

## Q3 2019 Earnings Call

### Company Participants

- Arthur Piotto Filho, CFO and Investor Relations Officer
- Eduardo de Toledo, Vice President of Corporate Management
- Unidentified Speaker

### Other Participants

- Felipe Vinagre
- Lucas Marquiori
- Pedro Bruno
- Rogerio Araujo
- Stephen Trent
- Victor Mizusaki

### Presentation

#### Operator

Good morning, ladies and gentlemen. And thank you for holding. At this time we would like to welcome you to the CCR S.A. conference call to discuss the results For the third quarter of 2019. We would like to inform you that all participants will be in a listen-only mode during the Company's presentation. (Operator Instructions)

Before proceeding, we would like to clarify that forward-looking statements made during this conference call, referring to the company's business outlook, projections and operating and financial goals are based on the beliefs and premises of the CCR management as well as on information currently available to the company.

These forward-looking statements are no guarantee of performance. They involve risks, uncertainties and premises as they refer to future events and therefore could depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors could affect the future results of the company and lead to resolve that differ materially from those expressed in such statements.

We would now like to turn the floor over to Mr.Eduardo de Toledo, the CCR Corporate Management Vice President. You may proceed, sir.

**Eduardo de Toledo** {BIO 2067933 <GO>}

Good morning to all of you. It is a pleasure to be here once again at our earnings release call for the third quarter 2019. Today with me at the call we have Arthur Piotto, the CFO for CCR as well as Marcus Vinicius; Marcus Macedo Flvia Godoy.

Very well. First of all what I would like to address you refers to what happened to Leonardo Vianna. If we move back in time to August 2018 Marcus accepted the invitation to take on the position as CEO of CCR. Because of the great acknowledgment that we all had for him, the Board of Management understood that he would be the ideal person to lead CCR in a moment of transition because of his deep knowledge of the business because of his personal leadership and his ability to run businesses considering all of his trajectory in the new business area in the company.

He helped to create this company. As of that point of time, Leonardo created a complete renewal and all of the people that reported to Leonardo, the company's CEO that began in November with my coming in. I was the Vice-President of Corporate Affairs. We also had the Vice President of Compliance and Governance and this continued on during some months.

We -- in the last few months, had new Presidents for each of the four divisions of CCR. We have Eduardo Camargo, Fbio, Russo and others. Now Once again taking office to lead the four divisions of the company. And in this fashion we now have this process change and renewal of the top levels of management coming to a close. And because of this the Board of Management understood that it would be the moment to look for a new CEO for the company.

We did this with great transparency before the market and are present with a great deal of tranquility and dedication. We can do this as the company has deep foundations. Thanks to this new management team that has taken office and is leading the main areas of the company. Let us speak somewhat about our results. I would like to highlight that in my opinion we had good results this quarter.

The traffic on highways had good evolution 2% vis-vis the same quarter in 2018. And the 2% are quite consistent for light vehicles as well as commercial vehicles. Operating adjusted EBITDA rising 17.6% year-on-year, which means that we have consistent results. And this is a good time in terms of the Brazilian economy. This is something we feel through the highways that we manage that the situation is getting better that we are in a better moment.

Now when it comes to our projects in terms of operational excellence and governance that we mentioned in other calls, All of these are underway. They're doing well. And very soon we will be convening an assembly to be able to adjust our bylaws to the changes that have been implemented.

In the Initial words, I would like to refer to our business outlook. What we had as an outlook at the beginning of the year has been confirmed favorably. And in terms of the space, there exists a directors of great interest in new concessions in building new

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concessions. As an example, we have the federal highways. Until the end of 2021, we will have 15,000 bids worth 21,000 kilometers in Sao Paulo.

We had the recent announcement of the prepaid concession of only 1,200 kilometers in the South of Gois, Minas Gerais, we also have concession for state highways in terms of the airports. We will have 6 different auctions announced by the government with 37 new offers until the end of 2021. We have a multitude of new projects in Brazil, Sao Paulo, which represents several opportunities, new ratios confirming the good moment for the infrastructure sector in the country.

I would now like to turn the floor to Arthur, Piotto so he can refer to the details and results for the third quarter 2019.

### **Arthur Piotto Filho** {BIO 4777038 <GO>}

Good morning to all of you. And first of all, I would like to thank you for your participation and interest in the company. Before going on to the results, I would like to mention that the release is available at our site [www.ccr.com.br](http://www.ccr.com.br).

To speak of the main highlights, we speak about traffic with a growth of 6% vis - vis the third quarter in the previous year excluding the concession of ViaSul and once again with very good figures. The recovery of traffic took place with light vehicles as well as heavy vehicle showing the positive performance with 2.2%.

We also highlight the main pro forma figures for this quarter. That is to say businesses where we have shared control where we have no control consolidated according to the CCR share. We exclude nonrecurring effects, new projects and assets where the company has altered its share or interest to facilitate the basis for comparison.

