Bunge Global SA

Fourth 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 Global SA Fourth Quarter 2023 Earnings Release and Conference Call. All participants will be listen-only mode. Should you need assistance, please signal a conference specialist by pressing the 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 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, Maria, and thank you for joining us this morning for our fourth 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 center on our website at Bunge.com under Events and Presentations. Reconciliations of non-GAAP measures to the most directly comparable GAAP financial measures are posted on our website as well.

I'd like to direct you to slide 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 risks and uncertainties. Bunge has provided additional information in its reports on file with the SEC concerning factors that could cause actual results to differ materially from those contained in this presentation, and we encourage you to review these factors.

On the call this morning are Greg Heckman, Bunge's Chief Executive Officer, and John Neppl, Chief Financial Officer. I'll now turn the call over to Greg.

Greg Heckman
Thank you, Ruth Ann, and good morning, everyone. 2023 was a significant year for Bunge, with both our continued strong financial performance and progress on our long-term strategy. I want to thank the team for their exceptional execution on our day-to-day business while also focusing on key projects for the future.

First and foremost, we announced our pending combination with Viterra to create a premier agribusiness solutions company. We received overwhelming shareholder approval, and our team's been hard at work planning for a successful integration when we close the transaction, which we expect to occur later this year. We continue engaging with relevant authorities in countries around the world as we make progress on regulatory approvals.

In addition to the Viterra transaction, we announced the planned acquisition of CJ Selecta, a leading fully integrated manufacturer and exporter of soy-based products in Brazil. We broke ground on our soy protein concentrate plant in Morristown, Indiana, with construction on track for a 2025 commissioning.

We also completed the acquisition of a state-of-the-art oil refinery in Avondale, Louisiana. This facility, which has multi-oil capabilities, builds on our ability to provide value-added oils to our food customers in North America, and is already exceeding our initial performance expectations. And in the next few months, we'll be commissioning our new multi-oil refining and packaging plant in

India. These growth initiatives will enable us to meet rising demand for plant-based food and feed ingredients.

Investments to enhance our existing footprint are also paying off in improved overall performance. Our team continued to execute on planned capital projects which, when combined with our focus on operational excellence, enabled us to reduce oilseed processing unplanned downtime to a historic low. Making better use of our capacity directly hits the bottom line.

These investments were also made with an eye towards advancing our work in sustainability. Running our plants more efficiently improves our performance against our science-based targets, and we're committed to continuous improvement of our operations while expanding regenerative agricultural programs and engaging with the industry to do our part to reduce carbon emissions across the entire supply chain.

We're proud of our team's many accomplishments in 2023, a year in which Bunge was selected to be part of the S&P 500, a landmark moment for our company and reflective of the work we've accomplished to transform our business over the last several years.

Looking at the fourth quarter specifically, we delivered strong adjusted EBIT driven by record results in processing and improved results in Milling. During the quarter, we continued to return capital to shareholders through stock repurchases and dividends. Looking ahead, as we've been reminded over the past few years, the only constant is change. Each year brings its own set of challenges and opportunities, and the team has shown we can navigate with agility and speed.

Based on the current margin environment and forward curves, the market dynamic in 2024 looks to be different than what we experienced in 2023. And as often the case, forward visibility is limited at this point in the year. For the full year, we expect to generate adjusted EPS of approximately $9.00. John will go through our forecast in more detail.

I want to reiterate that the work we've done to transform Bunge has created a company better equipped to operate in any market environment. And with the combination of Bunge and Viterra, we'll continue to improve our global platform, making it more efficient and resilient, allowing us to better serve our customers at both ends of the value chain.

I'll hand the call over to John now to walk through our financial results and outlook in more detail, and I'll then close with some additional thoughts. John?

John Neppl
Thanks, Greg, and good morning, everyone. Let's turn to the earnings highlights on slide five. Our reported fourth quarter earnings per share was $4.18 compared to $2.21 in the fourth quarter of 2022.

Our reported results included a positive mark-to-market timing difference of $1.08 per share, and a negative impact of $0.60 per share primarily related to acquisition and integration costs associated with our announced business combination with Viterra, as well as a fixed asset impairment charge.

Adjusted EPS was $3.70 in the fourth quarter versus $3.24 in the prior year. Full year 2023 earnings per share was $14.87 versus $10.51 in 2022. Adjusted full-year EPS was $13.66 versus a record $13.91 in the prior year.

Adjusted core segment earnings before interest and taxes, or EBIT, was $881 million in the quarter versus $804 million last year. Agribusiness had a strong close to the year. Processing results in the quarter of $132 million, primarily related to South America, Europe, and Canada, more than offsetting lower results in the U.S., which had a difficult comparison to a particularly strong prior year. Results in Asia were comparable to last year. In merchandising, results in the quarter were down in all businesses, reflecting lower volatility.

Refined and Specialty Oils finished a record year with strong fourth quarter results of $212 million. Performance for the quarter was down slightly from last year, as higher results in North and South America were more than offset by lower results in Europe and Asia.

