This 3DAdvisors Report Covers:
Insider Trading: Insider Trading Behavior
✓ **Accounting**: Quality of Earnings Issues
Governance: Corporate Governance Issues
Fundamentals: Analysis of fundamentals

Note Offering Bust, New Disclosures in SEC Form 10-K
Bunge Limited (NYSE:BG) Update

March 14, 2008

Contact: Bob Gabele (954) 779-3974 or bgabele@3DAdvisors.com

Bunge Limited, through its subsidiaries, operates as an agribusiness and food retail company worldwide. The company operates in three divisions: Agribusiness, Fertilizer, and Food Products. Agribusiness division purchases, stores, transports, processes, and sells agricultural commodities and sells to oilseed processors, feed manufacturers, wheat and corn millers, and edible oil processing companies, as well as to livestock, poultry, and aquaculture producers. Fertilizer division produces and supplies fertilizers to farmers in South America. Food Products division offers edible oil products, including bottled, packaged, and bulk oils, as well as shortenings, margarine, mayonnaise, and other products derived from the vegetable oil refining process; and milling products, such as wheat flours and corn products comprising dry milled corn grits, meal and flours, and soy-fortified corn meal and corn-soy blend. Bunge Limited was founded by Johann Peter Gottlieb Bunge in 1818 and is headquartered in White Plains, New York.

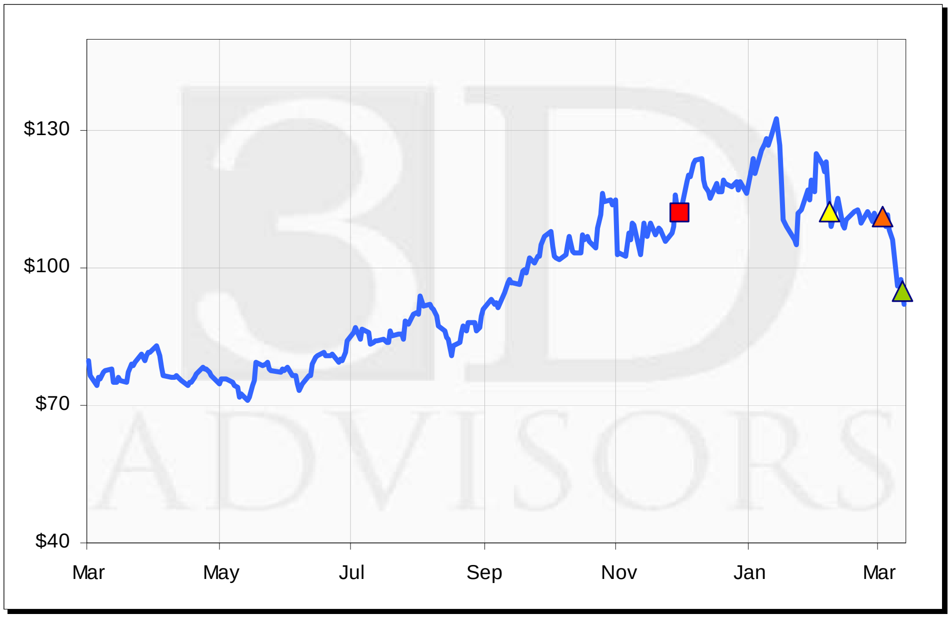
Summary of 3DAdvisors Findings for BG

- **Accounting:** New disclosures concerning inventories are telling
- **Accounting:** Other notes from the 2007 SEC Form 10-K

Discussion of 3DAdvisors Findings

Barely a week had passed since Bunge disclosed a $7 billion overstatement of revenue in its 2007 financials on March 3rd when a strange sequence of disclosures related to a senior note offering raised new questions about the ability of the Company to tap the financial markets for much needed cash. Few were surprised to see the Company file a preliminary prospectus for the sale of senior notes on March 12th, as it has experienced negative cash flow from operations for seven out of the last eight quarters and needs yet another capital injection. The bizarre twist that caught everyone by surprise, however, was that the Company abruptly cancelled the offering after the market close the same day citing “current conditions in the debt markets” as the reason. After a troubled opening yesterday, Bunge shares, which were already down nearly 30% from their January 15th intra-day high of $135, traded below $87 before rebounding to close on the day at $92, with almost 8 million shares changing hands. What could have changed in less than a day that caused them to withdraw the offering?

