

Q2 2020 Earnings Call

Company Participants

- Eduardo de Toledo, Vice President of Corporate Management
- Marco Antonio Sousa Cauduro, Chief Executive Officer
- Marcus Vinicius Macedo, Investor Relations Manager
- Waldo Edwin Perez Leskovar, Chief Financial Officer and Investor Relations Officer

Other Participants

- Regis Cardoso, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to the earnings release conference call of CCR S.A. to discuss the results regarding the Second Quarter of 2020. We inform that all participants will be in listen-only mode during the Company presentation. And later on, further instructions will be given when the Q&A session starts.

(Operator Instructions)

Before proceeding, we would like to clarify that statements that may be made during this conference regarding the business prospects of the Company, forecast and operating and financial goals, are based on beliefs and assumptions of CCR management as well as on information currently available to the Company.

Considerations about the future are not guarantee of performance since they involve risks, uncertainties and assumptions, and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operational factors may affect the business prospects of the Company and lead to results that differ materially from those expressed in such future considerations.

Now I would like to turn the floor over to Mr. Eduardo de Toledo, Vice President of Corporate Management of CCR. Mr. Toledo, you may proceed.

Eduardo de Toledo {BIO 2067933 <GO>}

Good morning, everyone. It's a pleasure to be here with you. Today at the conference, we have Waldo Perez, our CFO and Investor Relations Officer; Marcus Vinicius Macedo, Investor Relations Manager; and as well as an entire RI team. Especially today, we have the presence of Marco Cauduro, who is the new CEO of the CCR Group, to whom I hand the floor now.

Marco Antonio Sousa Cauduro

Good morning, everyone. It's a pleasure to be here with you to speak about CCR, its current moment, its plans for the future. During more than 20 years of existence, the Company had only two CEOs. Now I'm the third CEO and the first person outside the Group. The challenges are big. It's a complex moment or times for Brazil and the world, but we're confident that we have the staff and the resources to advance towards the future, keeping the leadership in mobility.

People, culture and sustainable growth are the pillars that will sustain our new phase. They would be the leading characters of the development cycle that we envisage for the near future. We'll continue to work so that the historical tradition of valuing talents will be recreated and improved. At the same time, we're continuing with the initiatives of revaluing our corporate initiatives, our culture, that's where people express themselves and contribute to the Company.

We'll continue to focus on sustainable growth and commitment to diversity, Safety of our customers and employees are key. Amongst all that, we are committed to ethical management in line with the vision of resilient society and of the countries we operate in. We have more than 15,000 employees in Brazil, United States and Latin America, and they will be key to generate value for all stakeholders.

I am aware that the leadership of this process and having a north would be key to enter new businesses and grow in the business where we are leaders. And in order to face these new challenges, but I believe that together as a group, we know that we are contributing to resume the economic activity, generating jobs and revenue and innovating in searching for new opportunities.

I would like to finish by thanking for the opportunity of sending this positive message about the future of CCR, but also to say about this important moment that we're going through in Brazil and worldwide.

Now I turn the floor over to Eduardo de Toledo.

Eduardo de Toledo {BIO 2067933 <GO>}

Thank you, Marco. Now the -- Marco's joining the Company that completes the renovation process of the management of CCR. Most of the people come from CCR, who have a deep knowledge of the business, and this staff is completed by people hired from the market that bring new knowledge and new points of view to the Company.

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Now talking about the quarter itself, even though the second quarter of 2020 has been impacted by the pandemic, there's been a clear improvement in performance of results throughout months. If we look at the weekly traffic of the roads that becomes very clear.

The last week, there was published to the market that goes from July 31 to August 6, we had, for the first time after the beginning of the pandemic, a reduction of traffic of only one digit, 6.3% on comparable basis to be more precise. This resumption of the activities has -- is always happening in the urban mobility concessions, although less intense. For airports, that's a bit slower, but it has started, but we're still limited in the number of flights.

Regarding the financial position, we made the decision, as communicated to the market to anticipate all the contract of financing we had planned for this year. So we ended June with BRL6.3 billion in cash and investments in -- that are -- have immediate liquidity, which allows us to have cash to deal with any thing that may happen until the end of the year.

Finally, I would like to emphasize as well that during this quarter, we reinforced the team dedicated to prospecting for new businesses to be prepared for this new cycle that starts.

That's the summary I had to make. And now I turn the floor over to Waldo, who will talk about these financial results in more detail.

Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Thank you, Eduardo. Good morning, everyone. First, I would like to thank all of you to attend the call. And before talking about the earnings of this quarter, I would like to say that the earnings release is available at the Company website, www.ccr.com.br/ri.

And as mentioned by Eduardo previously, we've seen that this second quarter, the results were impacted by COVID-19 pandemic, especially due to the reductions in the lockdown that were -- that was established in mid-March that caused the lower number of vehicles to traffic the roads and also reduction of users demand in airports and Urban Mobility.

Talking about the main highlights of the quarter, we highlight pro forma traffic of vehicles that decreased 18.2% when compared to the second quarter 2019. Excluding ViaSul traffic, it fell by 22.1%. The performance of light vehicles was 42% lower than the same period of last year. The traffic of heavy vehicles was much more resilient with a drop of 4.3% when compared to the same period of last year.

We now highlight the main pro forma figures for the second quarter of 2020. Now considering the business that we don't have control over or which we share the control consolidated proportionally to the interest of CCR in each line. For the figures of the same basis, we also include new projects and assets that the Company changed its interest as we detailed in the earnings release.

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The net revenues adjusted on the same basis advanced BRL1.7 billion in the second quarter 2020 with a decrease of 25.8% when compared to the same period of last year. The adjusted EBIT on the same basis had a reduction of 41.5%, and the EBITDA margin changed -- it's 13.3 percentage points lower than the second quarter of 2019, reflecting the same effects previously mentioned.

The net loss on the same basis amounted to BRL164.7 million in the second quarter 2020 compared to a profit of BRL329.5 million in the same period of last year. And the net income or the net loss was BRL142 million against the net income of BRL347 million.

Considering the impact caused on demand of our business, we had several restriction of mobility imposed since mid-March to COVID-19 pandemic. And in addition, due to the higher effect of depreciation and amortization due to the -- some concession agreements of RodoNorte and -- that are coming to its end. In the second quarter of 2020, investments totaled BRL229 million, and concession is that invested the most were RodoNorte with BRL69.6 million, ViaSul with BRL61.5 million and SPVias with BRL25.8 million.

With regards to the pro forma net debt, we reached BRL15.6 million [ph] in the second quarter 2020, with an increase of 9.1% when compared to the second quarter of 2019 and 4.4% when compared to the first quarter of this year. The leverage of the Company measured by the net debt over adjusted EBITDA had a slight increase when compared to the second quarter of -- first quarter of 2020, went in [ph] from 2.4 times to 2.8 times in the second quarter of this year. This index reflects a very comfortable situation and supports our strategy of growth and financial discipline.

Despite the high volatility caused by COVID-19 in the financial market, CCR continues to have a broad access to credit facilities. And in addition, I would like to mention that continuing with the strategy adopted by the Company and communicated in the first quarter of this year to provide funds to go through this uncertainty period caused by the pandemic, as mentioned by our CEO, we completed the advances of fundraises estimated for the rest of the year. We're completed this quarter, so we were able to raise BRL6.1 billion in -- of funds in -- and in July, BRL604 million that were planned for this year.

In addition, we prioritized investments that contribute to the conservation of our cash position as mentioned again previously by Eduardo. For further details, please check the COVID-19 section of our earnings release.

We now open for the Q&A session. Operator, please, you may proceed.

Questions And Answers

Operator

Thank you. We will now start the question-and-answer session. (Operator Instructions) Our first question comes from Regis Cardoso from Credit Suisse.

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Q - Regis Cardoso {BIO 20098524 <GO>}

Good morning, everyone. Thank you, Marco, welcome to the Company, Eduardo and Waldo. I would like to benefit from the presence of Marco to ask him about his vision about this new growth cycle for the Company. I think it's interesting when you talk about entering new segments. It seems to me that this new cycle of growth will be more targeted to diversification rather than focusing on core activity and streamlining. I would like to understand if I got it correctly. And if -- do you mean diversification in terms of more services, more Urban Mobility or even entering the sanitation area, or are there only -- any other industries or sectors that you plan to enter? That's the first question.

The second question is about costs. In the second quarter, it caught my attention, the fact that there were -- there was not a significant cost reduction in the Company. I would like to understand if there is any particular reason for that? And whether you believe that the rebalancing methodology could predict a reduction of cost in the period, and therefore, you would lose value because of that. And also about the contractual requirements, do you envisage this happening in terms of extension of the concession periods or tariffs and if there is any preference between both?