In terms of adjusted EBITDA same basis an increase of 5% resulting mainly for a better operating results. Adjusted EBITDA -- operating adjusted EBITDA reaching BRL 1.5 billion this quarter with an increase of 12% vis vis the same period in 2018 with a margin of 16.3%.

The maintenance of the operating adjusted EBITDA vis-s-vis the same quarter in 2018 shows an increase in the services for conservation for the new group of the OSD. And net income same basis reached BRL 352 million this quarter with a drop of 3% vis vis the same quarter in 2018. At the same time, net income reached BRL 342 million a slight drop but mainly reflects the greater depreciation and amortization due to the end of the compacts of the RodoNorte and NovaDutra.

During this quarter, investments in maintenance and other totaled BRL 446.1 million. The concessionaires that most invested during this period were RodoNorte, ViaSul and SpVias. When it comes to our net indebtedness we reached BRL13 billion this quarter, an increase of 3.2% and a reduction of 1%, when compared with the third quarter of 2018 and the second quarter of this year respectively but company's leverage net share by net debt over EBITDA as a drop of 2.5x in the second quarter as disclosed, 2.3 in the third quarter.

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A rather comfortable situation that shows how assertive, our strategy has been as mentioned by Eduardo.

We would now like to go on to questions and answers. Operator you may proceed.

## Questions And Answers

### Operator

(Question And Answer)

Ladies and gentlemen, we will now go on to the question-and-answer session. (Operator Instructions) The first question is from Victor Mizusaki from Bradesco BBI.

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

Good morning and I have two questions. The first referring to Leonardo Vianna, the CEO. Leonardo caused a great deal of changes in Urban Mobility and when it comes to ARPU, the changes in structuring of these projects. Now with Leonardo Vianna leaving, what will happen in the search of new assets for CCR and what will happen with the new business area? Will they continue to offer support in this? My second question, in the last conference call, we spoke about some of the expenses that you had with outside consultancy and attorneys, and you mentioned that some of these investigations were highly confidential. I would like to know if there is an update in this process.

### A - Unidentified Speaker

Good morning, Victor, and thank you for your questions. Let's begin speaking about Leonardo Vianna. Two, Three years ago, CCR carried out a significant structural change, which was the creation of the divisions. Upon creating the divisions, we no longer have an area for a new corporate business. The intention was to increase the company's ability to generate new business, making the most of these new opportunities. Therefore, it has been three years that Leonardo has been managing new businesses, and this is done in each of the divisions. And each division has its own culture for new businesses. Therefore, with Leonardo stepping down, this will not have an impact on the company when it comes to new business.

Once again, all of the new businesses have been carried out by these new teams within that new configuration. So there should be no impact, and thus now, evidently, each of the people that are leaving the divisions has a mission of working with new businesses. And of course, some of the people do come from new businesses, and they are now heading the new divisions. Regarding the second issue, the evolution of our confidentiality agreement and the outlook for this, no this continues to move forward naturally. It is a continuum. As at the moment in which we signed these agreements, we committed to collaborating continuously as well. And all of these issues are addressed to the agencies to the -- with a great deal of naturality. This is what we expected from that process.

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

Thank you. And Eduardo, if I could pose a last question. We have seen several problems for the concessions in Rio de Janeiro, CCR with Barcas had a problem with the yellow line. And we hear discussions regarding VLT. The question is does it make sense to continue with your expansion in Rio de Janeiro? And what is your outlook of what is happening in Rio de Janeiro?

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

I believe that all of these issues in the medium and long term will resolve themselves positively. I deem the state of Rio de Janeiro has been a highly promising one because of the natural resources because of the building out Rio at this stage with many virtues with a great deal of natural resources. And all of the growth, especially future growth, will attract concessions. So, I believe that these issues pertain to the short term. In the long run, they will cease to exist. And I believe the state will observe their need of dealing property with concession, that already exist, to be able to attract new investments.

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

Thank you. Thank you very much.

**Operator**

Our next question comes from Rogerio Araujo with UBS.

**Q - Rogerio Araujo** {BIO 17308156 <GO>}

Good morning to all. And thank you for taking my question. I have two questions. If you could give us more details on the depreciation and others of the NovaDutra. If the present day investments have been paid out in less time? Or if there has been a change in the depreciation curve of these investments? This is my first question.

**A - Unidentified Speaker**

Hello Rogerio, thank you for the questions. Well, this refers to the investments that are being made presently. What is happening is that we have to depreciate and amortize all the investments until the concession has been signed. This represents a shorter period. From the viewpoint of CCR, we could have an increase in depreciation. This will not represent an impact on our cash, and the depreciation enables us to basically make the most of the investment in a shorter period of time. So we could consider this to be an advantage for the company to work with a speedier depreciation where we are closer to the end of the concession.

