

Q4 2011 Earnings Call

Company Participants

- Paulo Basilio, CEO
- Rodrigo Campos, CFO & Director of IR

Other Participants

- Lucas Ferreira, Analyst
- Mark Suarez, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to America Latina Logistica, ALL's Fourth Quarter, the full year of 2011 earnings conference call.

Today with us, we have Paulo Basilio, CEO and Rodrigo Campos, CFO and IRO for ALL. 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 ALL's remarks are completed, there will be a question and answer section. At that time, further instructions will be given. (Operator Instructions)

We have simultaneous webcast that may be accessed through ALL's IR website, www.all-logistica.com/ir. The slide presentation maybe downloaded from this website. Please feel free to flip through the slides during the conference call. There will be a replay facility for this call for one week.

Before proceeding, let me mention that forward-looking statements are based on beliefs and assumptions for ALL 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 ALL and could cause the results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Rodrigo Campos, who will start the presentation. Mr. Campos, you may begin the conference.

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Rodrigo Campos {BIO 16203706 <GO>}

Okay. Good morning, everyone. I will start just talking -- making a comment about the numbers -- the released numbers here, before I pass to Paulo to start the presentation.

In terms of released numbers, as we created Brado, our container logistic company in April 1, and as we created Ritmo, our trucking company in July 1, in order to better comparison, we present 2010 numbers in two different ways when we compare with the reported 2011 numbers. When we talk about consolidated results, we will also be comparing 2011 numbers with the numbers of 2010, as released in our accounting statement.

When we talk about the business units' numbers, in order to be comparable Brado and Ritmo results, we will compare with 2010 numbers as if Brado and Ritmo had been created at that time. So in the case of Brado, the results of 2010 include not only the carve-out of containers operations of ALL, but also the results of Standard which was the company we joined with ALL to form Brado.

In the same way in 2010, the Ritmo results -- the pro forma results of Ritmo are formed by the carve-out of ALL trucking operations we've (add) to the Ouro Verde trucking operations, which were merged with our operations to foreign regions.

So that's the way we will be presenting the results by business units. And with that, I would like to pass to Paulo to start the presentation.

Paulo Basilio {BIO 15046605 <GO>}

Thank you, Rodrigo. Good morning, ladies and gentlemen. As usual, we are going to start the presentation with the highlights of the quarter. Then I'm going to pass the main business units of the Company and here I'm going to present the results of our rail in Brazil, rail in Argentina, the main business units in the rail in Brazil, Brado and Ritmo. Then I will pass back to Rodrigo to present some financial figures, to open to the Q&A section.

So we are going to start in the page four with the highlights of the quarter. I think we have five highlights in the quarter. The first one, our EBITDA grew 14%, and this was a mix of our rail volume growth and the advance that we had in our strategic projects in Brado and Ritmo.

Our rail volume increased 7.7% in Brazil. We achieved -- we reached 8.2% year over year; this number is below our long-term guidance. And just to summarize, basically we had a good growth in the Agri business units and a weak performance in the Industrial side of our business. I'm going to open this to the next slide.

And going to the third bullet point in the highlights, I think that we keep improving our free cash flow with gains in working capital, and stable CapEx and the growth of the operational (profit) that we had. So we're still improving our working capital need, which is very important for the Company. And we have a stable CapEx, as we said, in the last two

years. And we think to keep that at the same level in the following years, in order to become free cash flow positive in 2013.

Going to the fourth bullet, it's our strategic project in containers, which is the participation - the stake that we have in Brado; and the trucking, the stake that we have in Ritmo, both of the projects have good operational performances in 2011.

And in December, we created Vetria, which is a mining company that we own -- more than 50% of the Company, which is -- this Company aims to develop an integrated solution for extraction logistics and commercialization of iron ore from Corumba to Santos.

It's important to mention that Vetria will own the resources. The rail infrastructure with a contract and Vetria will own the private port in Santos to the commercialization of the iron ore if the profit is going to be -- or the conditions that we need to achieve, to start applying to -- will be ready to start.

So that being said, everything, I think we have these five highlights in the quarter; good EBITDA growth; volume increase in Brazil, below our long-term guidance; a good growth in Agricultural; a low growth in Industrial; and our strategic projects are becoming operational, with a good growth of volumes and results. And we've created Vetria, which is a huge opportunity that we have in the iron ore segment, and the future of the value of the Company should be a very important project for us.

