BHP

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Jason Fairclough, Bank of America

Good morning, everybody. Good afternoon to those of us in Europe and good evening to people who are listening from Asia. I am Jason Fairclough. I run EMEA metals and mining research at Bank of America. With me is my counterpart in Australia, James Redfern. We jointly cover the dual listed companies, BHP and Rio. We are pleased today to introduce our first company on this track, BHP. Mike Henry is the recently appointed CEO of BHP. He is formerly President Minerals Australia. He is former Group Executive for Health, Safety, Environment and Community, and he was also Head of Marketing, so very pleased to welcome Mike to our global metals and mining conference for the first time. Mike, thanks so much for supporting us in this unusual format.

In terms of today's programme, Mike will make some opening comments, no slides, and then we will have a fireside chat. There is also an opportunity for investors to ask questions. This can be done via the Veracast website.

Mike, over to you for your opening comments.

Mike Henry, BHP

Thank you, Jason.

Ours is an industry that has seen some extraordinary events, but nothing like the past few months. As with everyone on this call, I'm very conscious of the devastating effect the pandemic is having on lives, society and on the economy.

In the face of this, people across BHP have rallied in line with our purpose and values in a way that has seen them stay safe and has kept the business running and performing strongly. And this has had an even higher purpose during these times – our industry supports not only our workforce, but communities, customers and countries around the world with the jobs, business and materials that will help us navigate and then come out the other side of this crisis, and then rebuild.

Our people have stepped up. They've been working with particular purpose, focus, speed and decisiveness. What they have been able to achieve in terms of operational performance and external leadership has reinforced my views of what's possible.

At our interim results in February, I spoke about BHP's strong foundations. I also talked to a number of things that we will change, strengthen and focus on in order to unlock more of our potential, to further address the challenges coming at us, and to capitalise on opportunities that will reveal themselves over time.

We aim to be leaner and high performing in all parts of BHP – lower cost, more reliable and more productive. And to be even safer. We must also create and capture more options in future-facing commodities – to help us continue to protect and grow value.

In order to unlock our true performance potential, we are focused on five specific levers: culture; capability; an asset-centric focus; technology; and capital allocation.

Our focus on these remains unchanged by COVID-19. And, in many respects, the COVID-19 crisis has allowed us to both demonstrate and accelerate our intent. I'll come back to this in a moment.

Operationally and financially we are performing well. We carried good momentum into the new year and delivered another strong underlying operational performance in the March quarter. We leaned into the triple challenges of heavy weather in Australia, unrest in Chile and the impacts of COVID-19 globally. We kept our people safe and operations performing well.

For the nine months ended March, we achieved record year-to-date production at Western Australia Iron Ore and Caval Ridge; Escondida production increased, supported by record concentrator throughput; and we stacked record material at Spence.

What has enabled this? I'd put it down to three things – people, focus and capability.

Firstly, great people. 72,000 people across BHP have stepped up with commitment and ingenuity to deal with some unprecedented challenges. I've seen so many examples of people going the extra mile. Nearly 1,000 people elected over the course of one weekend to up and relocate themselves, and in many instances their families, across Australia in order to keep the business running.

Secondly, focus. Everyone has been made it their mission to enable our Assets to keep people safe and our operations performing. This Asset-centric focus has resulted in much sharper prioritisation of effort, stronger team alignment, and very fast decision making. We've been moving at pace. This has been supported as well by the steps we've taken to free up our front-line supervisors to spend more time in field.

And finally, capability. We've been building capability for some time through multiple channels: The Maintenance and Engineering Centre of Excellence, Operations Services, our functionalised model and the BHP Operating System. It is telling that both the WAIO port and the Escondida concentrators have been supported by early deployment of the BHP Operating System as well as targeted effort from the Maintenance and Engineering Centre of Excellence. This has resulted in a substantial improvement in car dumper reliability and train turnaround time at Port Hedland and increased reliability, and throughput, at Escondida's concentrators.