**Q - Rogerio Araujo** {BIO 17308156 <GO>}

Very good. My second question refers to MSVia. Well, you stated that this week, you would come to an agreement for a concession made in 2014, 2015. The idea was to reduce the toll and then set it up for a bid again. Are you in agreement with this? And which is your view of a resolution in this case when it comes to MSVia?

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## A - Unidentified Speaker

Our vision is that we have to return this. The conditions in which the government bid during this round were not complied with very clearly. There were some issues, some obligations that pertain to the federal government that were not complied with and that made it impossible to continue on with a concession according to the way it had been initially bid. Now the government should acknowledge this to amicable decrease? Is it an interesting alternative?

We will decide whether we adhere to this or not once we have greater knowledge of the issues that have come about these days and that will have to be better detailed in terms of how this friendly return of the concession will be done. And according to the way the government has suggested it, we believe that this is the way of resolving the issue.

## Q - Rogerio Araujo {BIO 17308156 <GO>}

Very well. And what would be charge for the nonamortized investments?

## A - Unidentified Speaker

Now the law that covers concession makes it very clear that the investments made have to be preserved. This is the general principle. Once again, we're awaiting. There are several details regarding this issue, and we're hoping to receive more details to be able to assess if we can continue on with a concession or not.

## Q - Rogerio Araujo {BIO 17308156 <GO>}

Very well. Thank you very much. Thank you for your response.

## Operator

Our next question comes from Felipe Vinagre from Credit Suisse.

## Q - Felipe Vinagre {BIO 19282922 <GO>}

Good morning to all of you. I have two questions, the first regarding traffic. I would like to know if you're speeding up the heavy vehicle traffic because there has been an economic recovery since October. The second question refers to your capital allocation strategy. And in terms of dividends, you have been paying now dividends during the last few years. Now how does this converge with your pipeline of projects that is about to come? You have a very good pipeline. In the coming months, you're going to begin a very new process, the accreditation of NovaDutra. Now what's going to happen with a company that is paying out quite a bit of dividend but will need capital to grow? Thank you very much.

## A - Unidentified Speaker

Felipe, thank you for your question, and let us begin with the first one referring to traffic. The growth was of 2%. The 2% refers to light vehicles and heavy vehicles. Therefore, we have had a consistent growth in both of these. The end of the quarter was stronger. The

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2% are the average for the quarter. September was the strongest of the three months, and then October. According to our first measurements, the month was stronger than September. We are under the feeling, therefore, that this increase continues with light vehicles as well as in heavy vehicles.

Once again, it's looking good. It seems it's going to improve. When it comes to the dividend, our dividend policy is the one that we have of not retaining cash. Obviously, there's that steep cost of carrying over cash that you're not applying. Our leverage is at 2.3x, which shows that we have a very comfortable position when it comes to making the most of opportunities, increasing our indebtedness, of course, within very cautious parameters, ensuring that we're always financially conservative. So to get to the point where we need more equity, and this equity would come from a reduction of dividends. Of course, this would be an alternative to have more equity, but we're very far from that scenario. We still have a great deal of room to grow through a greater indebtedness, which is what brings greater value to our shareholders. This is the first step that we will take and perhaps, subsequently, think about equity through a reduction in dividends or some other alternatives.

#### **Q - Felipe Vinagre** {BIO 19282922 <GO>}

Thank you very much.

#### **Operator**

Our next question in English, comes from Stephen Trent from Citi Bank.

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

Thank you very much everybody. And thanks for taking my questions. I actually just have two. I'll just rattle off real quickly. One and I apologize if you've mentioned that, didn't hear some of the question -- the answers so well. But on Urban Mobility projects, do you expect a lot of the new projects to be focused on Sao Paulo? Or do you see opportunity in other areas? And the second question was a follow-up on Felipe Vinagre's question. With interest rates so low, has that led you to adjust your thinking in terms of ideal leverage for the company? Thank you.

#### **A - Unidentified Speaker**

Stephen, thank you for your questions. I will respond slowly in Portuguese so that you can hear them through the translation. The first question referring to Urban Mobility, we have very interesting projects in Sao Paulo, in fact. Line 8, Line 9, that is to say, we have several projects that are being carried out for the state of Sao Paulo with interesting opportunities. But we have projects for other states of the federation in Brazilia, -- even in Bahia. The subway in Salvador Bahia is of great interest for the population and the government. And they are interested in extending the subway in Bahia, which means that there are opportunities in several states of the federation. And this is very important for Brazil at present, and CCR focuses on this for its growth.

Regarding the drop in the interest rates and the issue of the limits of our leverage, I totally agree with you. The scenario with lower interest rates that we have observed in Brazil that was somewhat away from this movement shows a convergence towards lower interest rates. And the question is, which will be a healthy level of indebtedness. I believe that these levels of indebtedness deem to be healthy, can perhaps be increased because of these interest rates.

