

Q1 2022 Earnings Call

Company Participants

- Andrea Fernandes, Investor Relations Director
- Marcello Guidotti, Chief Executive Officer, Chief Financial & Investor Relations Officer

Other Participants

- Aline Gil, Analyst
- Filipe Nielsen, Analyst
- Gabriel Rezende, Analyst
- Lucas Barbosa, Analyst
- Pedro Fontana, Analyst

Presentation

Operator

Good morning and welcome to Ecorodovias' First quarter of 2022 Earnings Conference Call. With us here today are Marcello Guidotti, the CEO; and Andrea Fernandes, IR Director.

This presentation is being recorded and all participants will be in listen-only mode during the presentation. After that, we will begin the questions-and-answer session for analysts and investors only, when further instructions will be provided. (Operator Instructions) The audio and the slides of this conference call are being broadcast simultaneously at ri.ecorodovias.com.br, where you will find the presentation for download from the webcast platform in the Investor Relations section.

Before proceeding, we would like to clarify that the forward-looking statements that may be made during this conference call relating to Ecorodovias' business prospects, projections and operational and financial targets are based on the management's beliefs and assumptions as well as on currently available information. They involve risks, uncertainties and assumptions as they refer to future events and hence depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future performance of Ecorodovias and lead to results that differ materially from those expressed in such forward-looking statements.

I will now turn the floor over to Ms. Andrea Fernandes who will discuss the first quarter of 2022 results. Ms. Andrea, you may proceed.

Andrea Fernandes {BIO 21294199 <GO>}

Good morning. Welcome to Grupo Ecorodovias' conference call today discussing the earnings of the first quarter of 2022. We thank you all for your interest and participation.

The quarter was marked with some important achievements. Ecovias dos Imigrantes signed the amendment that extended the term of concession agreement by two months until January 2034, increasing the duration of the portfolio. The Board of Directors approved the internal regulations at corporate policies to strengthen its corporate governance.

The company has renewed its international certification ISO 37001 and debentures issued have equated the maturities of the first half of the year. It is important to note that the company has concluded the work with the specialized consulting firm, which had the objective of reassessing the operating model and proposing actions to enhance processes in six synergies to drive operational efficiency and ensure sustainable growth. These actions are already being implemented and results will be seen from the second half of 2022, until 2024.

Moving on to operations performance on Slide 3, consolidated traffic had a 3.7% decrease in the first quarter, excluding the start of operations at Ecovias do Cerrado, which began toll collection in the final plazas in March 2021 and concessions Ecovia Caminho do Mar and Ecocataratas, which had their concession agreements terminated in November 2021.

Comparable traffic posted an increase of 8% in the quarter, a reflex of flexibilization of restrictive measures and the progress in COVID-19 vaccination coverage, the export of commodities such as soybean and corn and the industrial recovery. The highlight of the quarter was light vehicles, with an increase of 9.7%.

As for the Group's consolidated financial performance, on Slide 4, we see the evolution of gross revenue with an increase of 11.4% in the first quarter. Excluding construction revenues, gross revenues decreased 6.9%, mostly due to the termination of concession contracts at Ecocataratas and Ecovia Caminho do Mar. Comparable gross revenue was up 13.2% due to traffic increase and toll tariff adjustments.

On Slide 5, net revenue dropped 8% in the quarter, due to the termination of the concession agreements at Ecocataratas and Ecovia Caminho do Mar. The 12.4% increase in cash costs in line with inflation is due mainly to the expenses with consulting and advisory services for the studies for new business for auctions salary adjustments and profit sharing and provision for administrative fines.

On Slide 6, comparable EBITDA amounted to BRL475.5 million in the first quarter with EBITDA margin at 65%, due to traffic increase as well as toll tariff adjustments.

On Slide 7, we present the evolution of recurring net profit impacted mostly by the termination of the concession agreement at Ecovia Caminho do Mar and Ecocataratas.

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Investments on the first quarter of 2022, on Slide 9, totaled BRL547 million. The main investments have been for the implementation of operational buildings, pavement conservation works at Ecovias do Araguaia, improvements at intersections, accesses and pavement conservation works at Ecovias do Cerrado as well as road duplication and pavement conservation works at Eco135.

On Slide 10, we closed the quarter with net debt of BRL8.1 billion, an increase quarter-on-quarter, mainly due to the investments made on the quarter. Leverage measured by the net debt over adjusted EBITDA indicator is in line with the expectations for the period at 3.6 times compared to 3.3 times in the fourth quarter of 2021.

Moving on to Slide 11, we closed the quarter with cash balance of BRL2.2 billion. In 2022, maturities in the first half of the year are already equated with the issues of the holding and of Ecovias dos Imigrantes in the total amount of BRL1.9 billion, cash availability and the company's cash generation. In the second half, the main maturity is at Ecorodovias Concessões.