And just a third question to Waldo, a bit more specific. As you see the loss in traffic, the accessory [ph] revenues from financial assets, especially Urban Mobility, became more significant as a whole. So Waldo, could you remind us of the nature of such revenues and whether they should accompany traffic because this line became more significant altogether? Thank you.

A - Marco Antonio Sousa Cauduro

This is Marco Cauduro. Thank you for the question. I will start answering, but then I'll ask Eduardo and Waldo to help me, especially in the third question. Well, since in my -- as in my initial comments, this is a new time for me. I'm now taking over this leadership. And I think that's a key pillar in this new phase of the Company is to sediment the culture -- organizational culture of the Company, people management, esprit de corps and our execution capacity.

At the same time, as you well know, the Company has a need to recycle its asset base and its concessions. And in addition to a pipeline of opportunities, according to the infrastructure transformation of Brazil, that's important. And as a leading company in this process, the Company continues to capitalize on this competence that have brought us here with a high -- ex competence, the capacity to develop projects and run them operational and execute them. Therefore, the Company will remain focused on mobility structure, road concessions. And these are the areas we're currently operating.

Capitalizing within our competencies that have brought us to this point. We know that there is an interesting pipeline of roads as well as on mobility infrastructure and airports as well. So the strategic north of the companies to continue to operate in excellence within these motos [ph] that we operate in.

At the same time, within a structure of new businesses that assesses new opportunities with main focus on the motos that we already operate, the operation modes. There are some related investment opportunities that we could explore according to our current competencies that could make sense. But today, there is no strategic direction already determined.

But we have a fiduciary duty of due diligence of the Company to wait for opportunities and be ready to explore them when the opportunity for growth appears. Now I would hand the floor over to Eduardo Toledo and to Waldo that will answer the other questions. Thank you.

A - Eduardo de Toledo {BIO 2067933 <GO>}

Thank you for your questions, Regis. Speaking about the other questions you've asked, in terms of costs, it is important to take into account that in the case of CCR, particularly, there are international airport operations, both in the Caribbean, in the United States.

And although we have undertaken important cost reductions, there has been an important devaluation of Brazilian currency, the real. And if you exclude this effort -- or this effect, I'm sorry, this effort becomes more clear because it's not shown due to the exchange rate effect. We had a cost reduction, reduction of hours of work, of wages and salaries. But we must bear in mind that we must maintain the service levels of agreements we are part of. So we are making such reductions but always taking into account the service level commitments.

And going to your third question regarding the agreement requirements in terms of preference, we do not have a preference in our -- we believe these renewals of concessions should make sense to the granting power. It is their right to determine how this will occur.

Of course, if you have a concession that is close to its termination, to its end, the rebalance by contract extension, for example, could have a very strong effect in a longer-term conception. The present value of an agreement extension for one that is close to its end, that adds more value. So that will be taken into account by the granting powers when it's time to determine how this rebalance will take place.

As to the last question you asked about the loss in traffic or the decrease in traffic, I think Marcus could help us answer that.

A - Marcus Vinicius Macedo {BIO 15022391 <GO>}

How are you? Marcus Vinicius speaking. We -- in the table of other revenues, you could see that the mobility projects had an increase in revenue. That's related to revenues to -- for mitigation of demands that these projects have. So when the demand is below the expected demand, there is a compensation or as an offset that comes from revenue, and each project has its specificities.

For example, in the subway of Bahia, Metro Bahia, we had a significant reduction in demand, about BRL100 million. And the mobility of lines 15 and 17, the mitigation revenue was BRL30 million, and that's the effect you see there. So we -- the explanation is in the table of revenues in the earnings release that's linked to traffic. Each project has a different role for mitigation.

Later on, if you want, we can get in touch and discuss that into detail -- in detail. It depends on how traffic performs. There are some brackets of demand. And according to the bracket, there is a revenue to be offset by the government, to be paid by the government in the period following that one.

Q - Regis Cardoso {BIO 20098524 <GO>}

Okay, great. Thank you for your answers. Very complete. Thank you.

Operator

The next question from Victor Mizusaki from Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning. I have two questions, actually three. The first one is to Marco. When we look at the new portfolio of CCR, even before the pandemic, some assets in the portfolio did not attain the expected result. There's one that had a request for anticipated termination, but (inaudible) And given this pandemic scenario, everybody agrees that the airline industry has been highly affected, and their recovery will be very gradual. And therefore, this will have a relatively significant impact on airports.