We have continued to ramp up Operations Services and it now has over 2,000 people, on track for 3,000 by year end. This has enabled us to respond more nimbly to some of the workforce challenges that have arisen through COVID-19.

As with our businesses, our functions are consistently striving to be better – more efficient and even higher performing. I remain confident that we are on track to unlock well in excess of half a billion dollars in overheads savings by 2021, relative to last financial year, while also improving the service delivery of our functions. In the past few months we have already restructured our Technology team and efforts to enable us to be more targeted, faster and lower cost.

So, operationally things are running well and our agenda to improve reliability, efficiency and productivity is intact. While markets remain uncertain and under pressure to varying degrees, we continue to move all of our product and payment performance has remained strong. We benefit from our diversified portfolio, high quality products and strong relationships with our customers. The obvious question is where to from here.

The G20 nations have committed more than US$7 trillion of fiscal stimulus. This has gone some way to cushioning the damage to underlying economies and commodity demand and will help support a faster recovery. We are also now beginning to see the progressive relaxation of some of the COVID constraints. Even so, other than in China where a V shaped recovery appears to be underway, we think the recovery will be more protracted elsewhere.

Tens of millions of people have lost their jobs across developed economies, and more than 1 billion workers in the informal labour markets of developing economies have had their livelihoods affected. Re-establishing these livelihoods will take time and consumption will be inevitably constrained, making a V shaped recovery increasingly unlikely.

By the end of CY2021, our base case has the global economy roughly 4 per cent smaller than it would have been if COVID-19 had not happened.

We do think though that if China avoids a second wave, Chinese pig-iron production still has the potential to grow slightly this year. As for the rest of the world, it is likely that pig iron production will experience a double-digit decline.

We expect that copper demand will also fall, but that it will be more resilient than steel, with the impact of COVID-19 on the supply side providing a degree of support for prices.

Oil products demand is expected to begin to recover in line with the easing of mobility restrictions, but the level of demand is unlikely to fully recover before the end of CY2021.

It is too early to say anything definitive about the longer-term impacts of COVID-19, but what I can say is that the underlying demand drivers… population growth, urbanisation, industrialisation and increased standards of living… remain the same.

The fundamental need for our commodities remains. We anticipate that global steel and primary energy demand will both grow slightly faster than population growth for decades to come, while copper, nickel and potash will do a little better than that. Our commodity attractiveness framework, which takes account a range of factors, not just demand, leaves us both comfortable with what we have but also committed to increasing our exposure to future-facing commodities.

In terms of our very near term plans, our portfolio, balance sheet and operations enable us to weather times like these. But we will of course make decisions about what level of capital and exploration expenditure is warranted in the coming year given market circumstances. We will look to defer some, where that makes sense for value or to preserve cash. We'll have further detail on this at the full year.

To sum up, the past four months have combined challenge and tragedy in ways that none of us foresaw. But our strengths have shone through and we continue to perform.

We have a simple, diversified portfolio of large, high quality assets, where we create value at scale. Our balance sheet strength is underpinned by the disciplined application of our Capital Allocation Framework. We are in one of the industries which continue to operate. And with our strong financial position and low-cost operations we have the capacity to generate solid cash flow and returns to shareholders through this period and to emerge well placed as the global economy recovers.

Indeed, the team and I are committed to locking in and building upon the focus, energy and speed that we've realised in recent months such that we exit this period stronger and accelerate on the agenda that I've spoken about previously.

Fireside chat

JASON FAIRCLOUGH: Let us move to the next stage in the programme, which is the fireside chat. Mike, in a pre-COVID world, this is where we would invite you to come and join us on a very comfortable white leather sofa. Today you just have to imagine it. James and I will alternate on the questions, so I will start. Why not start with you? You have recently taken over as CEO of BHP. It is a big seat. It is a big responsibility. For investors, how should we think about BHP under Mike Henry and how it will be different to BHP under Andrew Mackenzie?

MIKE HENRY: Yes, it is a big job. BHP is a great company with strong foundations. Andrew and I are naturally different people and different leaders, but we do have some things in common. A couple of them would be strong values and a real unwavering belief in both BHP's people and its potential. I have inherited quite strong foundations from Andrew and I have spoken about that previously. We have great people, an inclusive culture, a simple portfolio of some of the world's best assets and a positively differentiated strategy and operating model.

