

Q4 2013 Earnings Call

Company Participants

- Aurelio Pavinato, CEO
- Ivo Marcon Brum, CFO & IRO

Other Participants

- Gabriel Lima, Analyst
- Paulo Valaci, Analyst
- Ravi Jain, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for waiting. At this time, we would like to welcome everyone to SLC Agricola Fourth Quarter of 2013 earnings conference call. Today we have with us Mr. Aurelio Pavinato, CEO and Mr. Ivo Marcon Brum, CFO and Investor Relations Officer.

We would like to inform you this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After the Company's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions).

Also, today's live webcast, both audio and slide show, maybe accessed through SLC Agricola's website at www.slccagricola.com.br in the Investor Relations section by clicking on the banner webcast 4Q13. The following presentation is also available to download on the webcast platform. The following information is available in thousand of Brazilian reais and in IFRS, except when otherwise indicated.

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

Now, I'll turn the conference over to Mr. Aurelio Pavinato, CEO. Mr. Pavinato, you may proceed.

Aurelio Pavinato {BIO 16456795 <GO>}

Good morning, and thank you for participating at SLC Agricola earnings call for the Fourth Quarter and full year of 2013. Please let's move to slide 3, where we would like to begin by highlighting some achievements we made in 2013.

First, planted area increase of 22% to 344,000 hectares at the 2013-2014 crop year. Second, increase in sales volume surpassing the one million ton per year. Third, net revenue growth of 5.6% against 2012. Fourth, net profit of BRL96.6 million, increase of 151% on 2012 even with the yield lower than the initial forecast. The crop and geographic investigation enabled a significant growth in the crop.

Fifth, joint operation with the group Soares Penido for agricultural operation at the state of Mato Grosso. At the current crop, we already planted 8,700 hectares at this JV and we are preparing the soil to plant 20,000 hectares at the next crop year.

On the following year, we will also add the second crop to this area, this way reaching 33,000 hectares of total planted area.

Sixth, joint operation with the Mitsui Group for agricultural operation at the state of Bahia. At the current crop, we already planted 22,000 hectares at this farm, being 10,000 cotton and 12,000 of soybean. Over the following year, we will initiate the corn crop as well in this area. Both SLC and Mitsui wish to expand the operations of this JV.

Seventh, SLC LandCo land acquisitions, overall we had rather acquired 13.7 thousand hectares for an invested amount totaling BRL52 million, which comes to reinforce our strategy to add value through the acquisition and development of land.

Please let's move you on to slide 5, where we present the evolution of the international prices of our products in 2013. Soybean average price in 2013 was slightly below that of 2012, with a decrease in trajectory along the year due mainly to the increased production in the US and the initial forecast of a bigger crop in South America.

However, (inaudible) problems in Brazil in the beginning of the year had already subtract at least 70 million tons to 80 million tons of production in relation to initial forecast, a level that could increase if unfavorable condition persists. In addition, we had a very strong demand for soybean in China. Chinese market account that is estimated to import some 60 million tons to 90 million tons of soya, a growth of 16% in relation to the previous year.

The marketing for cotton, however, showed a slight increase in price in 2013, ranging between \$0.80 and \$0.90 a pound. As in previous year, the Chinese government policy to acquire the bulk of the domestic production at a significant premium over the international price continued, thus reducing the amount of products available to other countries.

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The Chinese government has already signed that this policy will not be continued after the new upcoming crop, thus reducing the incentive that the Chinese producers has had over the previous year to plant this crop. Despite the Chinese high cotton inventory, this product is not immediately available to the market. What added to the reduction in production in the US and Brazil in 2013 is bringing support to prices.

Corn average price in 2013 was lower in relation to 2012 due to the large increase in the US production against the previous year. That has reduced the incentive to plant the cereal in Brazil, where production is estimated at 75 million tons for 2013-2014 according to CONAB, 7% less than the previous crop. Recent production losses in the southeastern region of Brazil has already impacted corn prices.

A recent study from Safra & Mercado Consulting estimates corn production to be of only 71.1 million tones, what has already increased the prices in the internal market in 28% between January and March 5th.