So that being said, we can go to the next slide; slide number 5, to present the consolidated numbers of the Holding; our gross revenue 16% year over year; and 22% in the quarter.

Our EBITDA was up 12% year over year, and 14% in the Fourth Quarter. And our EBITDA margin was 1.5 percentage points below last year, because -- mainly because of the new projects that we have, that have low margins. That's in the trucking and the container product, they have lower margins than the railroad.

Our earnings grew marginally year over year; mainly because we had operational growth of 10%, of operational property growth of 10%. But we had increase in the interest rate of almost 19% in the local interest rate here in Brazil; that offset the most part of the operational profit that we had, the growth in operational profit.

Going to the next slide, to talk about the Rail operations in Brazil; our gross revenue grew 10% in the fourth Q; 11% year over year. Therefore, the (net is that) grew 7.7% in the quarter; 8.2% in the year. And our EBITDA grew 11% in the quarter, and almost 10% in the year. It's important to mention that we had another year that we could capture a lot the activity of our rolling stock assets, as we grew these volumes without just adding fleet marginally, in terms of rail (passengers more).

The growth was mainly driven by the Agri business, as I said. The yield grew in line with inflation, and reflecting the price that we had in 2011, and compared to 2010. And we had

a lower than expected performance in Industrial segment, in a low GDP growth year, that was 2011 year in Brazil.

Now, let's talk about the next slide, the Agricultural Commodities business (inaudible). We had, as I said, a good growth in the (unit); mainly driven by the soybean and soymeal volume. Their volume grew 10.2% in the quarter, 10.4% year over year. Our revenues grew 12% in 4Q, and 13% year over year. Our yield was up 2.1% in 4Q, and 2.6% year over year. Then, we had an EBITDA growth of 13% in the fourth Q; and 12% year over year.

Here, it's important to mention that -- I'm going to the slide 8, that we had a strong growth in soybean and soymeal volumes; mainly because, as we anticipated in the last call, that the commercialization of this growing volume, the (commercialization) was post (point) from the second Q to the second half of the year. And that happened as we said, as we thought; and we were able to capture all these volumes.

We had a strong volume of sugar, either -- we had -- in both states. We had a strong volume in Sao Paulo, which is the project we have with (inaudible). And in the state of the south, in port of the south, there, in the region of Sao Paulo, our sugar volumes increased 30%. In the south region, the volume increased more than 20%, the sugar volume. And we are increasing our strategy to bring volumes from the south of Sao Paulo to the port of the south of Brazil, in order to compensate the value variation that we have in the south of the country.

And our corn volume decreased because of the drop that we had in the second crop of corn in Mato Grosso, in Parana, as we anticipated in the last call.

Well going to the next slide, we start to talk about the Industrial Products. And as I said, we had a weaker than expected performance in a market that had a very low growth in the year. Our volume increased 1% in the Fourth Quarter; 2.5% in the year. Our revenues grew almost 3% in the quarter; 6% in the year. And our EBITDA grew 3% in the last quarter, and 3.3% in the year.

So as I said, going to the next slide, you can understand a little bit more what were the segment that we have this low growth. Mainly here, we have three segments; the Steel Product segments, Wool (Products segment, and the construction segment. In the Construction segment, we had -- we interrupt transportation of sand that we transported to -- from the interior of Sao Paulo to the Sao Paulo city. And we had a change in logistics in one of our clients brands that the client starts to transport, to fit the (inaudible) from our different plants, and we have to adjust the railway infrastructure to be capture the full volume of this new plants.

In these two markets we have two effects. The first one was the huge importation level of the steel in Brazil in 2011, and we had a problems with the iron ore transportation in (inaudible) (do Sul) that we (never) transport iron ore for a very small distance from the iron ore mines in Corumba to the Port (Esperanza). This iron ore is the one that are exported by the barge to the Paraguay River. And again, this river had some problems

with the rains and there were some interruptions during the year of this transportation, and we suffered with this part of the transport that we provide to this client.

So on the other side, we have a good growth in the container market, of almost 50%, and in the food segment, in the food products that we grew almost more than 50% in the quarter.

Moving to the next slide to talk about our Argentina Rail business, I would say that the good news from Argentina is that we have been able to pass through the inflation in the country, so in the tariffs. So we were able to increase our revenues in 20% in the last quarter. Our EBITDA grew more than 20% in the quarter too.