Figure 1. BG Daily Closing Price, 03/01/07 through 03/13/08. Red square is the date of the most recent 3DA update report on BG (11/30/07); Yellow triangle is the date the Company announced Q407 results (02/07/08); Orange triangle is the day that $7B overstatement of revenues was disclosed and the delayed 10-K was filed (03/03/08); Green triangle is the day the notes offering was filed, and withdrawn (03/12/08). Source: Reuters, BG SEC Filings and 3DAdvisors, LLC.



To us, this marked yet another in a long line of behavioral issues, all of which can be explained by the underlying fundamentals which paint a picture of pain for momentum investors who have steadfastly bought into the false image of a hot stock at the epicenter of the global agriculture and alternative fuel craze. What we have been convinced of since we first began following the Company back in June of 2006 now appears to be increasingly accepted: Bunge is NOT an agriculture producer but rather a de-facto financier to Brazilian farmers who grow the soybeans the Company needs for its own processing demands. Though Bunge's model, on paper, assumes it has effectively hedged its risks in these transactions, as each quarter unfolds the Company finds itself in deeper with these farmers who again rely on the Company to finance the next harvest's crop inputs so they can stay in business. But Bunge owns no farms itself and is in a seemingly impossible situation where its hedging strategies appear to have backfired due to an unforeseen movement in soy bean prices, and its exposure to the $2.5 billion owed by small Brazilian farmers, much of which may never be repaid, could ultimately threaten the business as a going concern, in our opinion.

Already straddled with debt, with no real cash earnings from operations and highly questionable receivables related to the aforementioned Brazilian farmers, and now apparently unwilling (or unable) to go to the market for more cash, the Company is at an interesting cross road. We anticipated difficult conditions in the debt markets could create serious problems for Bunge in our update on 08/22/07, and we noted these balance sheet risks had increased markedly in our update on 11/30/07. Since we have covered many of these issues in earlier reports, we limit our observations in this update to brief comments on items of interest in the recently filed 2007 SEC Form 10-K.

Accounting: New disclosures concerning inventories are telling

Bunge has expanded on its "Derivative Instruments" disclosures to add treatment of Readily Marketable Inventories to the discussion. It is now clearer that the Company has plenty of leeway in its recognition of Cost of Goods Sold with regards to its estimation process concerning market values of its inventories. From the recently filed SEC Form 10-K [bolding is ours]:

> **Inventories and Derivatives**
>
> **To the extent we consider it prudent for minimizing risk, we use derivative instrument contracts for the purpose of managing the exposures associated with agricultural commodity prices, energy and ocean freight costs, foreign currency exchange rates and interest rates. We are exposed to loss in the event of non-performance by the counterparties to these contracts. The risk of non-performance is routinely monitored and provisions recorded, if necessary, to account for potential non-performance. Different assumptions, changes in economic circumstances or the deterioration of the financial condition of the counterparties to these contracts could result in additional provisions and increased expense reflected in cost of goods sold, foreign exchange or interest expense. We did not have significant allowances relating to non-performance by counterparties at December 31, 2007 and 2006.**
>
> **The majority of our merchandisable agricultural commodity inventories, forward fixed-price purchase and sale contracts, and exchange-traded futures and options contracts are valued at estimated market values. These merchandisable agricultural commodities are freely-traded, have quoted market prices and may be sold without significant additional processing. We estimate market values based on exchange-quoted prices, adjusted for differences in local markets. Changes in the market values of these inventories and contracts are recognized in our consolidated statements of income as a component of cost of goods sold. If we used different methods or factors to estimate market values, amounts reported as inventories and unrealized gains and losses on derivative contracts in the consolidated balance sheets and cost of goods sold could differ. Additionally, if market conditions change subsequent to year-end, amounts reported in future periods as inventories, unrealized gains and losses on derivative contracts and cost of goods sold could differ.**