Per my opening comments, I am very focused on building on these foundations to deliver exceptional operational performance and long-term value and returns. I want us to be even safer, leaner and higher-performing, with more options for the future. Part of this will see us have a much higher proportion of the workforce who are BHP employees. We will also have better enabled frontline leaders with lower spans of control, who are able to spend more time in field. I want us to be a faster, more nimble and more commercially minded company. The times demand it, and we have certainly seen that in recent months.

We will also harness people and technology to create and secure more options for the future through exploration, with a focus specifically on future-facing commodities. I think this is a winning formula. We will harness the strength of the foundation we have spent a decade establishing, reliably deliver industry-leading results, have great relationships with those around us through our commercial orientation and our focus on social value, build for the future through creating and securing more options and deliver great value growth and returns for shareholders. You see us bringing much of this intent to bear in our response to COVID. I think we have demonstrated our discipline, responsiveness to the world around us, decisiveness and bias to action. Above all, our focus on the safety and wellbeing of our people, communities and partners has shone through.

JASON FAIRCLOUGH: Just before James asks the next question, I have a quick follow-up question on that. You mentioned the response to COVID, and I have a question here from an investor on the line. Is it getting easier or harder to manage operations under COVID restrictions? On the one hand you potentially have people learning how to cope, but on the other hand these longer, four-week rosters. Is that not tough for people? That is a question from an investor.

MIKE HENRY: There is a lot wrapped up in this. Interestingly, under COVID we have seen some of our best operational performance. We did have the momentum prior, but we have not seen the sort of disruption to operational performance that some people might think would be there. A lot of that comes back to the quality of the people we have and the way that they have really doubled down in ensuring that we all stay safe and that we perform well.

Some of the changes that have been put in place have of course created challenges for us, including the need for social distancing, the time needing to be spent on things like hygiene and so on. Credit to the teams; they have sought to offset that through bringing their own ingenuity and effort to bear in maintaining productivity and keeping a lid on costs.

Coming back to your question, Jason, around whether longer rosters are creating challenges for people, yes, they are, and that is something that we are really attuned to. One of the learnings for me through this process has been that, even for those people who are needing to spend more time working from home, that brings with it a certain mental weight or can impact on mental wellbeing.

We have been paying a lot of attention to what has been happening on the frontline of our business. What have we done? We have stood up regular surveys where I think well over 20,000 or 30,000 people have responded, which give us a sense for what they are experiencing. We then take management actions on a short-cycle basis to address the concerns that are being raised, and we have also put in place a question-and-answer hotline, or an information hotline, so people can get any of their concerns addressed quickly.

JAMES REDFERN, BofA: Mike, it is James Redfern here. Over the past few years, BHP has consistently returned to its Capital Allocation Framework. Will we see any change to this framework with yourself now as CEO, and how much flexibility do you have to reduce capex? Thank you.

MIKE HENRY: James, thanks. In short, no change. I am a very firm believer in the Capital Allocation Framework and the discipline that it instils. I have seen what it has brought to BHP. It is perfectly suited to the industry. It recognises cyclicality. It ensures we have a strong balance sheet and that we strike a balance between returns to shareholders and reinvesting in the business at all points in the cycle.

I think it has made us much stronger and it has made us a more disciplined company. It has underpinned the strong position that we are in today and that we have carried into COVID, with our business resilient and well-positioned for the current environment. It is driving higher returns as well. This approach to the CAF has seen our net debt halve from US$26 billion in 2016 to US$12.8 billion as at the end of the last half, and it has also got our capex down to manageable levels. Over this same period we have returned US$33 billion in cash to shareholders and invested US$31 billion as we have developed a suite of organic growth options. I mentioned earlier the balance between returns to shareholders and investing in the business, and you see that over the past few years.