So we have the same strategy in Argentina; we are not going to put expansion CapEx -- to invest in expansion CapEx in the country, because of the institutional instability that we see there. But again, being able to improve the productivity of the assets, and now we were able -- last year we were able to pass through the inflation to our tariffs.

Going to the next slide to talk about our container project, Brado Logistica, we had a strong EBITDA growth, almost to 50% in the year, 44% year over year. This growth came from the south west region, all the containers that are destined to Santos and (inaudible) volumes, both regions in containers in Brado grew more than 50%. And when you think about the future of Brado for year 2012, this year, all the assets, rail cars, locomotives, and the terminal in Sao Paulo, they are ready to start to perform the volume. And that's the expectation that we have of huge growth in this Company.

In Ritmo Logistica, which is our trucking project, we have -- it's a six months live project. During the six months we completed all integration processes -- systems and processes in the Company, and the Company is ready to explore all the opportunities that we have in the clients there (or find), in the Intermodal part, in the trucking part of Intermodal flows that we provide.

We are very positive at the beginning of the year that how interested clients are into close contract with Ritmo. And the main focus of the Company today, in the year, is to have a very good operation -- it should be able to hire as much third parties as they can in order to provide the services of buying a truck and that this truck is of the Company, so to provide the services of our own fleet just with third party trucks.

So I'd like to comment then that starting the next quarter we will start to present all the information of Brado and Ritmo with some more volume of information. We start to provide operational drivers, the market segmentation of each of these Companies, and more financial figures. So we are going to restructure our results in these in order to provide better information to the market about these two companies.

That being said, I will ask Rodrigo to present the financial figures.

Rodrigo Campos {BIO 16203706 <GO>}

Thank you, Paulo. Let's go to slide 14 where we have consolidated gross revenues; consolidated gross revenues grew 16.5% in 2011. And this reflects a 12% growth in ALL Rail operations revenues, plus the new business that we formed throughout the year, which also pushes our revenues up.

When we go to page 15 we see our consolidated EBITDA, which increased 12% in 2011. And our margin decreased -- EBITDA margin decreased from 49% in 2010 to 47% in 2011, reflecting this mix of these new businesses we have been creating, Brado, Ritmo.

If we look only for the margin of our Rail operation in Brazil plus Argentina, it would be 49%, which is exactly the same as 2010, and which would be the comparable number. So in terms of our Rail operations margins were stable; when you consider the mix of new business margins it goes down from 49% to 47%.

When we go to page 16 we see that our net income increased marginally, 2% from BRL240 million to BRL245 million, and it reflects an increase of our operational results, in line with our EBITDA increase. But that was offset by increase in financial expenses during the year as the average interest rate in Brazil increased from 2010 to 2011, almost 20%. In 2010, average Interbank rate was 9.8%, and in 2010 (sic; see page three of report) it was 11.6%, which explains the increase in financial expenses.

When we go to slide 17 we see our net debt/EBITDA ratio in our balance sheet. It increased in 2011 from 2.1 times net debt/EBITDA in 2010 to 2.4 times net debt/EBITDA in 2011, and this reflects mainly the CapEx we are -- the additional CapEx we are doing related to this Rondonopolis project, which is an additional CapEx. 2012 should be the last year we will be investing in Rondonopolis, and this project should be operational starting 2013.

Going to page 18, I would like to make some additional comments before opening for questions. And the first one is that we expect that 2012 will be another year of volume growth through productivity gains, as we add rolling stock only marginally in our operations. Our organic growth CapEx should be very stable in the same amount of 2011, to around BRL650 million/BRL660 million, and we should have additionally BRL154 million related to our Rondonopolis project.

And as I said, this is the last year of construction of Rondonopolis. So in 2013 we will have the Rondonopolis project completely operational. Also, a big growth of our non-organic growth, so we will have all the conditions to become free cash flow positive in 2013.

The second comment I would like to make is the market perspectives for 2012. In terms of market we will face a tougher agricultural market scenario in the south portion of our rail network as the crop there is going down due to the droughts we had at the end of last year, beginning of this year. But the crop in Mato Grosso State is expected to increase as compared to last year. So a little bit lower crop as compared to 2011, but we should keep growing market share as we have historically been doing, and as it was the case in 2011.

And in terms of Industrial segment we have a deceleration, a reduction of, a deceleration of industrial production in 2011. And now we are seeing industrial production improving so, I think perspectives for 2012 are good.