On Slide 12, we highlight the highways that the company is studying. Federal concessions in Parana, CRT and Triângulo Mineiro in the states of Minas Gerais and Ecorodovias' drivers of growth. The company's capitalization along with target projects that generate cash already from the beginning of concession, partnerships on future auctions, the extension of the agreement at Ecovias dos Imigrantes, dividend distribution in line with the growth cycle and future cash generation shall enable the search for opportunities to invest in the Brazilian highway markets with capital discipline in a sustainable manner. We take this opportunity to mention that Ecovias do Araguaia, BR-153, continues to invest in pavement conservation works and in toll plazas with collection expected to begin in the fourth quarter of 2022.

On Slides 14 to 16, we present the main ESG indicators, highlighting the conclusion of the studies on climate vulnerabilities and the B score on CDP above the global average. In the ESG agenda, for the third consecutive year, Ecorodovias has joined the companies that make up the Climate Resilience Index compiled by CDP in partnership with Resultante ESG.

With regard to people development, Ecorodovias launched the 2022 performance cycle, which includes the contracting of targets, with executive officers and managers having a percentage earmarked for the ESG target, which underscores our commitment to the agenda. In April, the shareholders approved the election of Ana Grizzi at the shareholders meeting. The new board member is a specialist in sustainability/ESG with broad experience in incorporating the environmental, climate and social variables into strategic business planning. More details on our ESG agenda are available on our earnings release.

This concludes our presentation. We would like to move on to the questions and answers sessions. Operator, we are ready for the questions from our analysts and investors. Thank you.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session for investors and analysts.
(Operator Instructions) First question Aline Gil from BTG Pactual.

Q - Aline Gil

Good morning. Thank you for the presentation. We have a question on our side. In terms of leverage, you increased in comparison to the fourth quarter. I'd like to know the level of leverage we can expect for upcoming periods and whether this can bring any restriction in the company's participation in new auctions?

And the other question is that I saw that you have some data on toll in line with the inflation at around 10%. I'd like to know if there was an impact in traffic due to this toll increase and your expectation in terms of mix between light and heavy vehicles from now on? Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

Good morning, Aline. It's Marcello. How are you? Thank you for your questions. About the leverage, it was expected. As Andrea said, the termination of the two concessions in Parana and the presence of Ecovias do Araguaia in pre-operating stage are influencing this which is expected. We understand this will continue throughout the year. And as soon as Ecovias do Araguaia starts collection in the fourth quarter, we expect leverage to stabilize and go back down in 2023.

We understand the level this year could be around 4 and 4.5, but again this is expected. It is not limiting our capacity to look at new businesses. We have some clear targets. The majority already with cash generation since day one. So there are projects that have been chosen because of this feature, so that they don't add pressure to our leverage. So this is quite under control about tariff adjustments that they are at same level, Ecovias do Cerrado, Eco135.

We're expecting the adjustments at Eco101 as well, and Eco050 in the second quarter, all absorbing and exceeding the IPCA index for contractual reasons. And this will have a good impact in our revenues in the second quarter. And I would say it should not affect and it's not affecting at this time the traffic that especially the commercial traffic is not being affected by tariff adjustments.

Traffic is doing very well. This morning, we informed the data 11.6% up compared to April and it remains like that. So I believe we'll have good traffic ahead irrespective of the tariff. Thank you. Thank you, Aline.

Operator

Next question, Gabriel Rezende, Itau BBA.

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Q - Gabriel Rezende {BIO 20589376 <GO>}

Good morning. Thank you. One question. I'd like to understand a little bit more about the CapEx adjustments from BRL635 million compared to the inflation. ECOR responds about 3% of the BRL20 billion CapEx realized in the beginning of the year compared to the 3% adjustment that you've made on the fourth quarter as well. Was this adjustment calculated including the CapEx adjustments of Ecovias do Araguaia, if we can expect since inflation is still high new adjustments on this level in the upcoming quarters?

A - Marcello Guidotti {BIO 16618352 <GO>}

Gabriel, thanks for your question. This adjustment is in line with the total prices, 100% of CapEx as today currency. So all of the inflation that is coming to date has been updated. If inflation continues going up from now on, it will be reflected in the total CapEx base. As you can see this is on current currency totally adjusted. As I said on Aline's previous question, we're receiving now all tariff adjustments, the Sao Paulo adjustments as well coming in. So this will have a very good impact on our revenues. Thank you, Gabriel.

Q - Gabriel Rezende {BIO 20589376 <GO>}

Great, Guidotti. Thank you. If I can just follow-up, so we can expect that the company with efficiency gains will be able to offset some of this inflation increase that we're having in the CapEx expectation, right?

A - Marcello Guidotti {BIO 16618352 <GO>}

Exactly that. The inflation exists. At the moment, companies like ours have an operating model that works well with a certain level of inflation, an increase like this, we need to make more. So we're already with efficiency, organizational efficiency and operational efficiency projects, as well as improvements in projects and the CapEx. Our tasks now this year is to offset this and I would say that we will be successful.

Q - Gabriel Rezende {BIO 20589376 <GO>}

Excellent. Thank you.

