

## Q3 2017 Earnings Call

### Company Participants

- Ricardo Lewin, Chief Financial & Investor Relations Officer

### Other Participants

- Augusto Ensiki, Analyst
- Stephen Trent, Analyst
- Victor Mizusaki, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome everyone to Rumo's Third Quarter of 2017 Results Conference Call. Today with us, we have Mr. Júlio Fontana, CEO; Ricardo Lewin, Chief Financial and Investor Relations Officer; and Mr. Gustavo Marder, Investor Relations Manager.

We would like to inform you that this event is recorded, and all participants will be in a listen-only mode during the company's presentation. After Rumo's remarks, there will be a question-and-answer session for industry analysts. At that time, further instructions will be given.

The audio and slideshow of this presentation are available through the live webcast at [ir.rumolog.com](http://ir.rumolog.com). The slides can also be downloaded from the webcast platform.

Before proceeding, let me mention that forward-looking statements will be made under the Safe Harbor of the Securities Litigation Reform Act of 1996 (sic) [Private Securities Litigation Reform Act of 1995] (1:09). Forward-looking statements are based on the beliefs and assumptions of Rumo's 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 Rumo and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Ricardo Lewin. You may begin your conference.

**Ricardo Lewin** {BIO 20342706 <GO>}

FINAL

Good afternoon, everyone, and thank you all for participating in the third quarter 2017 conference call of Rumo. I would like to start by reminding you that at the end of 2016, we concluded the reverse merger process of Rumo Logística by Rumo SA, which is the current denomination of América Latina Logística SA. So, we are now presenting here Rumo SA pro forma results considering the accumulated results of Rumo Logística prior to the merger for comparison purpose.

This quarter, we recorded solid EBITDA growth reflecting the significant capacity expansion, resulting in increased volumes transported and diluted costs, in addition to greater operational efficiency.

So let's start with slide 3 with Rumo's consolidated results. We are pleased to report solid operational performance in this quarter, with record-breaking production in the months of July and August. The significant CapEx expansion driven by the efficient execution of our investment plan coupled with the strong demand for corn transportation due to a record crop were key drivers for this result.

We were able to reach more than 14 billion RTK, up to 18% from the same period last year. Port loading volume of the terminals controlled by Rumo at the Port of Santos went down by 5% in the third quarter 2017, reflecting a less favorable scenario for sugar sales in the quarter in addition to the start-up of the new terminal at the port which ended partially absorbing demand from several terminals including ours.

Let's now turn to slide number 4, where we can see the company's consolidated financial performance. Financial performance was mainly benefited from higher volumes transported. Consolidated net revenue in the quarter was up approximately 15% to BRL 1.6 billion due to increased volumes and high average yield on both transportation and port loading.

EBITDA climbed at around 25% from third quarter 2016, reflecting capacity and efficiency gains achieved through our investments. In addition, cost dilution and an effect of higher volumes resulted in the EBITDA margin going up from 45% to 49%. Our broad net debt came to BRL 9.45 billion in the third quarter 2017 while our leverage was reduced to less than 4 x the broad net debt to EBITDA. It's worth mentioning here that the company's capital increase was successfully concluded in October. And if we were consider the effect of the transaction already in the third quarter after departure figures (5:23), leverage would correspond to approximately 2.9 times the broad net debt to EBITDA.

Moving onto slide number 5, we can see the breakdown of our business units starting with the North Operation sector. The investments made over the last year resulted in increased capacity which along with the consolidation of our commercial strategy allowed us to capture larger volumes of grains in an environment of soft demand. In addition, higher volumes transported resulted in dilution of cost.

These helped us increase total volume transported by the North Operations by 15.4% in the third quarter 2017 compared to the same period last year, reaching 9.2 billion RTK. Net revenues grew 14% to BRL 1.2 billion in the third quarter 2017. North Operation's

Bloomberg Transcript

EBITDA was up 18% to BRL 676 million in the third quarter 2017 with an increase of almost 2 percentage points in EBITDA margin.

On the next slides, we can see our market share in Santos. The environment in which we are operating this year is very different than that we had in 2016. Just for us to remember, the corn crop failure in 2016 compromised the exports of this grain. However, as volumes were guaranteed by commercial agreements, we were able to transport 67% of all grain shipped through the Port of Santos.

In 2017, the scenario is quite different. As we have record soybeans and corn production in Brazil, bringing the grains exports by the Port of Santos back to the levels seen in 2016, reaching 10 million tons, up 66% from the same period last year. Despite our market share having reached 52% in this quarter, the volumes transported to the Port of Santos increased 29% year-over-year and 11%, sequentially, reflecting the continued gains in capacity.