In Milling, improved results in the quarter were primarily driven by our South American operations, reflecting higher margins due to the combination of lower wheat costs and a more favorable pricing environment. Results in U.S. corn milling also improved.

Corporate and other improved from last year. Higher corporate expenses related to investments in growth initiatives were more than offset by positive results in our captive insurance program and Bunge Ventures.

In our non-core sugar and bioenergy joint venture, results were lower as higher sugar prices were more than offset by lower ethanol prices.

For the quarter, reported income tax expense was $219 million compared to $131 million for the prior year. The increase is primarily due to higher pre-tax income and geographic earnings mix. Adjusting for notable items and mark-to-market timing differences, the full-year adjusted effective income tax rate was 23% compared to 17% for the prior year.

Net interest expense of $150 million in the quarter was up compared to last year, primarily due to higher interest rates. Also impacting the quarter were foreign currency borrowings in certain countries where interest rates were high. However, the incrementally higher borrowing costs were offset with currency hedges reported within EBIT.

Let's turn to slide six, where you can see our EPS and EBIT trends adjusted for notable items and timing differences over the past five years. The strong performance reflects our team's continued excellent execution and a favorable operating environment while also delivering on a variety of initiatives to position the company for long-term growth.

Slide seven details our capital allocation. In 2023, we generated approximately $2.5 billion of adjusted funds from operations, which was up by approximately $110 million versus '22's record performance. After allocating $488 million to sustaining CapEx, which include maintenance, environmental health, and safety, we had approximately $2 billion of discretionary cash flow available. Of this amount, we paid $383 million in common dividends, invested $634 million in growth and productivity related CapEx, which is up significantly from $249 million last year, and repurchased $600 million of Bunge shares, leaving $361 million of retained cash flow for the year.

Moving to slide eight, we finished 2023 with a total CapEx spend of approximately $1.1 billion, and expect to invest $1.2 to $1.4 billion in 2024. Our sustaining CapEx has been higher, reflecting post pandemic catch up and increased investments in operational reliability, where we're already seeing the benefits through reduced unplanned downtime.

Also, our discretionary spend is up due to executing on our pipeline and growth projects, many of which are multiyear investments. We expect continued elevated spend in 2025 as we complete these projects.

As shown on slide nine, at year-end, readily marketable inventory, or RMI, exceeded our net debt by approximately $3.5 billion. This reflects our use of retained cash flow to fund working capital while reducing debt. Our adjusted leverage ratio, which reflects our adjusted net debt to adjusted EBITDA, was 0.2 times at the end of the fourth quarter.

Slide 10 highlights our liquidity position. At year-end, all $5.7 billion of our committed credit facilities was unused and available. This provides us ample liquidity to manage our ongoing capital needs.

Please turn to slide 11. For the trailing 12 months, adjusted ROIC was 18.4%, well above our RMI adjusted weighted average cost of capital of 7.7%. ROIC was 14.3%, also well above our weighted average cost of capital of 7%.

Moving to slide 12, for the trailing 12 months, we produced discretionary cash flow of approximately $2 billion and a cash flow yield of 18.2%.

Please turn to slide 13 and our 2024 outlook. As Greg mentioned in his remarks, taking into account the current margin environment and forward curves, we expect full year 2024 adjusted EPS of approximately $9.00. Note that this forecast excludes any pending acquisitions that are expected to close during the year.

In Agribusiness, full year results were forecasted to be down from last year's record performance, primarily due to lower results in processing, where margins have compressed in most regions. Results in merchandising are forecasted to be down slightly from last year.

In Refined and Specialty Oils, full-year results are expected to be down from the record prior year, reflecting an environment of increased supply, particularly in the U.S. In Milling, full-year results are expected to be up from last year. And in corporate and other, full-year results are also expected to be up from last year. In non-core, full-year results in our sugar and bioenergy joint venture are expected to be down considerably from last year, reflecting lower Brazilian ethanol prices.

Additionally, the company expects the following for 2024: an adjusted annual effective tax rate in the range of 21% to 25%; net interest expense in the range of $300 to $330 million; capital expenditures in the range of $1.2 to $1.4 billion; and depreciation and amortization of approximately $450 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. So, we're proud of the work we've done to optimize our business, and we're always looking for ways to drive continuous improvement. We've got a clear set of priorities. [Audio gap] continue that work in 2024, and we're confident that we'll end the year as an even stronger Bunge.

We're making great progress towards closing our combination with Viterra, which will increase diversification across assets, geographies, and crops, providing us with more optionality and

capability to serve customers. And we continue to invest in our people and global infrastructure. Through effective training and proper tools, we can safely and reliably meet our customers' needs.

We're also working on a number of initiatives to best equip our team for the future, including strengthening our digital capabilities. We're making these investments to meet the longer-term demand growth for our products and services. And while always looking for opportunities to improve, we are well-positioned to deliver on our critical mission of connecting farmers to consumers to deliver essential food, feed, and fuel to the world.

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

QUESTION AND ANSWER

Operator
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 is from Ben Bienvenu of Stephens. Please go ahead.