There is much in the above disclosure, which appears in the "Critical Accounting Policies and Estimates" section. Though the first paragraph is the same as in the same section in the Company's 2006 10-K when the section was titled simply "Derivative Instruments". In adding "Inventories" to the section, Bunge sheds light, for the first time, on the fact that it values its inventories at market and that, even though related market values are "freely-traded, have quoted market prices and may be sold without significant additional processing", significant estimation is involved in the picture. "We estimate market values based on exchange-quoted prices, *adjusted for differences in local markets*". It is important to note that local market price adjustments can be highly fluid when one considers that Mato Grosso soybeans (Northern Brazil) go for $2.50 less per bushel than they do in southern Brazil (due to extra transportation and input costs) and that beans in Southern Brazil bring $1 less per bushel than in Chicago. Also when taken into account that beans hardly stay in any one place for long, moving from farm to silo to truck to ship to processing facilities in either Brazil, Argentina or China, it is quite easy to understand how “Local Market Price” estimates can be interesting, and how out of period cost and profit recognition could be easily manipulated.

So Bunge writes readily marketable inventories up to market value when prices rise. The other end of the entry can go only to one place: Cost of Goods Sold. One wonders how assiduous Bunge is at writing these inventories down to market when prices soften, but that’s another matter.

Notwithstanding the inventory issues, we have a similar question on freight for which we have no answer. For the year 2007 the loss on freight derivatives was $340 million. However, the gain on ocean freight commitments was exactly the same at $340 million, so the net effect on income was zero. This was a big jump from the amount recorded, both as gains and losses, in 2006 which was just $31 million.

Accounting: Other notes from the 2007 SEC Form 10-K

- **$7B revenue “oops”.** The March 3rd announcement that Bunge was trimming $7 billion from its 2007 revenues due to the fact that certain inter-company transactions were not eliminated in consolidation may end up being remembered as much more than an innocent “oops” as the Company would like investors to believe. The Company insisted that the move had no effect on “operating profit, net earnings or earnings per share”. So how is it that so much revenue can evaporate in total harmony with a reduction of related costs so that the net effect is zero?

  Accounting for and eliminating inter-company revenue and expenses should be accounting ABCs for a Company like Bunge. We find it hard to believe that the CEO and CFO could look at the consolidated numbers before each quarterly release and not notice revenue was a couple of billion higher than it should have been. As one clearly upset analyst in the ensuing conference call suggested, Bunge has always been a “trust me story”, and this was just hard to swallow.

- **Higher retained interest on receivables.** Bunge is finding itself having to retain a greater portion of sold receivables (retained interests). In 2006 their retained interest was an already-high 26% of the receivables sold. We say already high since many retained interests that we have seen, such as those related to credit card securitizations, usually have been in the 10% to 15% range. In 2007, however, Bunge had to retain almost 34% of its $338 million receivables sold during the period. Clearly, this rising level of retained interests required as collateral in its securitizations is a signal that either Bunge’s receivables quality is dropping further, or market conditions are worsening, or both.

- **Fertilizer Receivables.** The balance at 12/31/07 rose to $857 million from the year-ago amount of $746 million. Clearly the fertilizer A/Rs are not just getting larger, but they are getting older and more doubtful as well. Gross fertilizer A/Rs increased by 15% but the allowance was raised by 47% and now represents 25% of gross receivables. An amount of $154 million has been reclassified form trade A/Rs to non-current assets on the balance sheet. Non-current A/Rs now total $331 million with an allowance of $189 million, or 57%.