In addition, we included the three quarter 2015 figures, where we can see that in a scenario of regular crops, RUMO transported 4.2 million tons of grains to the Port of Santos. When we compare with the third quarter 2017 scenario we had a 20% growth in grains volumes transported to the port and 9 percentage points in the market share increase.

Moving on to slide 7, let's take a look at our South Operation performance. Better operational conditions in the South Operation allowed us to capture higher corn volumes in a period of solid demand due to the record corn crop. In addition, we continued evolution of our terminal performance both in region and destination, reduced the cycle of assets, leading to an additional capacity for us to transport higher soybean volumes in the period. As a result, total volume transported by the South Operation in the third quarter 2017, reached 4.3 billion RTK, and the net revenue grew 20% to BRL 388 million in the third quarter of 2017. Finally, our South Operation EBITDA reached BRL 133 million, 81% higher than the third quarter of 2016.

Moving to the next slide, we present our Container Operation's performance. Total volume of containers transported in the third quarter 2017 came in line with third quarter 2016, reflecting the strategy of diversifying cargo and increasing customer base, which offset lower volumes due to the rationalization of non-profitable routes. Increases in the cost of services provided as expenses impacted our Container Operations EBITDA, which came negative at BRL 7.3 million.

Let's now move to slide number 9 where we present the complete consolidated indebtedness position. The broad net debt, in line with the second quarter 2017, reaching BRL 9.5 billion on September 30, 2017. Leverage measured by the broad net debt to EBITDA ratio was reduced to 3.98x. Again, I'd like to reiterate here that in October, we concluded our capital increase process, thus speeding up the company's leverage and reducing their borrowing costs. As already seen, if we consider the effect of this transaction already in the third quarter 2017, leverage would have reached 2.9 times.

FINAL

Bloomberg Transcript

Moving to slide 10, we can see consolidated financial results and cash flow. The financial results in the third quarter 2017 was a net expense 8.4% lower from the same period last year, mainly due to the drop in interest rate between the quarters besides lower expenses with leasing and real estate receivables certificates as a result of the amortization of these instruments in the period without new funding being raised.

These effects were partially offset by the higher average debt balance rising from the issue of the senior notes in February this year. Referring to financial income, we saw a decrease in the yield of financial investments due to the drop in interest rates, which were partially offset by higher average cash position in the period, also due to issue of the senior notes.

Moving on to the slide 11, we present the historical trend of operating and financial performance indicators. On this chart, we can see the historic evolution of some of RUMO's operating and financial performance indicators. In this quarter, we present again the unitary rail variable cost and unitary fixed cost plus sales, general and administrative expenses, excluding depreciation. The unitary rail variable cost is the variable rail operation cost per RTK produced. This ratio decreased 1%, reflecting higher efficiency of the company's assets, especially lower fuel consumption by locomotives. Likewise, we present the fixed costs added to SG&A expenses, less depreciation per RTK produced. Such indicator improved significantly by 18% as a result of cost dilution due to higher volumes transported.

The operating ratio this quarter came through 70%, up 7% from the third quarter 2016, as a result of improvement in the two ratios mentioned above. Our diesel consumption measured in liters per GTK, (14:01) improved 8% mainly due to the lower fuel consumption of the new locomotives. The indicator was also benefited by higher volume of grains transported in the North Operation, where there is lower average fuel consumption compared to the sugar flows (14:18) from the state of São Paulo.

Now, specifically referring to the North Operations, grain transportations in the Rondonópolis to Santos route. When we analyze the average railcar loaded per day, we can see an improvement from higher volumes of grains transported. Such improvement occurred despite the fleet renew where railcars with lower capacity were replaced with railcars with 90 tons capacity, thus, allowing the same volume to be transported with fewer loaded railcars.

Transit time in the third quarter 2017 came lower than third quarter of 2016 due to the better performance of the system with high demand for transportation. The cycle time railcars in the Rondonópolis/Santos route in the third quarter 2017 dropped 3% compared to the third quarter of 2016, reflecting higher efficiency of terminals operations both in Santos and in the countryside.

Now referring to the South Operation indicators, the routes from north of Paraná to the Port of Paranaguá. Similar to the North Operation, the improvement in the railcar loaded per day index reflects higher volumes transported and the cycle time of railcars reflected

a better performance of terminals, offsetting an increase transit time arising from interruptions in the rail lines due to scheduled works.

