

Q1 2012 Earnings Call

Company Participants

- Ivo Marcon Brum, CFO and Investor Relations Officer

Other Participants

- Giovana Araujo, Analyst
- Pedro Herrera, Analyst
- Pedro Richards, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for waiting. At this time, we would like to welcome everyone to SLC Agricola First Quarter of 2012 earnings conference call. Today we have with us Mr. Ivo Marcon Brum, CFO and Investor Relations Officer.

We would like to inform you this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After the Company's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions). Also today's live webcast both audio and slideshow may be accessed through SLC Agricola website at www.SLCAgricola.com.BR in the investor relations section by clicking on the banner webcast 1Q '12.

The following presentation is also available to download on the webcast platform. The following information is available in thousands of Brazilian reais and in IFRS except when otherwise indicated.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of SLC Agricola management and on information currently available to the Company. They involve risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of the Company and could cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. Ivo Marcon Brum, CFO and Investor Relations Officer. Mr. Brum, please go ahead.

Ivo Marcon Brum {BIO 16639894 <GO>}

Good morning, and thank you for participating at SLC Agricola's conference call for the First Quarter 2012. You can proceed to slide three where we demonstrate the evolution of the international prices of our products on the quarter.

Cotton price continued at a level of \$0.90 per pound, in line with our forecast presenting average quotation of \$0.927 per pound in the period. Even though our 2011, 2012 crop year, world production will exceed the consumption in around 15 million bales for our 2012, 2013 the competition for the planted area between grains and cotton should bring change to the supply and demand scenario. Higher price on the crops such as soybean and corn will probably bring production in the cotton area.

The first estimate for new FDA for 2012 and 2013 points out to a reduction of 10% in the cotton area in the United States.

Soybean price present average quotation of \$12.70 per bushel on the First Quarter of the year and prices were on the rise for the period. The recent increase in the price is due to the reduction in production for South Brazil and Argentina regions that were affected by drought that went from December 2011 up to February 2012.

In this scenario of crop losses in the southern hemisphere, a production pickup in the United States would be crucial to maintain this supply and demand scenario on the second semester of the year. However, the current USDA forecast is of reduction in the area for the US at 2012, 2013 crop year pointing to 73.9 million acres of the planted area. If confirmed, it would bring even more pressure to the soybean price.

Corn prices decreased slightly throughout First Quarter 2012, maintaining however a relatively tight price level at \$6.40 per bushel on CBOT. Due to this high price, a considerable increase in the US planted area is forecasted. The first USDA estimate point out to an increase of 4.2% to reach 95.9 million hectares. This area would offset the crop losses of the southern hemisphere, increasing the pressure on the corn prices in the medium term.

We can now move on to slide 4, where we show figures relative to the performance of our crops at 2011, 2012 crop year. Due to the dry weather in the Bahia State in February and March, we reduced some of our use forecast. The current estimate for soybean use is of 3200 kilos per hectare compared to 3297 kilos per hectare of the initial forecast, a reduction of 2.9%.

For our first crop cotton, also impacted by the drought, we submitted a reduction in use of 1.3% standing now at 1657 kilos per hectare compared to 1679 kilos per hectare in the initial forecast. On the other hand, use for corn first crop and second crop and cotton second crop should exceed the initial forecasts due to our good weather in the farms at the Central East and (Maranhao) states.

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Let me now go to slide five where you show the comparison for net revenues and volume invoiced in the First Quarter 2012 against First Quarter 2011. Volume invoiced in the First Quarter 2012 was 84% higher than First Quarter 2011, mainly due to a higher volume invoiced of the soybean quota in the period. Due to higher volumes, the net revenue also posted significant increase to reach BRL324.8 million in the First Quarter 2012, for an increase of 65% against First Quarter 2011.

Please let's move to slide 6, where you have a summary of our financial results for the quarter.

Gross profit totaled BRL103.9 million or an increase of 39% in comparison with the previous quarter mainly due to a higher volume invoiced and also an increase in the average invoiced price for soy and corn in the period. On the other hand, we had increased inventory costs for cotton and corn. In line with the increase in gross profit between quarters, EBITDA was BRL96.4 million in the First Quarter 2011, increased 56.5% compared to the First Quarter 2011.

Finally, net costs at the quarter stood at (BRL33.1) million against BRL22.4 million in the First Quarter 2011. Net profit was impacted by negative net financial income of BRL18.3 million.

Net financial income showed monetary valuation of minus BRL12.7 million due to the appreciation of the soybean bag on the quarter, which is indexed for the debt related to land acquisition.

We may now move to slide seven where you present breakdown for the net debt. Company's gross debt closed at quarter at BRL698.1 million, an increase of 9% in relation to December 2011. The main increase in the structure of the debt was that the trade finance increase of (inaudible) million in the quarter (inaudible) to give support to the Company expansion and also of increased maturity of the debt which realizes as collateral company's exports.

Cash position also increased in the quarter, closed in the period at BRL217.7 million against BRL130.5 million on the previous quarter. Net debt to EBITDA ratios doubled on the quarter to reach 1.3 times.

Thank you. And now we would like to open for questions and answers.

Questions And Answers

Operator

(Operator Instructions) Pedro Richards, Raymond James.

Q - Pedro Richards {BIO 19360889 <GO>}

Thanks for the call. I wanted to know if you could give an update on what has happened recently regarding the law limiting farms acquisition by foreigners in Brazil and what is your most updated outlook on the Land Co. project? Thanks.