Included in non-current receivables is an amount of $142 million relating to customer defaults under the program of guarantees to financial institutions for certain customers' debts. An allowance of $38 million is set up. The Company has paid $15 million to financial institutions as a result of customer defaults, but based on the amount of defaults it appears that significant additional payments will be required.

- **Advances to Farmers** and Prepaid commodity purchase contracts rose to $1.163 billion at 12/31/07 versus $866 million a year earlier. It is virtually certain that collateral against this obligation is insufficient to fully protect against any loss. We doubt that the collateral (crops and mortgages on farmers' land, etc.) against the $1.163 billion is any greater than it was against the $866 million.

  An allowance of $52 million has been recorded against the $1.163 billion in outstanding advances to farmers and prepaid commodity contracts. Interest on secured advances in the amount of $57 million has been included in income in 2007. The question remains as to whether the interest is being collected. That $1.163 billion includes an amount of $379 million in long-term advances to suppliers. Legal action to collect has been initiated on an amount of $245 million of the $379 total. That speaks loudly to the collectibility of those. Amounts in legal proceedings relate to 2006 and 2005 crops.

- **Rising interest costs eat into earnings.** It continues to be worth noting that interest expense absorbed 31% of operating income in 2007.

- **Non-cash gains still important contributors to income.** The non-cash Foreign Exchange Gain on Inter-company Debt (of $285 million) makes up 28% of net income. That assumes no income tax provision for the exchange gain. They used to refer to this item as related to third party debt held by foreign subs. Now they just refer to it as foreign subs having assets and liabilities denominated in US dollars which are re-measured into the functional currency with any gain or loss going to income. These assets and liabilities would get converted back to US dollars in consolidation, but the gain or loss would go to OCI in equity. This year they are also saying that the number includes some hedging gains, which we do not believe has been indicated previously.

- **Cash continues to be tight.** Of the total cash and cash equivalents of $981 million at 12/31/07, $449 million was held at Fosfertil, a consolidated, but not wholly-owned sub. This cash is not available to Bunge, but rather only should dividend distributions from Fosterfil be declared. The year 2007 is the second year in a row that cash has been used *in* rather than provided *by* operations. With a good deal of the cash on the balance sheet not even being available immediately to Bunge and as evidenced by yet another equity issue in recent months, the Company's cash situation is far from sound.

  In addition, payables increased by $1.2 billion for the period. Judging by the way payables have increased in the cash flow it would seem likely that the company is not very current with suppliers. Despite all of this, the Company indicates an intention to invest $1.0 billion to $1.1 billion in CapEx in 2008. They are counting on some cash from assets dispositions, but we suspect more cash is going to have to come from somewhere else as well. More debt is in the offing, making the recent offering rescission all that much more curious.

- **Derivative growth.** Included in Other Assets is the largest amount of unrealized gains on derivatives, at $2.66 billion, we have seen thus far for Bunge. As mentioned in our earlier reports, unrealized gains, and associated (offsetting) losses, have risen over 500% in just over one year. We had speculated earlier that, no doubt, much of this increase in derivative growth is related to the Company's disclosures about inventory and how it has been forced to buy in soybeans at all-time high prices in order to either meet its processing needs or to deliver on forward sale contracts executed prior to harvests. In the latter case, when farmers fail to deliver the beans promised, and Bunge has already sold them "short" in anticipation of future delivery, the Company is forced to cover by buying in the commodities market in order to deliver.

- **Growth in unexplained "Other".** The "Other" component of Bunge's Other Assets rose to $705 million as of 12/31/07, this up from $497 million the prior year. No explanation for this is offered.

- **Ongoing (and unexplained) product reclassifications.** It seems that every period, Bunge reclassifies products from one category to another and they never say why this is done. This year the movement was from edible oils to agribusiness. The direction has been different in other periods. Our suspicions have always revolved around efforts to affect product line margins and perhaps avoid goodwill impairment charges. If they transfer the product lines, presumably they could also transfer assets devoted to that segment, thereby reducing the amount of the investment to be recovered and lessening the likelihood of goodwill impairment.