to wait for the operational improvements before we can actually model the benefits of the fundamentals? Because generally I think most of the street, basically whatever the fundamentals are, we have kind of an operation miscue. That's kind of how we all do it, I think. So my question is, is it a risk management and now that you have the risk management there, you should be able to incorporate better fundamentals into earnings? Or is here something else that needs to be done in terms of the operational excellence and stuff like that? How do I think about it?

Greg Heckman: Both. We need to bring both to bear. We've already made changes in how we're managing the risk and that's a continuous improvement that's something that we'll never stop. As well as how well operational improvement in the plants is. We want to operate them at the highest rates, at the lowest cost. We're always chasing productivity to offset inflation. There are always a number of projects ongoing. So we're pulling every lever.

Moderator: Let's say the environment goes well and you get to sell a couple of your assets and you're flush with cash. That would be a high-class problem, but still a problem. You don't want to leave the cash just get the interest rates out there. So what would you be doing with the cash? What is the leverage that you would be willing to start buying back stock? Would you start thinking about acquisition? What would you be doing with the cash?

Greg Heckman: Number one, we will always protect the credit rating. We need to absolutely be able to operate this portfolio and our credit rating is very important. And then of course we'll look to where it makes sense to return money to shareholders as far as a buyback in a way that produces opportunities to do low risk, high return projects, debottlenecking, maybe expansion to protect a particular and build on a franchise. Grow with some of these global customers that now want to change the relationship so it's less transactional. And that's a place we'll look to. Then as well as acquisitions. But it will all be driven with a lot of financial discipline, a lot of analysis, and lot of stress testing about not only what the good thing that could happen, but about the distress scenario we would still be comfortable with where we put money to work.

Moderator: Let me see if I can rephrase that a little bit. What would be the leverage ratio that you'd feel comfortable buying back stock at? Not a price, because I'm assuming the price is there already, but what would be a leverage ratio that you would be comfortable with?

Greg Heckman: We'll clearly communicate that once we have the right to. That would be reckless today.

Moderator: I will look forward to that then, fair enough. Loders is reporting directly to you which is an unusual structure, going right to the CEO. What was the purpose of that? And why?

Greg Heckman: I don't know if it's that unusual. It's got a very strong leadership team that runs the day to day. I have run businesses like this before. It's a great platform, it's new to our portfolio, just crossing its one-year anniversary. And I want to make sure that it's performing at its full potential. I want to understand the strategic rationale and the plan that was put together in the acquisition case. And I want, as we refresh our strategy overall, I really want to understand going forward how I feel that that should play within our portfolio for the long term. So having that reporting directly to me is helpful and it's also a wonderful portfolio that has us at the table with different customers and having a different conversation about the products and services that we're able to sell them. And not only from the Loders Croklaan portfolio, but from the legacy Bunge portfolio and the teams are working well together and innovating with customers. So I want to fully understand the potential of that.

Moderator: As you see it, what are the key opportunities created by Loders? And is that -- what type of growth algorithm do you think to that? Do you think of it on a margin structure? Like help us at least contextualize what this asset could be in 2 to 3 years.

Greg Heckman: It definitely has the -- it would look stickiest or highest value portfolio when you look at the products and the services and the relationship you have with the customers around innovation. That should put us in a position for it to be the fastest growing part of the portfolio. And I think that's what I really want to understand as we think about how it fits into growth. And I also want to ensure that we have it positioned appropriately within the portfolio so that we get it operating at its full potential to get a return versus what we paid for it.

Moderator: Let me take one from the audience. You just hired your former CFO, John Neppl. Do you anticipate more strategic hires from your network? Basically, said differently, are you looking to build your team and what other holes within the team do you think that there are?

Greg Heckman: I'm real excited to have John come join. John and I worked together for 20 years, 15 of those he was my direct CFO. We had an opportunity to turn businesses around, to rationalize businesses, to grow businesses, to do greenfields. We also had some challenging times together and forged some experiences that you really can't replicate with anyone else. Unless it would be Robert Wagner who was our Chief Risk Officer at the time, and today we announced Robert is also going to join us as the Chief Risk Officer. So the 3 of us, I think we had a pretty big merchant energy business at one point and guided that through after Enron and successfully through the energy crisis where a number of companies failed and were challenged. And we also had carved Gavilon out of ConAgra just prior to the global financial crisis and had new owners and was private and had kind of the ultimate stress test and we successfully navigated that to a very nice outcome and there were a lot of very important counterparties that failed during that them, but we managed the market risk and the credit risk together. So Bunge has very good systems, and very good risk management in place. Very good controls. But why I chose to bring Robert and John in is we have very interlocking, not overlapping skills. And we have a lot of experience and that gives us speed with what we're doing on the change. And there's an incredible team at Bunge. Incredible team with a lot of experience and a lot of talent and I'm excited about us working with them. And philosophically how we approach risk is the same as Brian Zachman does. And so what we'll be able to support him and what I've seen Robert Wagner and John be able to do is support the commercial organization with the kind of stress testing and diagnostics and dashboard to help them operate at the highest level for earnings and returns and reducing volatility.

Moderator: Can you discuss the outlook for farmers selling by region?

Greg Heckman: Sure. The North American farmer has been a reluctant seller of soybeans, waiting on a US/China trade resolution. I think we'll see he and she have been a seller of soybeans into rallies, but otherwise fairly reluctant. So I think the next wave of selling will continue to be at the rallies and then when we get resolution of the trade deal and/or when that producer knows that new crop is looking good and thinks about those full bins and starts doing planning. Which could be as late as Q3. Argentina, the producer there, fairly well marketed on corn and wheat, but has been a reluctant marketer of soybeans. Again, it's a seller on rallies but you've got an upcoming election there and possible risk of some financial risk or upheaval and historically that's been a great hedge is to hold the soybeans. And so we expect the producer to continue to behave that way. And then in Brazil, the producer was marketing well early and then the other driver in South America is producers being human beings like the rest of us, are optimists. A non-trade resolution is very good for beans going to China. So they are reluctant sellers waiting on China to need those beans because they're not coming from the US. But at the same time, they also have been a seller of beans, especially in Brazil on rallies.

Moderator: You really see it on rallies? So putting this all together, how do you think of Bunge's earnings power?

Greg Heckman: Well, more.

Moderator: I'm out of that.

Greg Heckman: Look, one of the things -- I haven't done an exhaustive examination of history, but I have seen enough to know that as we improve the risk management and size the risk appropriately to our earnings, size the risk appropriately to the environment we're in, avoid some of the missteps, we won't be perfect, this portfolio has some volatility in it. We'll work over time to reduce that. But we have a very good team that can maximize the earnings around these assets. That gets better. Our operational team, we've had some missteps on some of our big projects in greenfields and brownfields not acceptable for the amount of talent that we have. We've learned from those. We're not going to do that anymore. So we avoid those, that makes our earnings power better. And then with a lot of discipline on any capital that we put to work and we're feeling the pain of some of those decisions. Some from external factors and some of that is self-inflicted.

Moderator: I'll leave it with this final question. How would you measure your success in 3 years?

Greg Heckman: I think I would measure my success that there is absolutely unanimous agreement between our investors, our customers and our employees that Bunge has reached its full potential.

Moderator: You will still be the CEO here then?

Greg Heckman: Absolutely.

Moderator: Sounds like a plan. Thank you very much.

Greg Heckman: Thank you.