In addition to this comments, the variation in commodity prices, Brazil agricultural production is also benefiting from a depreciation of dollar-reais against the dollar of 15.4% in 2013.

We may now to go to slide seven where we demonstrate the land related to the performance of our fields at 2013-2014 of year against the previous crop. As we can see on the table, we expect a significant increase in our yields in comparison to the previous year, which was impacted by the drought in Bahia and Piaui state. Until March 2012, we had already harvested 31% of our soybean area, mainly in the state of Maranhao, Mato Grosso and Goias, in line with our harvesting schedule.

The cotton crop for which harvesting will begin in June had the planting done within the ideal timeframe and so far presents an excellent development.

Now, I will pass to -- reach you over to the colleague, Ivo Brum, CFO and Investor Relations Officer for the comments on the financial results for the period.

Ivo Marcon Brum {BIO 16639894 <GO>}

Thank you. Good morning. Please let's move to slide 9, our net revenue increased 5.6% over 2012 due to increase in rains, volumes and improvement in the price for the products invoiced in the year.

Operational result was of BRL125.6 million, an increase of 73% on the previous year (inaudible) the increase of 3% in gross profit improvement in the financial result.

Adjusted EBITDA in 2013 was of BRL233.7 million, with a margin of 22.6%. Net profit was of BRL96.6 million in 2013 against BRL38.4 million in 2012. This variation was mainly due to the improvement in the operational result and reduction in the income tax.

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We can now move to slide 10 where we present breakdown of our debt. The Company's net debt closed the year at BRL777.3 million, due to the growth at planted area in consequence to support funds via rural credit, Finame, constitutional funds and trade finance (slots). The net debt to adjusted EBITDA ratio closed the year at 3.3 times.

Thank you. Now we open the call for questions.

Questions And Answers

Operator

(Operator Instructions)

Gabriel Lima, Bardesco.

Q - Gabriel Lima {BIO 16224058 <GO>}

I think it was discussed in the Brazilian call, but I just wanted to have some more clarity on why you didn't revise the productivity forecast for the current crop? Is it because the weather conditions -- the unfavorable weather conditions in the northeast are being offset by better than expected conditions in the Midwest? Is that the case?

A - Aurelio Pavinato {BIO 16456795 <GO>}

Gabriel, as I said before, our weather condition in the west condition -- west part of Brazil was better than our initial forecast. So in northeast region was a little worse, but after February 12 we had the very good rainfall in the northeastern region. So the soybean crop has reached a very good recuperation. So this is the reason we believe that we are going to reach our forecast of 54 bags per hectare. This is the reason we keep the forecast.

Q - Gabriel Lima {BIO 16224058 <GO>}

Okay, got it. And still about weather, we had seen in this recent weeks some signs of potentially having an El Nino effect by the second half of the year, and I just wanted to have your thoughts on how that would affect Brazil crop and mainly how would -- if this becomes -- if this event happens, what would be the expected impact in your land portfolio?

A - Aurelio Pavinato {BIO 16456795 <GO>}

El Nino -- actually we are -- now we are in the end of the season, we can say. Soybean is almost in the end of the season and cotton is in the middle of the season. So El Nino will not impact the crops this year. El Nino will impact the crops next year.

So El Nino in Brazil means you can say very good rains in south. So normally El Nino years in Brazil we had very good production, because not big impact on the other regions, mainly in southern Brazil we had more rains.

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Q - Gabriel Lima {BIO 16224058 <GO>}

Okay, interesting. So you don't see any impact of drought in the northeast in your portfolio in that region, right?

A - Aurelio Pavinato {BIO 16456795 <GO>}

No, no, actually during the El Ninos on the northeastern region, normally the rainfall is normal, is okay. So El Nino will not affect the land portfolio or our strategy in terms of diversification we have currently.

Now we have 5% of our land in the Midwest region. We have 25% in Maranhao state, where you can see the rainfall has been very stable over the years. And we have above 30% in the -- you can say in Bahia and Piaui, where the (inaudible) is stable. And historically the last three years has been the worst years of Bahia. So this is not normal to have heavy drought like we had last year in Bahia, like we had this year in Bahia. So this is a normal year we face in Bahia last year and this year.

