

Q4 2016 Earnings Call

Company Participants

- Aurélio Pavinato, Chief Executive Officer
- Ivo Marcon Brum, Chief Financial & Investor Relations Officer

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to SLC Agricola Fourth Quarter of 2016 Earnings Conference Call. Today we have with us Mr. Aurélio Pavinato, CEO; and Mr. Ivo Marcon Brum, CFO and Investor Relations Officer.

We would like to inform you that this event is being recorded, and all participants will be in a 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.

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 4Q16. 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 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 it relates to future events and, therefore, depend on circumstances that may or may not occur in the future. Investors should understand the 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'll turn the conference over to Mr. Aurélio Pavinato, CEO. Mr. Pavinato, you may proceed.

Aurélio Pavinato

Good morning, and welcome to SLC Agricola's earnings conference call for the fourth quarter and fiscal year 2016. Let's go, please, to slide 3 where we will start by commenting on the highlights of the year. As detailed in the message from management section of our earnings release, the year was marked by a significant crop shortfall due to

El Niño whose effects on the weather led us to revise our plans for the year. (2:53) due to the efforts made by our management to make additional cuts in our costs, expenses, and investments, we managed to deliver positive net income and free cash flow generation and, consequently, to reduce our net debt, ending the year with a cash position of over BRL 1 billion.

The main actions we took over the course of this challenging year included limiting CapEx to maintenance levels at BRL 78 million (sic) [BRL 80 million] (3:33), adjusting our cash conversion cycle by the defined payments and receivables terms with the suppliers and clients which led to gains in working capital, and cutting cost and expenses by a total of BRL 90 million in relation to our initial budget.

Let's go now to slide 4. We also took actions to optimize the scale of our operations which, in certain cases, involves leasing all or part of our less-efficient units to third parties or even returning leased land in areas presenting higher weather risks. So we leased to our third parties the Paineira Farm in Piauí state with 7,600 hectares (sic) [7,642 hectares] (4:33). We leased to a third party the more remote area of the Palmares Farm in Bahia with 4,400 hectares (sic) [4,392 hectares] (4:48). And we negotiated the return for the next crop year of the 5,000 hectares we had leased on Piratini Farm in Bahia.

On slide 5 you can see key figures for our land portfolio. In 2016 we revised the market value of our production units which reached BRL 3.7 billion, representing appreciation in the average price per hectare of 6.8% on a year earlier (5:26) as a result in giving out stock prices current exaggerated discounts in relation to our net asset value.

As we can on slide 6 we launched, as per the minutes of the Board of Directors Meeting held yesterday, a share repurchase program through which we aim to buy back 2.5 million shares. We believe that this is the best use of our current resources given the substantial discount in our stock price since it represents a way to buyback our land properties for a fraction of their market value.

Let's go now to slide 8 where I will comment briefly on the price of our main products in 2016 and early 2017. Cotton crops on the international market began a recovery during 2016 and continue to rise in early 2017 to their current level of around \$0.75 to \$0.80 per pound. This new price level is very positive for our business and appears sustainable to us given the current scenario of reduction in world stocks for a second straight year in 2016-2017 crop year.

In the case of soybean in slide 9, I should note that although we are in a period of record crops in both the United States and South America, price recovered in 2016 and where it remained at around \$10 per bushels in Chicago. What is supporting soybean price is strong demand especially from China.

I will now pass the call over to my colleague, Ivo Brum, our CFO and IRO, who will comment on our financial results in the period.

Ivo Marcon Brum {BIO 16639894 <GO>}

Good morning, everyone. Let's go to slide 11 which presents a summary of our financial highlights in 2016. Despite the crop shortfall that Pavinato already mentioned, we ended the year with net income of BRL 15.6 million with BRL 29.9 million attributable to the parent company. We also delivered free cash flow of BRL 209 million, setting a record for the company as you can see on slide 12. This marks the second straight year of positive cash generation which is in line with our strategy. This allowed us to reduce our net debt from BRL 1.09 billion at the end of 2015 to BRL 853 million at the end of 2016. This is our lowest level of net debt of the last three years and comes despite the expansion in planted area and crop shortfall in 2016. This also is what also made it possible to cut the expenses in investment as well as by optimizing our cash conversion cycle.

Let's turn to slide 13 which presents details of our debt. The net debt adjusted EBITDA ratio end of the year practically is unchanged at 3.4 times compared to 3.2 times in the end of 2015. Compared to the previous year, we managed to significantly increase our use of rural credit and constitutional funds credit lines for structuring our debt which allowed for reducing our use of working capital lines which have higher costs.

I will now pass the call back over to Pavinato who will comment on the crop year and outlook for 2017.

Aurélio Pavinato

Thank you, Ivo. Let's turn, please, to slide 15 where we present our updated hedge position. As we can see, we had guaranteed a good percentage of the sales for the year at prices higher than in 2016 especially considering the amounts in Brazilian real. When we raised the price again for the revenue of each crop, we had an increase of 5.4% in comparison to the previous year. On slide 16, the chart show a comparison of the production cost in the current crop year. We see actual cost in 2015-2016 which are already incorporated all of because mainly to the drought. Nevertheless, our costs rose by only 3.5% in average between crop years which further supports good prospects for margins in 2017.

Finally, on slides 17 and 18 we show our projected yields for 2016-2017 compared to our actual yields in 2015-2016. As mentioned in the earnings release, the prospect for a good crop year are confirming, so that today we already harvested nearly 6% of our soybean. We expect production to exceed our budget for cotton and second crop of corn. We also expect to surpass the budget given the excellent implementation of the crops and the good level of rainfall to-date. When you weigh yield gains for shares of revenue per crop, we had a growth in revenue of 23% and it's still not incorporating potential productivity gains over the budget.

I would also like to highlight that to continue to capture efficiency gains, as we can see on slide 19, this year we are implementing our SQP program which stands for safety, quality, and productivity. On the safety front, we have already observed improvements in main indicators such as in our accidents frequency rate which reduced from 13 accidents to 2.4 accidents per million working hours.

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On the quality scope, we already have implemented the integrated management system which involves three certifications: ISO 14001, Environmental management; OHSAS 18001, Health And Work Safety; and NBR 16001, Social Responsibility, in five farms with more to expect to be certified in 2017. Also we have launched the ISO 9001 quality control for the cotton gin and silos on Planalto Farm in Mato Grosso do Sul. To work with quality and safety in all operations brings in increasing in work productivity which can be via more production or in our cost reduction. All these initiatives will help build a more and more robust company with better control of its process and better management indicators.

Thank you. And we will now start the questions-and-answers session.

Q&A

Operator

Ladies and gentlemen, we will now initiative the question-and-answer session. As there are no questions, I would like to turn the conference back to the company for their final remarks.

A - Aurélio Pavinato

Thank you very much for your patience and good bye.

Operator

Thank you. This does concludes today's presentation. You may disconnect your lines at this time, and have a nice day.

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