Moving on to the next slide, we'll discuss market expectations related to the soy and corn crops. In this chart, we present the most recent Agroconsult projections for soybean and corn production in Brazil and in the state of Mato Grosso. As we already mentioned in the previous quarters, grain volume accounts for approximately 70% of our total transportation volume. As we can see, the projections for the end of 2016-2017 crops are positive, indicating that the strong corn crops should result in exports by main ports until the end of the year.

In addition, improved soybean trading conditions as of July stimulated the shipment of this grain which had been stored by producers waiting for better pricing. Thus, the company is confident that the volume of grains transported in the fourth quarter will be in line with projections, sustained by a strong demand from its key markets.

Furthermore, we can see that the scenario for 2017/2018 grains crop is also positive. Despite a slight shrinkage when compared to the 2016/2017 soybean and corn crops, we can see production almost 15% higher than the 2014/2015 record crops. In addition, a significant increase in carryover inventories is estimated for 2018 compared to 2017.

Now moving to the next slide which includes our guidance for 2017. Market figures presented in the previous slide added to the investment which resulted in increased capacity and operational efficiency, maintain our confidence that we will deliver results in line with our long-term plan. Therefore, we reaffirm our guidance for 2017 with EBITDA reaching between BRL 2.6 billion and BRL 2.8 billion and CapEx between BRL 2 billion and BRL 2.2 billion.

Going to the last slide, slide number 14. Going to the last slide - chart number 14. As all of you in the market have been following, the company has been working on initiatives to improve its capital structure and its level of liquidity. In 2016, we held a capital increase totaling BRL 2.6 billion aiming at reinforcing the company's capital structure. At the end of the second quarter 2016, we concluded the renegotiation process of BRL 2.9 billion debt, increasing RUMO's liquidity. In addition in the third quarter 2016, our project finance consultation letter filed with the BNDES in a total amount of approximately BRL 3.2 billion was accepted.

Now, we are structuring all the supporting documentation and guarantees to have this (19:32). Early this year, we successfully concluded Rumo Luxembourg in the international bond market total issue of \$750 million.

In addition, as already mentioned during this presentation, last month we concluded our new process of capitalization totaling BRL 2.6 billion, which aimed at improving the company's capital structure by reducing its level of indebtedness and increasing liquidity. Thus, positioning RUMO in better condition to finance its investment plan. And we are less exposed to adverse external factors, reinforcing the confidence in the execution of our business plan.

Once again I'd like to thank you all for your attention on behalf of RUMO's management. With this, I finish our presentation. I'm here with Júlio Fontana, RUMO CEO, Gustavo Marder, our IR Manager and the finance team, and we remain at your disposal for any clarification during the Q&A session. Thank you very much.

## Q&A

### Operator

Thank you. We will now begin the question-and-answer session for investors and analysts. Our first question comes from Stephen Trent with Citi.

#### Q - Stephen Trent {BIO 5581382 <GO>}

Yes. Good afternoon, gentlemen, and thanks very much for taking my questions. Just a quick one or two for me. When I think about the important improvement you had in the Southern concessions (21:44) EBITDA, I think you mentioned something about improved efficiency. And just wanted to dig in a little bit there, did you shift, for example, which sections of the network you're using or did you undertake some kind of adjustment that you can run some of the trains at slightly higher speeds versus what you were previously doing? Just wanted to get some color on that. Thank you.

#### A - Operator

Hi, Stephen. Just give me a minute please.

#### Q - Stephen Trent {BIO 5581382 <GO>}

No problem.

#### A - Operator

Stephen, we've been working the South (22:38) to improve operational efficiency. But mainly, when we have more volume and once we are increasing and reverse (22:49) the railway lines, we are allowed to increase our volumes and therefore the fixed costs. This is improving our margins in these operations. We are also working on together with the main line (23:08) terminals to improve efficiency as well. And then the cycles are going down and the overall efficiency of operation is still increasing.

We are working also in the ports, we are reducing cycles and reducing turnaround in the ports. So, all this together, together with new investments in rolling stock materials, renew large part of our fleet, we are working with high end locomotives, much more efficient in terms of fuel consumption. So, everything this together, it enable us to increase the operational efficiency in the South.

#### Q - Stephen Trent {BIO 5581382 <GO>}

(24:07) from my team was under Portuguese call, so I'll let someone else ask a question. Thank you.

## A - Operator

You're welcome.

The next question comes from Augusto Ensiki with HSBC.