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

Okay. Thanks so much.

## Operator

Our next question comes from Pedro Bruno from Santander.

**Q - Pedro Bruno** {BIO 19082978 <GO>}

Hey, good morning to all of you. Thank you for taking my questions. I have two. The first refers to the next auction for -- or Centrovias. I would like to know what you're thinking in terms of this project. The CCR stance is to participate in this pipeline that is quite robust. This is a very specific project when it comes to size and it's the next one that will be auctioned. My second question refers to the economic imbalance, especially in the state of Sao Paulo. For CCR, it's not only in São Paulo, but both the state and the regulators have conveyed a very active message when it comes to this imbalance. And we would like to know what you're thinking what will happen with timing and the structure to reorganize this imbalance? Thank you.

## A - Unidentified Speaker

So Pedro, thank you for your questions. And we're going to speak about -- initially. As you mentioned, this is a project with a significant dimension, 1,200 kilometers, perhaps, one of the most interesting concessions we have had in the country. It is very attractive and interesting. Yes, we are focusing on it. So far, we don't have a stance. Once again, our presence in those opportunities depends on taking a good look and looking for the best-possible equation, always being financially cautious and being careful with the variable to ensure that we're going to be creating value for our shareholders and stakeholders. So we are considering this opportunity that is interesting because of its dimension.

Now when it comes to the imbalances in the state of Sao Paulo, now we do understand that from the part of the state, there is a desire to resolve what had happened to resolve -- what was left pending in the past. Along with this, giving -- thrust to new investments, which are also important in this concession. Our conversations are underway. They have been quite positive, of course. We will require time because all of these conversations need the participation of several factors, but we have a positive outlook on this, and we will try to turn into -- continue on with this.

**Q - Pedro Bruno** {BIO 19082978 <GO>}

Thank you. Thank you very much for your responses.



## Operator

Our next question comes from Lucas Marquiori from BTG Pactual.

### Q - Lucas Marquiori {BIO 17907247 <GO>}

Good morning. I have two questions. The first is a follow-up on Pedro's question, the negotiation of imbalances. If you think it will be possible to also include a discussion on the contracts dating back to 2013, if this could become part of that package of negotiations that we will discuss on that is pending with the state of Sao Paulo, if you believe you could reach an agreement. And the second question is somewhat more direct. What is happening with the new products ViaSul and ViaMobilidade, if you could give us a better perspective on this? Thank you.

### A - Unidentified Speaker

The first question, the negotiation of our imbalance, yes, there is a desire on both parts to resolve the issues of the past to come to an agreement on all of the pending actions. It's precisely what we are doing. Of course, this is linked with new investments always with the intention of resolving the issues of the past, and this is precisely what is being negotiated. Now in ViaSul, we have traffic above what we had forecast in our business plan. We're doing very well. And CCR shows that our polls on customer satisfaction are very high. We've been working intensely towards this. And of course, we have received positive results. We continue with the focus to open a new toll park in the coming years.

Everything is operating well, perhaps, somewhat better than we had expected in terms of mobility, line number 5 is doing well. It's doing so well that we have paid out the first dividend this month, something we had not foreseen. This was Line 5. Regarding Line 15, we have done everything that we had in terms of our obligations, and we're now awaiting to see the stance of the government. I think they're waiting for the conclusion of the investment before we can sign the contract.

### Q - Lucas Marquiori {BIO 17907247 <GO>}

Thank you. Thank you very much.

## Operator

At this point, we would like to end the question-and-answer session. We will return the floor to Mr. Eduardo de Toledo for his closing remark. You may proceed, sir.

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

Thank you very much. I would like to comment on some issues. First of all, I would like to share with you very good news. Very recently, the ranking of the 10 best highways in the country came out, and it is very satisfying to say that CCR had 5 amongst the 10 best highways in the country, 5 among 10 highways managed by CCR. Once again, this points to the quality and service rendering and the concern that we have in rendering excellent service to our users.

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Another point that I would like to mention before concluding is that we're quite optimistic about the future, the solidity, the robustness of the financial situation of CCR, our position of indebtedness, the access that we have to capital markets. Our good performance which very clearly enables us to have good operating performance and enables us to be quite bold when it comes to seeking growth. The technical quality and the engagement of our associates, all of this converging together enables us to be deeply convinced that we will be quite successful when it comes to achieving new business that will arise, thanks to the resumption of the economy and the search for new infrastructure. We're very opportunistic in terms of this.

These are my closing remarks. I would like to thank all of you for your presence at this call, and I hope to see you again soon. Thank you very much.

## Operator

The CCR S.A. conference call ends here. We would like to thank all of you for your participation. Have a good day.

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