But having said, this year the production will be okay in this year, will be okay because the crop had a very good recuperation during second half of February and during March.

Q - Gabriel Lima {BIO 16224058 <GO>}

Okay, very clear. My last question, Pavinato, will be regarding this 17% cost increase on the soybean cost for the current crop. I just wanted to understand -- we discussed earlier that some costs will be declining, but just want to understand why in the case of soybeans we have a 17% -- actually almost 18% increase for the current crop?

A - Aurelio Pavinato {BIO 16456795 <GO>}

Yes. Actually we increase -- the three main costs increase we had in this year on soybean was the inputs. The inputs -- the chemical increased in reais because the -- normally we buy chemicals in dollar. So when we paid -- in this category we paid the chemicals and the price in reais were higher.

The seeds last year -- as the soybean price was higher last year like \$15 per bushel during the harvest timing, so the seeds cost more last year in reais as well. And additional to the exchange rate in case of the chemicals, we had the increase on the amount we are applying in the fields due to the (Spoken in Portuguese), the caterpillars, a new caterpillar was (inaudible) in Brazil last year.

So actually we increased our portfolio of products to be applied this year. So this is the amount and the exchange rate increased the cost of chemicals. And fertilizer, actually we had the -- we increased the pricing in reais last year because of the exchange rate. So this was the main reason the soybean price increased more than cotton.

Cotton didn't increase so much because the seeds -- as the cotton was in a good -- was up on a good price last year, we were able to buy the cotton -- to buy at a lower price in seeds, to buy by a lower price. Cotton, we used fertilizer nitrogen and nitrogen -- urea

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came down, the price (inaudible) until the middle of the year and we were able to buy at a very lower price. And chemical, as we are planting more traditional varieties this year, we are using less chemicals than last year. So in cotton, we didn't have a big increase on our cost and soybean we had this, you can say, big increase in our cost this season.

Q - Gabriel Lima {BIO 16224058 <GO>}

Okay. Thank you.

A - Aurelio Pavinato {BIO 16456795 <GO>}

Next year we are going to plant more in (taxista), in taxista and we will search new varieties resistant against the worms, the caterpillars. And so it will help us to reduce the chemical costs on soybean as well.

Q - Gabriel Lima {BIO 16224058 <GO>}

Okay. Thanks.

A - Aurelio Pavinato {BIO 16456795 <GO>}

You're welcome.

Operator

Paulo Valaci, Banco Brasil Plural.

Q - Paulo Valaci {BIO 18268142 <GO>}

My first question is on infrastructure. We've been reading in the news lately that the BR-163 highway is having major issues sending volumes to the northern ports. Do you think we can expect this issue to be resolved in the medium term? Are there other specific infrastructure related investments in Brazil that you think will help reduce the infrastructure bottleneck in the medium term? That's the first question.

Then my second question is related to other cultures outside of soya, cotton and corn. We saw a major increase in coffee prices in the last month or so and I know that that's a very small portion of your portfolio. But I was wondering if maybe the planting allocation for next year may incorporate a little more coffee to make use of the higher prices? Thank you.

A - Aurelio Pavinato {BIO 16456795 <GO>}

Okay, okay. About the infrastructure, actually we are having now this year and over the next three or four years we are going to have a very good improvement on the logistics in Brazil, because the 163 will be ready next year, the forecast, next year will be ready. Actually this year they are shipping production by 163 and they are beginning with their, you can say, bypass; that 400 kilometers is still a better road. But they are sent there anyway.

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The corn during the dry season -- last year Cargill sent a lot of corn to Santarem by 163. So last year we already -- the ports in the north region, the (Milijutona) port on Topojas River, the Villa do Conde Port near Belem and (Tegra) in Sao Luis do Maranhao, these three ports will be ready in no more than two years. Actually in Maranhao they are going to operate the Tegra port this year, in middle of this year.