Ben Bienvenu
Hey, good morning, everybody.

John Neppl
Morning, Ben.

Greg Heckman
Good morning, Ben.

Ben Bienvenu
So, over the last several years, there's currently been building tailwinds for the business. You've capitalized on it very nicely. As we get to this point in the cycle, some of those tailwinds certainly moderate as expressed in your guidance. And you noted, Greg, that, as usual but particularly now, there's maybe a little bit less visibility into the business looking forward. If you can think through your business segments, can you help us understand where you feel like you have the most visibility versus the least, and some of the key things that you're focused on to maybe gain greater visibility for the year as we move through the year?

Greg Heckman
Yeah, sure. Thanks, Ben. I think, as usual, the first quarter is where we have the most visibility, and then it starts to kind of reduce as we go out. Having the global platform, of course, is very helpful. And so, as we look across crush today, and as we've said, and we look at the curves and what they give us, they're all inverted with some pretty limited liquidity beyond Q1, and then we're in that what we do have visibility to.

And you kind of think about history, we're in that transition as markets get a little more balanced on supply and demand, that producers generally don't like at selling lower prices, and they've got room to--storage, so you see a little bit generally reluctant selling as we transition from the farmer.

And then the end consumer, we see them having an incentive to wait. So, they're becoming also more short purchased and buying in the spot as prices are balancing and the supply chain is not quite as tight. So, those are some of the key things that we're watching that of course affect both crush and Merch and our Refined and Specialty Oil and Milling altogether.

Ben Bienvenu
Okay, very good. My second question is related to a similar dynamic, as we kind of have shifting winds in the cycle. Operationally, organizationally, tactically, you all have positioned the business to maximize earnings power as the cycle was accelerating to the upside over the last number of years. Externally, you've done a masterful job of managing expectations, and I think your track record of guiding conservatively is well-established at this point.

As we get to a slightly different backdrop, how does your focus internally change, if at all? How do the changes that you've made to historically position you to also maximize earnings power as we see more balanced supply-demand? And then how, if at all, does your external expectation management change in the sort of environment, if at all, versus what we've seen the last several years?

Greg Heckman
Well, I just would start by saying the same things that we've been focused on really work in all environments. And I think we talked, as we were going, we were always thinking about trying to build the company for the bottom of the cycle, which you hope you never experience.

But if we have that mindset and we have our costs in position to be the most efficient regardless of where you are in the cycle, that we have our business organized and our operating model to have the most nimble and agile and ability to react to whatever the external factors that we can't control in the market, and that we ensure that we have got our rewards systems in alignment with our stakeholders and with our investors and with our customers at both ends of the value chain, that we're going to operate the same on the things that we can control.

And I think we talked about it in the past. You've got to continue to think about this is a big feed, food, and fuel global infrastructure, right, to serve our customer. And we still have the billions of dollars of assets. We've still got the tens of thousands of customers. We've still got the millions of tons of physical flows. And that's the embedded optionality that exists.

And so, while we don't control the markets, we do control how we manage day-to-day. So, we stay focused on what we can control, and then unlock that value as we're helping balance supply and demand across our businesses for our customers at both ends of the value chain. And that's kind of maniacal focus every day.

Ben Bienvenu
Okay, great. Thanks so much. Thanks for taking my questions.

Greg Heckman
You bet. Thanks, Ben.

Operator
The next question is from Manav Gupta with UBS.

Manav Gupta
Good morning, guys. Congrats on a very strong quarter. You came in well ahead of expectations, so congrats on that.

Greg Heckman
Thank you.

Manav Gupta
My question here, it's more of a help, if you could provide. You have a $9.00 guidance for 2024, which we think is conservative. But help us understand, if Viterra does close on, let's say, July 1, then where could this $9.00 go based on the current environment? Whatever help you could provide would be highly appreciated.

John Neppl
Sure, Manav. This is John. I think what we've communicated in the past, I think our view is, on Viterra close in 2024, will be mildly accretive to flat. In the first year, we've got a lot of synergy costs, a lot of integration costs to incur. And certainly, for the first six to 12 months, there'll be a lot of work around integration and focus on that.

We love the business, and I think the long-term is outstanding, especially when you look at environment like we're going into. But I wouldn't expect a significant impact on the $9.00 in this year.

Greg Heckman
And I might add the one thing that we have spoken about is how the businesses are so different, with us being much stronger in the processing and them much stronger on origination, storage, handling, and distribution. So, if you do have a market that moves more into a contango or a carry, that does benefit where you have more storage.

So, when we talk about the diversification in the crops we handle and in the asset footprints and the geographies, that would be one of the things that we'd be thinking about, depending on when we close and what the environment looks at, when we talk about the outlook at those times.

Manav Gupta
Thank you. My quick follow up here is it looks like the discretionary CapEx for 2024 is probably going to be somewhere between $720 to $840 million. Help us understand where this money is being spent, the kind of returns, and when do we start seeing these projects come online so we can start giving you the benefit of earnings associated with this CapEx. Thank you.