On the second part of your question, which was around flexibility with our capex, just before I come to answering that directly, I just want to call out the fact that our Capital Allocation Framework and our strong balance sheet enable us to invest counter-cyclically and in doing so to grow value. We are also looking at our plans for the next year in light of the current environment, and we have a number of levers available to us. Our current financial year ends next month, but we have already been able to reduce our Petroleum exploration spend by a quarter during the second half, so that is about US$100 million. There will also be some deferment of spend, given the impacts arising from COVID-19 on a few of our projects.

As we outlined in our third-quarter operational review, we already expect our capital spend for FY21 to be lower than the around US$8 billion we previously guided to, and we have a number of levers available to us to achieve that. In Petroleum we have deferred the Scarborough FID into the middle of next year. We have the flexibility to reduce Petroleum exploration spend next year by US$200 million, about a third of our spend over recent years, and we are currently evaluating what Petroleum activities we can defer to preserve value or capture value by shifting production to a window where we anticipate stronger oil prices. In minerals, we are also assessing whether there are any things we should do for value. We will provide updated numbers and guidance around that at the full-year results in August.

I will just say a final word on the Capital Allocation Framework. It has been a game-changer for us. It has given us greater focus and discipline, it has made us stronger, it has made us more resilient and it has helped us to drive higher-quality growth and returns, so it is not going anywhere.

JASON FAIRCLOUGH: Great, thank you. Let us just talk a little bit more generally about growth, Mike. How do you think about the growth issue? One thing I have been struggling with a little bit in the last couple of years is this issue about whether big miners now are too big to grow. Would you ever consider inorganic growth? It used to be a major sort of plank of the growth strategy for large mining companies.

MIKE HENRY: We should be clear about what we mean by growth. The only growth that matters is value growth, and we are never too big for that. We are driving safer, more reliable, lower-cost and more productive operations. In fact, I would say our size enables us to grow value at scale. I am certainly intensely focused on ensuring that we can accelerate our improvement cycle.

Sometimes value growth does come through volume growth. We will do so when market circumstances warrant it and when we can get attractive returns. For the next five to 10 years we are well-stocked in terms of organic opportunities but, as I have said, beyond that, we know that we need more options in future-facing commodities. That will help us to grow value for decades to come. These options will come both from within our existing footprint and from securing more resources through exploration and early-stage entry, or at least that is the first focus: to secure options through getting more out of what we have, or through exploration and early-stage entry.

We have to be alive to M&A opportunities. I want to highlight, though, that we are very selective about the commodities and the assets we want to own. We have made no secret of that. We have to be disciplined in sticking to that. The assets must align with our strategy. The opportunity has to pass our Capital Allocation Framework, which means that these opportunities have to compete against the alternative opportunities that we already have in the portfolio, and that includes buy-backs. Our experience to date has been that these sorts of assets and opportunities are the ones that others, not surprisingly, like to hang onto. When they do come available, there are lots of other people who want them, so they will be hotly contested. That is why our first focus on securing more options is through exploration and early-stage entry, but, if the right opportunity presented itself, we do have the balance-sheet strength to allow us to pursue it. We just have to be really disciplined about it.

JAMES REDFERN: Can you please talk a little bit more about Petroleum? The well-timed exit of US Onshore was obviously a positive, given the recent decline in the oil price. The Petroleum business is now much smaller than it used to be, accounting for 11% of EBITDA last year. Is Petroleum really a core business for BHP? Will projects such as Scarborough and Trion be able to compete for capital with other options in the business?

MIKE HENRY: Thanks for the recognition on the timing of the shale exit. On your question talking more broadly about Petroleum, I think we have a quality Petroleum business and a great team. It is on-strategy and it remains core to BHP. We like the commodity. We have great assets, with growth potential, and we have a proven track record, in terms of our operating capabilities.

The other fundamentals are there for success as well. We have a strong balance sheet as a company. We have a diversified portfolio. That allows us to invest counter-cyclically, so we can continue to invest when pure players may not be able to. If we think back a few years, this was our advantage, back in 2016, when we continued exploration spend when others could not, hence our Petroleum growth options today. I do believe that Petroleum offers competitive, attractive opportunities to grow value and returns for shareholders.