And finally, as Paulo commented, in December we announced the creation of Vetria Mineracao. This company, which is an association between ALL, Triunfo and Vetorial Mineracao, and this is a company which will explore the iron ore potential of the Corumba region in Brazil. So the Company will have its own mine, its own port, and it will have also the railway systems through an agreement with ALL; so, a completely independent and integrated solution of iron ore, of mine logistics and port to (attend) this Corumba area.

Vetria should have a total capacity of 727.5 million tons, including logistics and its own capacity. And it has a CapEx that should be completely financed by outside investors that should put equity (and debt) in order to finance this project. And ALL holds a 50% in this new project at Vetria.

With that I would like to open for questions.

Questions And Answers

Operator

(Operator Instructions) Mark Suarez, Euro Pacific Capital.

Q - Mark Suarez {BIO 16366613 <GO>}

I have a question regarding volume growth. I know you mentioned you're getting a lot of market share from the sugar routes. Soybeans are expected to be a little bit weaker than previously anticipated. I'm wondering, from an agricultural, as well as a pure industrial Intermodal perspective, which commodities will you rank as high as from a volume upside of potential, upside perspective, for 2012?

A - Paulo Basilio {BIO 15046605 <GO>}

This is Paulo. Just to explain again we see the crop of this year 5% lower than last year, but with a good size in Mato Grosso, and a decrease of about (30%) in Parana, in (do Sul). So what we expect at the end is still capturing volume in soy, and the second crop of corn should be very good, especially in Mato Grosso.

And sugar should recover from a year of -- (2001) was the first year of provision of sugar. And I think 2012 we are going to recover this volume. So I think that we are going to have a good year in Mato Grosso, capture market share, Mato Grosso, in soybean, soymeal and corn -- in the second crop of corn. In the south, soy and corn, and I would say that sugar is a year of recovery from 2011.

So that's the overall vision of the Agri business that we have for 2012. And when we say that we should have a tougher year because of the reduction of the total crop, we're not

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thinking about volumes, we are thinking about we may suffer in the spot prices. We said 70% of our total -- of our volumes -- of our Agriculture volumes in contract -- in this contract since we were able to (test) with inflation. But this (bought) part of the volumes should be much better in the south region.

When you think about Industrial part of the business, as I said on the call, I think that we have some structural problems in 2011. We don't think that these problems will happen again in 2012.

And we see our new project in pulp and paper that we started in the second half of this year with a contract that we signed with Eldorado. It's a huge contract. A full year of this contract represents almost 7% of the increase in the Industrial volumes. And we are seeing -- we signed contracts with new (fuel) terminals in the region of Mato Grosso do Sul and Mato Grosso that should increase our volumes of ethanol and fuel to this State. So this is a more broad vision about the market, the Agri business market and Industrial part of our business for this year.

Q - Mark Suarez {BIO 16366613 <GO>}

Great. And just as a follow up on (Nau Cosan) stake, given that they have a 49% stake within the controlling shareholder group, is there may be a potential to strike perhaps other contracts, either within sugar to expand that contract, or perhaps along other commodities like ethanol within the routes that you serve?

A - Paulo Basilio {BIO 15046605 <GO>}

No. I think this sector movement is impossible considering the governance that we have in the Company.

I don't see that. I see that Cosan is -- Cosan wants to participate of the controlling group of the Company, participate in the work of the Company to be more close to our logistics platform. I think that Cosan has a very positive call in our platform in the future. And I think they want to participate in the (scene) of the Company regarding this opportunity of infrastructure in Brazil that may come in the next years.

Q - Mark Suarez {BIO 16366613 <GO>}

Got it. And just a final question regarding the Vetrica project, I know you mentioned you're looking for an outside investor to support the BRL7.6 billion that you may need for capital investments going forward. I'm wondering if you have a timeline as to when you might, in fact, begin to initiate the search process for that outside investor, just to get a sense as to when may that party kick in?

A - Paulo Basilio {BIO 15046605 <GO>}

Mark, let me try to give more color on this project to you. We have a team that is working in this project. I think that we have two very important issues to clarify. The first one is we are starting the certification of the iron ore mine. I think it's very important for us, for the

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Company, to have more information, more color about the size of these iron ore reserves and iron ore resources. And we are working on a project (of the port).