## Q - Augusto Ensiki {BIO 15988025 <GO>}

Hi. Good afternoon gentlemen. Thank you for taking the call. Two questions, firstly, is there any update in terms of the BNDES financing that we're still waiting for? Is there any update on that? And secondly, an operational question, for the North Operation, how many - can you remind me how many wagons of trains are operating with? And how many you eventually hope to get rolling and when we can expect that to move up? Thank you.

## A - Ricardo Lewin {BIO 20342706 <GO>}

Hi, Augusto. This is Ricardo Lewin. Regarding BNDES, approximately one month ago, the process of approval of the financing was sent to the credit area of the BNDES. That is the last part of the analysis that BNDES does. And it's the part in which they define costs, term, all the conditions of the deal, okay.

So, having said that, the expectations for the final approval and the financing by the BNDES directory (25:34) we expect to have this time this year. However, it's not in our hands, okay. And once the financing is signed this year we can begin to disburse (25:50) in the first quarter next year, okay.

So, could you repeat the second part of the question, please, the second one about operations?

## Q - Augusto Ensiki {BIO 15988025 <GO>}

Sure. Thank you. Regarding the number of wagons that the trains are operating with. How many wagons on average are the trains running? And essentially, how many we can expect that to increase to?

## A - Ricardo Lewin {BIO 20342706 <GO>}

Okay. Currently we are working with the 80 railcars in the North operation and 100 rail cars in the South operation. We intend to go to 120 railcars in the North operation by the year of 2021, 2022. We have to improve the length of our yards in order to allow a bigger train. So, we are doing this right now, the new yards that we are building, we already are building (26:54) to allow the bigger train. But we will have to work through this until 2021. So, by this year, we should shift from 80 railcars going to 120 rail cars.

## Q - Augusto Ensiki {BIO 15988025 <GO>}

I'm sorry, so by the end of this year for North, 80 to 100?

FINAL

Bloomberg Transcript

FINAL

## **A - Ricardo Lewin** {BIO 20342706 <GO>}

This year, we will remain with 80 railcars. We could only increase the length of the train if we adjust all the yards in the system. So, we expect that to be concluded by 2021. So, in 2021, we will shift from 80 railcars per train to 120 railcars per train. And this is shown in our business plan that we provided, the long-term business strategy. In the South, we will remain with the 100 railcars train.

## **Q - Augusto Ensiki** {BIO 15988025 <GO>}

Okay. Perfect. Thank you very much for that.

## **Operator**

The next question comes from Victor Mizusaki with Bradesco BBI.

## **Q - Victor Mizusaki** {BIO 4087162 <GO>}

Hi. I have two questions. The first one, now that Rumo concluded the capital raise and probably financial leverage will likely go down to something around to 2.5x, 2.9x. How comparative is BNDES vis-à-vis your alternatives to finance your CapEx plan?

And the second question, just a follow-up from the Portuguese call, you mentioned that all information request by ANTT (28:50) to approve the renewal for Malha Paulista was sent on Monday. So, I'd like to know if you can give a little bit of detail on what kind of information they requested.

## **A - Ricardo Lewin** {BIO 20342706 <GO>}

Hi, Victor. This is Ricardo. Well, regarding BNDES, we still do not have all the information necessary to analyze if the cost or the conditions of BNDES are attractive for the company. What I can tell you is that the financial area here at Rumo, continuously, they analyze opportunity in the market to find attractive conditions for the company. And once we have all the conditions from BNDES, we'll be able to compare to all the other alternatives and see if these are attractive enough so we can disburse this credit (29:48) okay.

Your second question was about Malha Paulista and the process. Your information is right, we handed to ANTT all the questions that they did. What they required to us was a better detail (30:07) of the projects, okay. Also they asked us about increased capacity in the Malha Paulista that was for the cargo that comes from (30:24). Also they made some request and they requested studies about the evolution of (30:37), okay. So, these are examples of questions that they did.

Just to complete the answer, we gave all the information. It's a lot of new information for them. They will take some time to analyze that so they can send the approval (31:01) and after that, having the approval of the Ministry of Transport in Brazil, okay.

## **Q - Victor Mizusaki** {BIO 4087162 <GO>}

Okay. Thank you.



## Operator

Thank you. This concludes the question-and-answer session for investors and analysts. I'd like to invite our speakers to proceed with the closing remarks. Please go ahead, sirs.

### A - Ricardo Lewin {BIO 20342706 <GO>}

I would like to thank you all for the presence in the call. This year, we have a record of people participating of the call. So, thank you everybody for that and see you in the next results call. Thank you very much. Bye-bye.

## Operator

Thank you. This concludes RUMO's audio conference for today. Thank you very much for your participation. Have a good day.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*

FINAL

Bloomberg Transcript