Notwithstanding the current market challenges, we believe the long-term supply and demand fundamentals remain sound. I know that some people have questions about long-term demand, given climate change, perhaps exacerbated by what happened in the past few months as a result of COVID-19. We accept the science of climate change and we have shown leadership on this for a long time.

Let us frame this. Even low case forecasts are for the world to consume another trillion barrels of oil over the next 30 years; that is relative to 900 billion barrels over the past 30. Also, conservative estimates put natural field decline at, say, 3% per annum. This means that, unless demand is falling consistently at a rate greater than that, the world is going to need investment in fresh supply, which will support prices. I have to say it is hard to see demand falling year in and year out at greater than 3% per annum.

However, what is really important to understand in terms of our approach to investments is that, under the Capital Allocation Framework, we rigorously test downsides, and we are not overly led by spot prices, either high or low. We assess our investments against a range of potential outcomes.

You asked, James, about Trion and Scarborough. On those specifically, we think Trion is going to be attractive but it is still early. On Scarborough, we are continuing to work on strengthening the returns and risk profile, but together with our partner we elected to delay FID, as I mentioned. We do have the benefit of flexibility in our projects, so the timing of some of our capital spend will change in Petroleum, taking into account current markets. We are managing the business with one eye on near-term volatility, but we do continue to see the Petroleum business as having upside and potential to generate some great returns and value growth.

JASON FAIRCLOUGH: I am watching the time and it is flying by here, Mike. I wanted to talk briefly about ESG, and we have about four or five minutes left. In a former role you were the group head of HSEC (Health, Safety, Environment and Community). Without getting into climate change, how do we think generally about ESG as both a threat and also an opportunity for BHP?

MIKE HENRY: I see it as a powerful differentiator. We spoke at length about this in our social value briefing late last year. We believe it can bring us competitive edge through better ability to access resources, better ability to attract great talent and to maximise access to capital markets or to secure lower costs of capital. We have a long track record in this, of making great or sound decisions. You have seen that play out in the way that we have handled COVID, renewable power in Chile, which, by the way, has both reduced our emissions footprint quite markedly – or it will – and it has created direct shareholder value through lower prices. We have a long track record of success. We see this as a positive differentiator for BHP and we are committed to it.

JAMES REDFERN: Mike, just following on from that, sticking to ESG, how does that thinking extended to climate change, and has this changed in the current crisis?

MIKE HENRY: There is no change to either our beliefs or our commitment. Again, we recognise the longer-term role that fossil fuels will continue to play, but we also recognise the risks associated with climate change, and we have been taking action on this for decades. We have recently spoken about the commitment that we have for further reductions in operational emissions, and we will come out later this year with a science-based 2030 target. We have also stood up a US$400 million Climate Investment Programme to support our work with others in the supply chain, including our customers, to reduce their emissions. We will also come out later in the year with updated portfolio analysis to include a well below two degrees scenario, and we are strengthening the link between climate performance and executive pay, so there is no change to our commitment to this. We will be meeting the commitments to come out with further on this later in the year.

JASON FAIRCLOUGH: Mike, we are running out of time, but we will see if we can squeeze one last one in. Just super-briefly, could you talk a little bit about what BHP has done to support the communities and the people who immediately surround you though this current COVID crisis?

MIKE HENRY: Sure. I will keep it very brief, Jason. We have kept operating. That is the single biggest thing that has contributed to those around us. In addition to that, we have put funds in place to support local communities across all of our regions. We have supported our business partners. We have provided funding into research for COVID, and we have shortened payment terms for some of our small, local and indigenous suppliers, so there are quite a range of things. We want to support those who support us.

JASON FAIRCLOUGH: That is great. We have run out of time; I cannot believe how quickly that went through. Mike, again, thanks so much for working with us in this unusual format, and we hope to welcome you in person to our conference in Barcelona next year, but thanks again.

MIKE HENRY: I look forward to it, Jason. Thank you, Jason and James.