A - Ivo Marcon Brum {BIO 16639894 <GO>}

Pedro, thanks for the question. So about the foreign -- about the restriction for the foreign investors to buy land in Brazil, that we don't have news with this issue. The developments are discussed internally in our Congress but we think that we need to wait more one, two months until to have really one definition.

About the Land Co. projects, first of all, we don't have a problem with the restriction for investors to buy land in Brazil because our Land Co. Company has (15)% of the local capital, so we don't have the restriction. So last call, we commented that you have negotiated this deal with some funds and I think after 40 days, I think we are close to have good news. But we need to wait more, maybe some weeks or months to have a really have a definition about this issue.

Q - Pedro Richards {BIO 19360889 <GO>}

Okay, very clear. Thank you very much.

Operator

Giovana Araujo, Itau.

Q - Giovana Araujo {BIO 16356713 <GO>}

My question is about the pace of commercialization in the coming quarters. Your First Quarter commercialization volumes were substantially higher year-over-year. How do you see the commercialization evolving the coming quarters? Do you see another strong quarter of soybean volumes or do you still have carry-over inventories from previous crop? Thank you.

A - Ivo Marcon Brum {BIO 16639894 <GO>}

Giovana, thank you for this question. First of all, we need to consider that to increase our planted area compares since last year, so because of that we have more volume to be sold. So to be specific about the question, what's happened in that, we started to benefit this product in the middle of the second semester of last year and so you have -- and as you know, the price last year was in at high level so you have some (inaudible) (tax) to deliver to the year.

And of course because at this high level, the price some customers or some clients ask us to postpone the delivery of the product, so for the next quarter, we have a more -- around 20,000 tons to deliver. And so because of that, you have to spread the product during the year.

About soybeans, to increase our planted area, so you have more volume -- so because of that, and because the price was very good in the beginning of this year, you anticipate part of the sales.

Q - Giovana Araujo {BIO 16356713 <GO>}

So do you intend to anticipate, keep anticipating the sales in the coming quarter? It makes sense, right?

A - Ivo Marcon Brum {BIO 16639894 <GO>}

Yes, of course. We need to issue the price and reach the levels that we establish in our risk quality that certainly you can anticipate some sales. Of the soybean specifically.

Corn in our mind, in this first semester the price will be very good for the producers but in second crop -- second not, so our first crop you basically are 100% sold, so we need to wait the second crop of the corn to start the sales.

Q - Giovana Araujo {BIO 16356713 <GO>}

Okay, okay, great. Thank you.

Operator

Pedro Richards, Raymond James.

Q - Pedro Richards {BIO 19360889 <GO>}

Thanks, yes, a follow-up question on the farmland market in Brazil. If you could comment on the trend of farmland prices in Brazil over the past month, how did prices of farmland in the region move? And if you would consider selling one of your farms to realize the capital gain from land appreciation over the past years regardless of the outcome of the Land Co. project? Thanks.

A - Ivo Marcon Brum {BIO 16639894 <GO>}

Thank you, Pedro. So about the price of the farms, so generally this period of the year you will hire the (inaudible) to have the appraisal of develop the farms, so let's consider that the volatility of the price of the soybeans that maybe you wait more than one, two, three months until we have some established so we have some (inaudible) variations to really have to the appraisal.

Even though we don't have this appraisal, so you know that's because we have in Brazil definitely to that measure the price of the land, so because of that, you can see that the price of the land compared since last year needs to increase around 10%, 14% so that the (less) of the land needs to increase around this level.

As opposed to sell farms, our project now is to have the Land Co. So your focus is Land Co. If you don't have success in the Land Co. project, it's possible you sell one farm but

nowadays our idea is just to close the Land Co. project.

Q - Pedro Richards {BIO 19360889 <GO>}

Excellent, thanks.

Operator

(Operator Instructions) Pedro Herrera, HSBC.

Q - Pedro Herrera {BIO 15159561 <GO>}

Good morning. Just a quick thing. What is your view on cotton prices for the short term and over the next 12 to 18 months?

A - Ivo Marcon Brum {BIO 16639894 <GO>}

Thank you, Pedro. So our view about the cotton price is to keep the same level around \$0.90 per pound. Of course, you can have some variation reaching \$0.92, reaching \$0.88 per pound but our view that you try to keep this stable because now you know that in the United States, we reduced the planted area. China we reduced the planted area probably because (inaudible) reduced the planted area in the second semester.

So considering that this assumption but in our view, it doesn't make sense to reduce the price.

Q - Pedro Herrera {BIO 15159561 <GO>}

Okay. Thank you.

Operator

(Operator Instructions). This concludes the question-and-answer session. At this time, I would like to turn the floor back to Mr. Brum for any closing remarks.

A - Ivo Marcon Brum {BIO 16639894 <GO>}

Even though we have faced some huge loss due to the dry weather in the Bahia state this year, as our revenue highlighted, the scenario for 2012 is very positive. At the moment we have already stated the price for both of our sales for the year according to our hedging strategy.

Also the devaluation of the real against the dollar and the increase in the soybean price presents good opportunities for prices for the balance yet to be sold.

Regarding the planted area expansion, we are going to be working with a total of 280,000 hectares for 2012, 2013 crop year; growth of 13% on the 2011, 2012. We assume that we will start to plant at these farms acquired in the beginning of this year and also

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that you put into production a total of 10,500 hectares on the areas that we would carry in the previous years.

Thank you for participating. Have a good day.

Operator

Thank you. This does conclude today's presentation. You may now disconnect your line at this time and have a nice day.

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