John Neppl
Sure. Yeah. So, we embarked really last year and the year before on some pretty large multiyear projects. And most of those, things like our buildout with our Chevron joint venture, our plant in Amsterdam, our new oils plant, our specialty proteins plant in Indiana, all those things--our plant in India. All of those things have been multiyear. While India's coming on later this year, most of those are still going to be in buildout phase through 2025. So, we really expect them to start contributing in 2026. And we target a midteens return on average on most of our projects. Some could be a little lower. Some could be higher. So, that's the CapEx side.

And then certainly on the M&A, as we announced, CJ Selecta that we're hoping to close later this year, the beauty of that one is it'll be immediately accretive when we get that one executed and closed. But I wouldn't expect too much contribution in 2025 on those, because they're really going

to be coming online late in the year and it takes a little bit of time for commissioning. So, most of those will start contributing in 2026.

And then on the M&A side, we continue to look at a lot of smaller opportunities, not anything of the magnitude of a Viterra or a CJ Selecta necessarily, but there's a lot of smaller bolt-on opportunities that we're working as well that we'll keep you updated on.

Manav Gupta
Thank you so much.

Operator
The next question is from Ben Theurer with Barclays.

Ben Theurer
Yeah. Good morning, John, Greg. As well, congrats from my side.

Greg Heckman
Thank you.

Ben Theurer
Just a Q1 sum to follow up, so one actually associated a little bit with the M&A and the contribution of it, capital allocation in general. Can you just maybe frame to the audience how you think about the buyback left over for the Viterra deal? Because if I remember right, you said you wanted to have done about half of it, of the $2 billion that was announced, until the close. So, that would leave you with I guess some--roundabout $400 million, just so that we can think about is that something you target for in the first half.

And then, aside from it, with that contribution, and you've laid it out nicely right now on the 2026 and the returns, etc., if we would have to go back to somewhere like the midcycle EPS framework. I remember a few quarters ago, you've laid this out, and I think you said back then like $8.50 on the base business. But with all the buybacks and accretions and projects and M&A, etc., it was more like a $10.00 and $11.00. Does that still hold even if we're thinking about an around $9.00 for 2024, if these projects would be around?

John Neppl
Sure. So, we'll start with share buyback. And the $400 million, I think our expectation right now is we will execute that in the first half of the year. And we've committed to doing at least that $400 million by close of the transaction, so we expect to do that. And then we'll see from there as we go forward.

With respect to our outlook for 2026 and the $11.00, I think we still feel very positive with that and right on track. While the CapEx has maybe been delayed a little bit from a timing standpoint, we got a little bit of a late start on some of these as costs went up and we went back and took a look at projects, we've actually picked up pace on the M&A side a little bit. So, we feel very good about our trajectory against that $11.00 plus by 2026, and have no reason to change it at this point.

Ben Theurer
Okay, perfect. And then a quick follow-up. As we think about the guidance for this year and maybe the magnitude of changes that you are foreseeing right now, I know--and Ben brought this up early on about the visibility, and I know about the challenges 2Q onwards. But as you look at it

today, where do you think the biggest downside versus 2023 is within call it maybe the key four, processing, merchandising, and refined and specialty oils?

Greg Heckman
I think if you look at the big flags, the big put and takes that we're thinking about at the highest level, of course geopolitically and weather, right? And so, while we're getting a more balanced S&D situation globally, we're kind of one weather event from really tightening things up, and that could bring some volatility back.

And then the other offset is around, at a high level, you think about demand. And so, lower prices should spur more demand. That's what we've seen historically, and that it's really how quickly we see that. And even if you take an anecdote on the food side, we're seeing all of our food customers' innovation projects, which had spent the last two years being cost reduction type programs, are now really focused on growth, so product development, new products, and line extensions.

And then you take kind of under that umbrella some of the big drivers, of course, it's the veg oil, S&D in North America because, as we saw it play out in '23 and it will continue in '24, we've got a new industry with new demand building. The market's doing its work. Supply's adjusting. And it can be pretty sensitive to that oil pipeline, veg oil prices in North America, which of course is really sensitive to the crush margins in North America.

And the other, of course, is Argentina, where you've got a weather situation there much better than last year, where bean production should maybe be double what last year was. And you've got a new government in place. And so, how their policies and incentives play out, I think that's a big one to watch. And then, of course, you always have got to think about China, not only their economy and how it develops, the macro just from an overall demand, and then of course how they think about stocks building.

So, I think those are kind of the big flags that we think about. Right now, if you look at the curves and the outlook, people aren't predicting much disruption at this point.

Ben Theurer
Okay. Thank you very much.

John Neppl
Thanks, Ben.

Operator
The next question is from Adam Samuelson with Goldman Sachs.

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

John Neppl
Hey, Adam.

Greg Heckman
Morning.