So these three ports in the north region associate with the 163 roads. We will be able to, Brazil to, up to Mato Grasso to send big proposition of the production to north instead to southeast. So the forecast -- so with this situation, the forecast is to reduce at least \$1 per bushel the logistic cost in Mato Grasso. And will help -- we will have more competition. So last production coming to southeast ports, so they have to be more efficient and the cost will reduce.

So we are confident that over the next five years the logistics in Brazil will be much better than today with these projects ready as I mentioned.

About the other crops, we are increasing the sunflower area. Sunflower is not for us compared with corn as a second crop. So it was a one-off that we have to plant after corn. Coffee, actually coffee we are not investing more in coffee. We have a small land of coffee. Coffee for us, as you can see, a small business. Coffee is a permanent crop, so if we plant coffee this year we spent three years to start to harvest in coffee.

So in the region on the farm where we have the coffee, we have the possibility to plant third cotton, corn for seed for (pioneer) and wheat. So with these three annual crops is much more profitable compared with coffee. So actually we are leaving the coffee business is our strategy.

And the other crops, we are testing sugarcane, just a small field, just one field. So we are evaluating the possibility. But in the medium term, you can say our focus is soybean, cotton and corn. These are the three biggest crops of the Company. These three crops benefit as a good combination in terms of crop rotation, in terms of different markets. And so this is our strategy.

Q - Paulo Valaci {BIO 18268142 <GO>}

Thank you.

A - Aurelio Pavinato {BIO 16456795 <GO>}

Okay.

Operator

Ravi Jain, HSBC.

Q - Ravi Jain {BIO 16135293 <GO>}

I had just a couple of questions. Firstly, can you give us an update on the situation in China regarding the cotton issues, the change in policy of the government and what effect -- I mean we have seen no effect on the prices, but what do you expect in the next, let's say, 6 to 12 months?

And my second question is, could you give us an expectation of your CapEx for 2014 as well as slightly in the medium term? Thank you.

A - Aurelio Pavinato {BIO 16456795 <GO>}

Ravi, about China, China decides not to buy any more cotton from all producers in China. Actually they are continuing buying from more specific regions, Xinjiang region, the west part of China. So from the farmers of the other regions, they are not going to buy anymore. So in this case, it's not a stimulated target to plant cotton.

So the cotton area in China will reduce 9%, the forecast is 9%. So this will continue help to reduce the world production and over the next year to reduce the inventory. But there is no news from China about the price, the strategy in terms of what to do of the big stock they have.

We believe that they are going to keep this stock and to sell slowly. Because they used to sell to the mills by a much high price compared with the international price. They sell to the mills by \$1.35 and \$1.40 per pound. They usually buy from the farms by \$1.55 per pound and they sell it to mills.

So they are not going to burn this inventory and to purchase in the market by a lower price. So this is the reason we believe the cotton price will stay at this level that we are nowadays between \$0.80 and \$0.90 per pound. We can say we don't see much possibility to increase the price more than that, but we don't see any possibility to come down because we have a -- synthetic fiber the cost is between \$0.72 and \$0.75 per pound.

And normally when the cotton price comes to nearly the synthetic fiber price, normally the mills buys more cotton and automatically increases the demand for cotton, increase the price. So this is the reason we believe we will have a good (adjust) to keep this level of price. And this level is -- you can say that is okay for us. It's okay for us. It (inaudible) a good margin.

About the CapEx, CapEx 2013 you can say that amount is a big amount because we increased 20% our planted area. 2014, we are going to generate a better EBITDA in 2014. Our strategy over the year is to invest only 50% percent of our EBITDA. This is our strategy. So with this proposition, we are able to grow the amount we need to grow and to keep the debt in a good shape.

Q - Ravi Jain {BIO 16135293 <GO>}

Thank you, so much. And do you have a specific guidance for 2014 as to the amount of CapEx that you expect?

A - Aurelio Pavinato {BIO 16456795 <GO>}

We are going to -- the first forecast is we are going to spend BRL169 million, we intend to invest in 2014.

Q - Ravi Jain {BIO 16135293 <GO>}

Thank you, so much.

Operator

Ladies and gentlemen, this will conclude our Q&A session. The SLC Agricola call has now concluded. We thank you for attending today's presentation. You may now disconnect your lines.

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