Operator

Next question, Pedro Fontana, Bradesco BBl.

Q - Pedro Fontana {BIO 22068688 <GO>}

Good morning. Congratulations on your results. We've seen some highway auctions being canceled in recent months, lack of participation, becoming more selective in the choice of projects in the macro scenario. I'd like to understand what you've been thinking about the new actions in the pipeline -- new auctions in the pipeline, how you see it for coming projects and what you expect of each one if you can tell us? Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

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Pedro, thank you for your question. We have a very clear strategy. We mapped the auctions ahead and the opportunities very well. We have a team dedicated to this. We chose the projects due to their attractiveness. Of course, that they have synergies and we have competitive advantages with good CapEx that we understand we're capable of creating value, realizing the CapEx. So we've dedicated to the projects.

We're looking at the Parana program, the federal program, CRT that's coming up, the Minas Gerais program, Triangulo Mineiro, that includes some improvements and the federal program is intensive as well. So we select and participate. Of course, the situation that some of them are large projects and of course they require an adequate return at times like this. So the auctions that have been postponed are probably to adjust the return rate to be able to attract investors. Our return rates -- the return rates reflects the current scenario with a certain premium to generate it. So we think a real world inflation in Brazil, the return to the Brazilian risks and of course all at present value.

Just to complement, how do you see leverage if you achieve these three projects, CRT, Triangulo Mineiro and Parana. Both CRT and the Parana highways, the Parana highways will probably be one or two. CRT and Parana both have a long CapEx flow and they're already generating cash. So they will pressure [ph] and impacts leverage. And as of the years, three, four, five, the structure of these structure -- the projects. So these years, there'll be years when other concessions like Eco135, Salvador [ph], Eco101 will already have much lower investments compared to today's. So it's very well thought out to avoid any type of pressure. So that's our line of thought.

Q - Pedro Fontana {BIO 22068688 <GO>}

Thank you.

Operator

Next question, Lucas Barbosa, Santander.

Q - Lucas Barbosa {BIO 20835372 <GO>}

Good morning, Guidotti, Andrea, Camilo. Thank you for taking my question. It's a follow-up about the tariff increase that you mentioned in the beginning. Tariff increases at Ecosul and Eco050 are being analyzed by ANTT. If you can give us more color, why this process is taking longer if there is a discussion of any points in the transfer of tariff increases? And if I understood correctly Guidotti implied that this tariff will be on the second quarter. They will occur on the second quarter, if you can confirm that I'd appreciate it?

A - Marcello Guidotti {BIO 16618352 <GO>}

Yes, Lucas. We expected for the second quarter at Ecosul and Eco250. They take long because the federal contracts every year does the ordinary and extraordinary adjustments and other types of calculations and balances (inaudible) and in some cases we're also discussing the effects of COVID. And this all takes time and delays the process, but that's all it is. But I would say at Ecosul and Eco050, we're about to receive the adjustments.

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Q - Lucas Barbosa {BIO 20835372 <GO>}

Very clear. Thank you, Guidotti.

Operator

Next question, Filipe Nielsen, Citibank.

Q - Filipe Nielsen {BIO 22481253 <GO>}

Good morning. I had two questions. But one has been discussed about leverage. So I'll start with my second question. I'd like to understand the restructuring process of the company's management. Marcello, today you centralizing, we had Gianfranco Catrini that was coming in, in the coming periods. I'd like to understand in addition to his arrival, when you expected and how do you intend to structure the company after these changes that are expect to happen?

A - Marcello Guidotti {BIO 16618352 <GO>}

Well, Filipe, we're going to structure the possible [ph] to focus on the business. We're working on that. The executives are following it and I understand that it's a process that must be well done, but it will be done throughout this year. And that's the structure; structure to run a business that is complex. But it's a highway business in Brazil. So we'll be well structured to be able to deliver results.

As Andreas said, we announced a new board member, independent board member. We reinforced everything on our policies, updated them, so we saw normalization and the company will have good capable structure to run the business. I don't think there is anything new about it, Filipe.

Q - Filipe Nielsen {BIO 22481253 <GO>}

Excellent. And so we can expect maybe one change or another throughout the year, but Gianfranco will come in.

A - Marcello Guidotti {BIO 16618352 <GO>}

Gianfranco is no longer part of the Board of Directors that was in January. So, we have the position accumulated. We have a legal director and just first to form the C-suite [ph] and run the business.

Q - Filipe Nielsen {BIO 22481253 <GO>}

Okay, Excellent. Thank you.

Operator

(Operator Instructions) If there is no further questions, our Q&A session is now closed. And I'll turn the floor over to Ms. Andrea Fernandes for her final remarks.

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A - Andrea Fernandes {BIO 21294199 <GO>}

Thank you for your participation. My team and I remain available for any further questions or doubts. Have a great weekend.

Operator

Ecorodovias' conference call is now closed. Thank you very much for your participation. Have a very good day.

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