Adam Samuelson

Hi. So, maybe continuing along that kind of line of questioning, as we think about the approximately $9.00 EPS, it would seem to imply give or take $1 billion of segment profit reduction on a year-on-year basis. And can you help dimensionalize the segments where that's coming? Presumably Processing is the largest contributor, but at least frame what kind of year-on-year decline you're currently kind of thinking about for refined, specialty oils, sugar just to help put the decline in processing in better context. Then I've got a follow up.

John Neppl
Yeah, Adam, this is John. I think there are really three big drivers to the year-over-year change, and the largest is what we're assuming on the processing side certainly globally. That's probably, I'd say, close to 80% of the variance. When you look at the gross variance, we have some things that are going to be up, we expect to be up. But that's a big piece of it.

And then the other big drivers are Refined and Specialty Oils being down probably a couple hundred million from where we finished this year in 2024. And then the other one is sugar we're calling down, given ethanol prices and environment in Brazil. But then we have some other things going the other direction to ultimately get to the change. But certainly, the largest is the processing segment at this point.

Adam Samuelson
Okay, that's helpful. So, I mean, within that processing, if it's 80 or so percent, that implies something, what, a $70.00 to $80.00--sorry, $15.00 to $20.00 a ton lower kind of global crush margin decline on your footprint. Can you help frame regions where that is a larger headwind versus not, and how more North America crush and soy meal and the return of Argentina to the export market in the second quarter is factoring into the regional balance of your network?

John Neppl
Yeah, I can--do you want me to--?

Greg Heckman
--Yeah, let me start. I'll start on that. Yeah. So, if you think about, and maybe I'll back into it from soft seeds, we still expect those to be strong but kind of down slightly. They'll be off some from '23, but should still be good in both Europe and North America. But soy is really the one, as you've called out.

So, I think everything will be softer if you look at the regions except Argentina, which Argentina was a drag last year to everything and we had to cover it with the global system. So, now you'll see Argentina be better as we get into harvest in Q2 and you start to see the crush come up there. Of course, it'll depend on, as we've said, the government policies and how the farmer markets, but that'll be key.

South America, Brazil continues to currently be strong on new crop. But of course, it's inverted as well, where we're seeing farmer liquidity be slower there. And then the EU right now, pretty strong in the spot, and that's been on meal demand. But again, the curves are inverted there as well.

In the U.S., while the Q1's good, of course, we see the curves kind of be that weaker in Q2 and 3 and then contemplate a better Q4 with the new crop. And then I think the farmer selling, which I said it's just slower on all regions, and they'll be very hesitant here until the market kind of settles out and we see some direction.

Adam Samuelson

All right. That's some really helpful color. I'll pass it on. Thanks.

Greg Heckman
Thank you.

John Neppl
Thanks, Adam.

Operator
The next question comes from Steven Haynes with Morgan Stanley.

Steven Haynes
Hey, good morning, and thanks for taking my question. If I could just come back to the guidance for '24 real quick, was hoping maybe you could just give a bit more color on how you see that maybe phasing out over the course of the year. Would imagine that 1Q maybe has some favorability in it still from the back half of 2024. So, I know you don't give quarterly guidance, but if you can maybe help size your expectations for the first quarter versus the balance of the year, that would be helpful. Thank you.

John Neppl
Yeah. Steven, this is John. We're looking today, when we look forward at our forecast, we're expecting it to be pretty closely balanced between first half, second half, actually pretty close to 50/50. And I would say weighting on the first half of the year more 60/40, and on the back half of the year, kind of the mirror image, more of a 40/60. That's kind of how we're seeing the year at this point.

Steven Haynes
Okay. And then maybe just another quick follow-up on the back half and what you're kind of assuming for the size of the U.S. crop and how to think about maybe what some of the different scenarios are there. I think you alluded to 4Q being a little bit better because of the U.S. crop. But maybe if we have a larger than expected crop in the back half, what do you think that would mean for the outlook that you've currently laid out? Thank you.

Greg Heckman
Yeah, I'd say, if you look kind of at a high level, right, we've got the Brazil crop coming in, probably the bean production being in the mid-150s, and that's versus last year we were around 160 million metric tons. I mentioned Argentina bean production being around 50 million tons there, which is about double what it was last year. And then I think, as that sorts out and the market sends the right signals, we'll see how the acres work here in North America, right, and how many bean acres that we end up with and how the growing season plays itself out. But we do need to have a good growing season here in North America, but have no reason right now to plan on anything else.

Steven Haynes
Okay. Thank you.

Operator
The next question is from Salvator Tiano of Bank of America.

Salvator Tiano
Yes. Thank you very much. So, the first question I want to ask is specifically about the guidance. And I know you mentioned many times the forward curves in most cases are inverted for crush

margins. And I understand that's how you give the outlook. But let's say we're sitting here three--from six months from now, and would you expect the crush margins to indeed be that low? As you said, liquidity is linked kind of on the forward curve. So, is there a chance that simply things will revert and the outlook for the year may be better?

Greg Heckman
Well, I think that's why we've been consistent about using the forward curves and what we currently see in the environment when we do give the outlook, because that way it kind of doesn't flop around depending on our forecasting of what we see in the markets versus what the public forecasters are saying they see in the market.