So I would like to understand on your side in terms of this vision about portfolio, does it make sense to maintain the operation in the United States TAS? And when you see on the cost, that has a negative effect on cost due to exchange rate and also Confins [ph] or rather it would be interesting to ask for the early termination of this concession?

And the second question is, whether you're interested in taking part in the auction of sanitation in Alagoas in September.

And the last question for Eduardo. Just to clarify the rebalance issue. Is this more about the coronavirus? Or is it also about Sao Paulo? Thank you.

A - Marco Antonio Sousa Cauduro

This is Marco Cauduro speaking. Victor, thank you for the question. I've been in the Company for 30 days. So although I have some hypothesis about the long-term performance of the Company and choices of portfolio for the future, we're developing work with the team and reassessing some decisions made in the past and also thinking about future strategy.

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But today, our vision is that the market we operate are all strategic for the Company. I'll let Eduardo help me in that regarding TAS, but our vision at first in the vision of the Board of Directors is that all modes are strategic. They all offer opportunities of growth with rates of return that are rather consistent regarding the policy of the Company.

And we have the competencies to explore their maximum potential value of all these businesses. Of course, with my joining the Company, it is natural to review the strategic positioning of the Company, but our vision and conviction is that the transportation modes that we operate in are strategic for the Company. Each one has a different economic characteristics and expected return, but we can get the best of each one.

But regarding the auction, the Company has a structure of new businesses, staff that's dedicated to explore new opportunities for growth. And as I said before, sanitation is one of these possibilities within the transformation agenda of the infrastructure industry of Brazil, and we are evaluating potential businesses in that area.

Edu, would you like to turn to answer the question?

A - Eduardo de Toledo {BIO 2067933 <GO>}

Yeah. Okay. You mentioned Confins, MSVia and TAS. Let me talk about the three. MSVia is clearly -- we are looking to explore this alternative that the government created that's very much welcome, which is the early termination or return of the concession. We are going well in that process. And there is a possibility that we may have an amendment until the end of the year so as to adopt this amicable termination of the agreement.

In terms of TAS, every -- all the airports are facing difficulties, but TAS works on cargo movement. And we see our contracts grow, specifically focused on some electronic commerce providers. So TAS is doing well. We're quite pleased with the business results in the United States. And this is an important basis for originating other businesses with the interesting prospects.

And finally, regarding Confins obviously, the airport industry is suffering, But on the other hand, the government is treating this industry very seriously and providing the help that the industry needs. So the government has postponed the granting to December. The government is working hard on providing a solution. So I believe that the prospects for Confins are quite positive right now.

Of course, it's been affected by the pandemic, but it has good prospects. And of course, we're making several -- taking several initiatives to improve the business. And so we have demonstrated that we're trying to potentialize the results of Confins. So just to comment on the three points that you mentioned.

And finally, about this rebalance, we are talking directly about coronavirus and how this could happen in terms of suspension of deadlines, concessions that would terminate earlier? Or you could review the investment program to schedule them differently with the longer periods given the pandemic specifically about Sao Paulo, clearly, this

rebalance of conversation rebalances are going to the extension of terms. This is the way that's being used to provide the requirements, to meet the requirements of Sao Paulo and to solve problems from the past.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Just a follow-up on this point. There's been a decision on ARTESP regarding immigrants signaling a term of 90 days to reach an agreement on the side of CCR. Does it make sense if there is a similar term?

A - Eduardo de Toledo {BIO 2067933 <GO>}

I think that the government has treated this issue in a way to solve the problems of the industry as a whole, to solve the problems from the past to try to potentialize on future investments. That's the view of the government. And what happened at eco [ph] is similar to what's happening with us. This is how they're dealing with the industry as a whole.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. Thank you very much. Great.

Operator

(Operator Instructions) This ends the Q&A session. I would now like to turn the floor over to the company for the final remarks.

A - Eduardo de Toledo {BIO 2067933 <GO>}

Thank you all very much. I would like to end this earnings release conference call saying that during moments like this that we're going through, the strength of CCR is very clear. And this strength comes from a team that's highly qualified and engaged. This is very clear in the way that CCR has dealt with this difficult moment we're going through, and this strength and power makes me absolutely confident that CCR has all the potential to play a key role in this new cycle that is starting. And I would like to thank you all for your attendance, and I hope to see you soon in the next conference call. Thank you.

Operator

The conference call of CCR has now ended. We thank you all for attending, and have a good afternoon.

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