So the environmental license is important, it's very important too. I would say this is the main operational forces of the Company today. We already hired companies to certificate the iron more mine. And we are working hard on the project, in the (Board), to have the environmental license in order to operate iron ore.

What is happening today, and it's a very good surprise us, that we are being -- a lot of investors and clients of iron ore, they call us to understand the project and they are very interested in the project. So we really believe that to have a unique project in this structure, because to have this segmented supply of iron ore is very different from the huge players in the market. It's very important.

So again, we are talking, the Company is talking with some investors; some investors are visiting the Company. But I would say that the most important part for the Company today is to -- there is a clear vision of the amount of resources that we have, the certification of these resources and to get the environmental licenses in the port (or terminal).

Q - Mark Suarez {BIO 16366613 <GO>}

Okay. Thank you.

A - Paulo Basilio {BIO 15046605 <GO>}

Okay.

Operator

Lucas Ferreira, JPMorgan.

Q - Lucas Ferreira {BIO 16552031 <GO>}

I have two questions -- two follow-up questions on the Portuguese call, the first one on the regulatory issue, regarding the public audience being held now. I just wanted to know if you have any kind of feedback from the regulator; if, by any chance, it's more positive when they started the discussions?

Or anything you can tell us about this process and feedback from the regulator on the arguments, not only ALL but the sector has been presenting. I know that the audience was extended to March 16, so I just wanted to understand what was the reason for this extension? So this would be my first question.

A - Rodrigo Campos {BIO 16203706 <GO>}

Lucas, this is Rodrigo. It's true that the public audience was being extended. But I would say that this is a normal process to go through. It is a subject, an area that really should take time. So that's why, I believe, the ANTT increased the initial term of the public audience, which was scheduled to end on February 9, now to end on March 16.

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So this is a normal part of the process. I don't believe it means anything. Yes. That you need more time to get information and to improve the methodology. You know that this methodology has had a lot of problems and had to be proved. We will do our contributions in the public audience. ANTF, which is Association of the Railroad, basically see the same things. We have seen the above methodology, so they also will do their contribution there.

But this is the normal portion; this is the normal schedule of building an infrastructure -- a methodology -- a new methodology to calculate a rail ceiling, so nothing different related to that. Public audience should end on March 16 and after that ANTT should consider all the contributions were made during this process. And we really expect that at the end, well, sense will prevail and we will have a more robust methodology than it is today.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Thank you, Rodrigo. My second question relates to the Agricultural volumes as well. I just wanted to have a sense if you know more or less how much of your Agricultural volumes will come from the southern region of Brazil in the normal year?

And if there is any material difference between the amount of contracts you have in spot - sorry, on (take or pay) in that region from, for instance, Mato Grosso region, if there is any material difference from total amounts of contracts?

A - Paulo Basilio {BIO 15046605 <GO>}

Okay, if you think about the Company today it's 50% to the regions from Mato Grosso and Mato Grosso do Sul that we -- and 50% is south. So it's 50/50 in this, as I said.

And we had 70% volumes in contracts. You can think in both regions, we have the same average amount of our volumes in contract. So as I say, I would expect that the State of Mato Grosso, a great crop, both in soybean and in corn, the second crop of corn, and when we see a drop in the crop in the south. That's the area we should suffer -- may suffer in the (yield), the spot part of the volume, but not in the volume themselves, because we were able to gain market share a lot and (these instances) these are not the site of the crop in the south. We were able to gain market share there.

And in terms of sugar, as I said, I think that is a recover; the sugar market will increase from 2011. So it's a recovering year that we should take an advantage in both states, even in Sao Paulo and the states of the south. So our strategy is to bring some sugar from the south of Sao Paulo to the region of Parana. We'll try to compensate and to explore more the productivity (on behalf) of this region.

Q - Lucas Ferreira {BIO 16552031 <GO>}

Thank you very much, Paulo.

A - Paulo Basilio {BIO 15046605 <GO>}

Okay.

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Operator

(Operator Instructions) We have no further questions at this time. I'll turn the call over to Mr. Paulo Basilio for final considerations. Mr. Basilio, you may give your final considerations.

A - Paulo Basilio {BIO 15046605 <GO>}

Okay, I'd like to thank you, everybody, to be here with us in this call. And myself, and Rodrigo and Rubio are here to give you any more information that you may need. Thank you.

Operator

Thank you. This concludes today's ALL earnings conference call. You may disconnect your lines at this time.

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