But that's why I do think those flags that we've called out, right, weather is always key, how that farmer is going to market, the marketing pattern and how much on-farm storage that they've got to affect that and how their financial condition is from a liquidity standpoint. And then the big demand drivers, right, as we talked about, how quickly does demand bounce back on the food side, which is the one we can see snap back pretty quickly.

And on feed, it looks like animal numbers roughly flat. Chicken's probably up a little bit. Pork might be down a little bit globally. So, the animals are still in place, and how quick do they add animals from a demand standpoint as that profitability has returned in the animal sector. I think they've seen the worst on their profitability as an industry.

And then this veg oil market's pretty sensitive. If you look globally, palm is not increasing at the production growth that it had historically. And at the same time, they're adding domestic biofuel demand globally on the palm side. So, oil tightening up somewhat from a global perspective while you are growing biofuels in general, renewable diesel specifically and SAF kind of to come in the future. So, you've got a new industry that's trying to decarbonize its liquid fuels because we can do that with vegetable oils, low CI feedstocks, and help them do it at scale. And the market's been sending that signal, that we can supply those feedstocks, and we've seen quite a bit of demand that will be coming on in that segment. And so, that oil leg can really affect the crush, and that's why we called that flag out. And that'll be a key one to watch as well.

So, it should be a really interesting 12, 18 month kind of transition here not only on the crops, but as demand continues to grow as well and as customers kind of move back to trying to drive growth versus cost savings.

Salvator Tiano
Okay, perfect. The second question is on merchandising specifically. I guess in 2023, it was kind of a wash when you consider the $75 to $100 million maybe you've given in normalized earnings, but Q4 was well below that. Would you say now merchan--we are an environment and the upside over merchandising will actually be below that normalized level, or are we still mid-cycle and Q4 was just an anomaly?

Greg Heckman
Yeah. So, I think we called merch should be slightly down here in '24 versus '23. And right now, that's probably got it slightly below where we're at in our baseline model. But again, merchandising's the toughest one to forecast and is the first one to react if we get some policy changes that affect flows and/or weather, any weather issues that affect production.

And I'll tell you, as we continue to grow more yield on the same amount of acres and we're seeing more volatile weather patterns, both dry and wet, that affect production and logistics, that probably

just long term leads to more volatility. So, the merchandising will be the one that absorbs that on the short-term changes.

Salvator Tiano
Thank you very much.

Greg Heckman
Thank you.

Operator
The next question is from Thomas Palmer with Citi.

Thomas Palmer
Good morning. Thanks for the question.

John Neppl
Hi, Tom.

Greg Heckman
You bet. Morning.

Thomas Palmer
I wanted to ask a little more on the demand pull you're seeing from renewable diesel. I mean, it really has been a kind of key driver over the last couple of years in terms of crush and refined oil, the industry obviously responding on the crush side with added capacity in part to support this industry. I guess what's the visibility in terms of that demand pull at this point in terms of absorbing some of this increased supply that's coming from the added crush capacity? Are we still a little bit in leading mode? At different points, you've kind of noted that maybe curves aren't showing it, but you are at least in touch with customers, who are showing optionality for that increased demand pull on a forward basis.

Greg Heckman
Yeah, we see it continue to grow. I think there's going to be another 1.4 billion gallons of RD capacity come online in the first half of '24. I think some of the complexity, right, is it isn't just a veg oil game as they grow their demand. The market sent some signals when the pipelines got tight, and so we saw UCO imports. And so, as we balance some of that supply and demand, understanding that we soak up some surpluses and what'll be the ongoing rate of some of these imported UCOs and other kind of low-CI feedstocks as the market kind of works to balance itself out as that demand comes on. So, it's a bit of a--no doubt a complicated picture on that.

And then, of course, you've got policy changing, right, as we move from a blender's credit to a producer's credit in '25 and the RIN markets adjust to that. And then, of course, you've got even things like the CARB policy, where they've signaled that they've got the ability to make changes if the feedstock's available, and now the market's sending signs that the feedstock's available. So, we think this'll be pretty dynamic. But net-net, we have increased demand that continues to grow globally, and then we'll see what other policy things happen generally kind of around the world and specifically around things like SAF.

So, the other is how well their new RD operations come up to speed on catalysts and whatnot. Do they need the vegetable oil to be the dilution for some of these other low-CI feedstocks and some of these imported feedstocks? So, it also depends kind of how they run, and then also the

shift that we've said all along we expect to see at some point as these pretreatment facilities come up and we see some of the refined oil demand move into crude demand. And so, you may see it move from refining margins then into the crush margin. So, while we like a complex picture to unwind, this one has really plenty of moving pieces.

Thomas Palmer
Yeah, totally. Thank you. Just quickly on the share repo plans, I think as of the October earnings call, you'd spent $134 million on repo taking you to, what, $600 million between the back half of the year. Should we, as we look at this coming year, expect maybe a more balanced cadence? Because it looks like you kind of stopped at least for the last couple of months of '23, but still have clearly meaningful plans as we look at the time period kind of before Viterra closes. So, again, should that be a little more balanced on repo?

John Neppl
Yes. I think--well, our expectation is between now and, let's say, midyear, we'll have the other $400 million bought. Timing on close of Viterra is yet to be determined. But I think we won't wait around until we have news for that. I think we'll put it on a pace here to make sure that we're completed by midyear.

Thomas Palmer
Okay. Thank you.

Operator
The next question is from Sam Margolin with Wolfe Research.

Sam Margolin
Hi. Good morning. Thanks for taking the question.

Greg Heckman
Morning.

Sam Margolin
My question's on refining, because it seems like that's the segment where the commodity headwinds are probably the most visible. But it sounds like there's a technology story there for you, where you're either gaining share or maybe potentially getting some pricing power. And I wonder if you could just talk about the attributes of the yields in the new refineries that are adding value and how they accrue to the segment growth, and how should we think about that contribution. Thanks.

Greg Heckman
Well, I think on an overall, it's just the team has been running the refineries better. We set some records there in Q4 on volume and capacity utilization in our refineries. So, we're just trying to run the system better to meet the demands. And then on our India refinery, that is new multi-oil capabilities as well as packaging, and that's to meet some current demand as well as some growth. We'll be commissioning that in the first half. That's for our foods business.

And then the Avondale refinery, which we bought here in Louisiana, that's really helping on the import of some of the tropical and soft oils to serve our customers with multi-oil. And we were really at capacity there in serving our food customers here in North America, so that's freed up capacity and given us some extra capabilities. And we also had some equipment headed for

another facility that we've already pointed at Avondale, and we're going to expand that facility already. So, we'll be doing that work during the year.

So, that's really about capabilities and flexibility on the food side, which is the other, as John talked about, a little farther out, but our Amsterdam facility will be kind of the same thing. That's a great specialty oils market over there. We'll have really the most flexibility, we think, in Europe. We'll have the best carbon footprint and the lowest cost facility when we get that done, but that's just getting underway. So, that'd be out in '26 before we have the benefits of that.

Also with these new facilities, they're all improving the carbon footprint versus the facilities that we were running before. So, we continue to focus on sustainability as we make those investments as well.

John Neppl
Yeah, Sam, I would add that food is still 75% to 80% of our volume on refined oil. So, while energy certainly has been a nice demand for us, food is a big focus. We have very big downstream customers, and they depend on us from a traceability/sustainability standpoint and to be able to provide a multi-oil. So, that's still the primary focus of that RSO segment.

Sam Margolin
Okay. Thanks. That's super helpful. And then just to follow-up on capital allocation and the discretionary CapEx component, I think this year, it feels like it has more of the characteristics of sort of a trough year than maybe something structurally problematic. And so, it makes sense that discretionary CapEx is still at the top of your queue. But, I mean, is there anything that--a scenario that you can imagine that might cause you to decelerate growth CapEx, or any market conditions specifically that you're watching for that could maybe change the mix of your capital allocation and move growth CapEx kind of lower on the priority list? Thanks.

John Neppl
Yeah. I mean, the reality is most of the projects that are in our growth pipeline now are all underway, so the bulk of it won't change because we still believe those are great long-term projects. Certainly around the fringes, as new things come up, we may trade off between that and M&A, which we have done some of. We've seen some great bolt-on M&A opportunities and have allocated some capital that direction instead. But I would say largely our forward track here for '24 and '25 is pretty locked in from a CapEx standpoint.

Sam Margolin
I see. Thank you.

John Neppl
Sure.

Operator
The next question is from Davis Sunderland with Baird.

Davis Sunderland
Hey, good morning, guys. Thanks for taking the question.

John Neppl
Morning.

Greg Heckman
Morning.

Davis Sunderland
Just one for me. I was curious about the cost structure for processing and RS&O, maybe just how this has evolved as new capacity has come online in the industry. And maybe any comments you guys could give on variable cost changes over the last few years and how your cost structure compares to competitors would be helpful.

John Neppl
Sure. This is John. Look, I think we have not been immune to the inflation that we saw over the last few years relative to--kind of started during COVID and worked its way through. But what we've seen recently is energy prices coming off quite a bit, especially in Europe, which has lowered our variable cost over there quite a bit. I think our belief is that we're probably close to the most efficient in the industry, or certainly on par with others.

And as you can imagine, higher cost areas generally are going to be U.S. with inflation and Europe with energy costs and inflation, but we also have some very low-cost production areas. Brazil certainly is an area where costs are much lower than average, and in Asia as well, but highly competitive.

And I think, again, we've seen things come off, certainly. And I think where we're focused on a lot of our capital recently, especially on the sustaining side, has been focused on improvements and the efficiencies in the plants. I think we will continue to be able to do a good job of offsetting some of the inflation that we're seeing just naturally. So, we feel, I think, pretty good about where we are from an efficiency standpoint right now.

Davis Sunderland
That's great. I'll pass it on. Thanks, guys.

Greg Heckman
Thank you.

Operator
The next question is from Andrew Strelzik with BMO.

Andrew Strelzik
Hey, good morning. Thanks for taking the questions. First for me, I was hoping you could compare the current environment and the curves to the $8.50 EPS assumptions in the baseline more broadly. I guess it seems like, for the most part, most of the profitability and margin structures are similar to those assumptions, especially on the crush side if you were able to lock in the first quarter a little higher. The exceptions may be you said a little bit weaker on merchandising. And if a couple of hundred million lower on refined oils is right and I add the buyback, the math is something like $10 plus, I think. And I understand the volatility of the environment, etc. But am I thinking about that correctly? Is there anything that else that's materially weaker than kind of the baseline assumptions?

John Neppl
Yeah, I can start and Greg can jump in. I think, actually, our margin assumptions right now for 2024 are better than the baseline, marginally better than where we were in the $8.50 baseline

assumptions. So, we think that'll hold for the year, if not improve. Where we're seeing a little--and that's probably more on the soft side than the soy side, the higher assumption around margin structure and what we're seeing today.

I think where we see the downside versus our baseline is really in Merchandising. As we look forward, we have a--and Greg pointed out there's not a lot of visibility going forward in that. And based on how we finished '23, we've kept a lower forecast in for them in '24, which is actually lower than what we have in our baseline. But on the other side, RSO's higher. So, those are kind of the big things in terms of the commercial side of it.

When you look at the non-business part of it, or the other items, interest expense is quite a bit higher than what we had in our baseline driven by interest rates, certainly, and then a little bit higher effective tax rate as we've seen some tax legislation changes globally. So, interest and taxes are higher. On the margin side, soy and soft are higher. From an expectation, RSO is higher, and then Merchandising's lower. So, it's kind of how I'd think about it.

Greg Heckman
And probably the only thing on the commercial side that we didn't mention, while the margins on crush are a little higher than the baseline, the volume's just a little bit lower. And that's due to we exited Russia as a choice. And then in Ukraine, our volume is down with the war ongoing there.

John Neppl
Yeah. And maybe just one other thing to add too as you're thinking through this share buyback, certainly, is we've done more of that than we had in our original baseline model. I think we modeled $250 million a year in our baseline assumption. And of course, we've accelerated that with the Viterra transaction coming.

Andrew Strelzik
Okay, great. That was super helpful. And I guess maybe my other question, I'm used to thinking about the guidance in terms of a plus and you being asked about upside opportunities. You've discussed a lot of the risks here, and I appreciate the change in the kind of guidance presentation to the approximately $9.00. But can you talk about where there might be upside opportunities if we're looking for those? Where do you think the greatest opportunities might lie throughout the year? Thanks.

Greg Heckman
Yeah, I think probably the same key ones. China always a big factor, their economy and if it would speed up from a demand, and then how China's going to think about any stock building, because they can definitely make a change on these markets that are really still pretty close in the supply and demand balance, any type of weather situation at all. The balance sheets are pretty tight. We could see increased volatility, and that would also probably drive not only more farmers selling, but it would also drive the consumers to be farther out on the curve and do more purchasing.

And they've gotten comfortable again where we had some just-in-case inventory building. Everyone's kind of forgotten the supply chain problems. And we've definitely seen customers pulling down stocks in that just-in-time inventory again, so if you saw any concern on S&Ds or supply chain problems and saw a build back that way; the overall growth in demand from the lower prices, whether that's the animal industry adding capacity and/or the consumer responding across feed, food, or fuel more quickly to the lower prices.

And then Argentina, always a very big driver, of course, in the size of their crop, how the farmer is going to commercialize that. And of course, a lot of that'll be driven by the government policy and their ability to put the incentives out there in the way they want to with what they're trying to accomplish.

And then of course, importantly, biofuels in general globally, how that continues to develop policy and how the different feedstocks are weighing off in the global oil balance, with keeping palm in mind as well. So, those are a few of the flags that we're watching carefully, and it should be a really interesting 12, 18 months here going forward as we have a number of things transitioning.

Andrew Strelzik
Great. I appreciate the thoughts. Thank you very much.

Greg Heckman
Thank you.

John Neppl
Thank you.

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

CONCLUSION

Greg Heckman
I'd like to thank everyone for joining us today and for your interest. And I guess I'd just like to wrap up by saying we've tried to reflect in our outlook what has changed for '24, but I sure want to also reflect what has not changed. And what hasn't changed, right, is there's long-term growth in demand for the things we make and the services that we provide with them, and that is across all three, food, feed, and fuel markets. The growth in biofuels, that's a near-term issue, and that trend is in place.

The improvements in our operating model, those continue, and we'll continue to focus on how to make sure that we don't stop with our focus on continuous improvement. Our '26 baseline target remains unchanged. We continue to have a great pipeline of projects and investments with good returns. Our pending acquisitions are on track, and our share purchase commitment is ongoing.

So, those are things that haven't changed. We feel good about what we're doing. We've very proud of our team, and we'll continue to stay focused. So, thanks for your interest. Look forward to speaking to you again soon. Have a great day.

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