

Q4 2012 Earnings Call

Company Participants

- Marcelo Eduardo Martins, Chief Financial Officer and Investor Relations Officer
- Marcos Marinho Lutz, Chief Executing Officer

Other Participants

- Celina Merrill
- Fernando Ferreira
- Martin Tapia
- Pedro Herrera

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Cosan's Fourth Quarter and Year of 2012 Results Conference Call. Today with us we have Mr. Marcos Marinho Lutz, Cosan's CEO, Mr. Marcelo Martins, Cosan's CFO and Investor Relations Officer and Guilherme Machado, Head of IR.

We would like to inform you that this event is recorded and all participants' will be in listen-only mode during the company's presentation. After Cosan's remarks, there will be a question-and-answer session for industry analysts. [Operator Instructions].

The audio and slideshow of this presentation are available through live webcast at www.cosan.com.br/ri. The slides can 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. Forward-looking statements are based on beliefs and assumption of Cosan's management and all information currently available to the company.

They involve risk, 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 result of Cosan and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to the CFO and Investor Relations Officer Marcelo Martins. Mr. Martins you may began the conference call sir.

Marcelo Eduardo Martins {BIO 16440115 <GO>}

Thank you. Good morning everyone, I wanted to thank you for participating in our earnings release call. This was a quite important year for our company as it was the first year that we consolidated our results taking into consideration our 50% stake in Raízen, it was at the same time a very challenging year for Raízen given the fact that the company operated in an adverse environment in the upstream business in the sugar and ethanol business as we had a big disruption in the production of sugarcane production in the Central South region of Brazil.

Despite that fact, Raízen Energia ended up delivering very good results in a very adverse scenario. And in addition to that we had other news coming from our company related to the potential acquisition of stake in ALL in the last quarter of our fiscal year of 2012.

And more recently, we had the disclosure of the signature of our agreement with BG with the purpose of buying a controlling stake in Comgás and also our association with Camil contributing our Cosan food retail business to that company.

I'd like to start the call with our highlights for the year 2012. Just wanted to remind you that in the year of 2011, we had the result of the company before the formation of Raízen which basically implies that we are not talking about, we're not comparing companies with the same profile as in 2012, we are consolidating 50% of Raízen and in 2011, we consolidated 100% of Cosan's business in the upstream and downstream business.

So we had a positive variation in net revenue on a consolidated basis for Cosan of 33% reaching R\$24.1 billion in revenues, a positive variation on net income of 238% reaching R\$2.6 billion, out of this R\$2.6 billion, R\$2.2 billion refer to formation of Raízen and the gain is coming from that contribution of assets into Raízen and the balance has also been impacted by a negative variation in the exchange rate in the Real exchange rate, compared to last year mainly.

So when we normalize or adjust the net income by these two factors, we will probably get to a net income of R\$800 million which is substantially better than the normalized net income for the year of 2011.

In terms of our EBITDA, we reached R\$2.14 billion in 2012 with an EBITDA margin of 8.9%, it represented a reduction compared to the year of 2011 but that occurred mainly considering that the portfolio was different and therefore the base turned out immediately comparable.

In any case, it's important to emphasize that these good results are very much in line with our guidance provided to the market, actually at the top end of the range of the indicative EBITDA of the company that we provided to the market recently.

Now talking about the different business lines starting with Raízen Energia. We saw a reduction in the sugarcane crushed of 2.4% from 54.2 million tonnes to 52.9 million

tonnes, a sugar production 1.2% higher than last year at 3.97 million tonnes compared to 3.92 million tonnes. And in ethanol, reduction of 12.8% from 2.2 billion to 1.9 billion liters.

The actual TSR, or HI as we call it in Portuguese also suffered a reduction of 1.7% coming from 138.5 kilos per tonne to 136.1 kilos per tonne.

The volume sold of cogen went up by 19% to 1500 megawatt hours and the average price increased from a R\$148 to R\$158 per megawatt hour and the condition level of the harvest-in-process has also reached its peak end of fiscal year of 2012 at 86%.

In terms of the financial performance of the company, we saw a jump of 13% in the net revenues from R\$6.4 billion to R\$7.4 billion and a jump of 5% in EBITDA from R\$2.1 billion to R\$2.23 billion, the EBITDA margin got reduced from 33.4% to 30.8% in the year of 2012.

Now moving to the fuel distribution business, Raízen Combustíveis, we saw a big jump in the EBITDA of the company, but the volume did not increased a lot, which basically means that despite the fact that the volume sold was not higher or substantially higher than last year, we had a price dynamics that managed to provide better results for the company, especially you can see the migration from ethanol to gasoline and mainly considering the fact that gasoline has better margins than ethanol.

Therefore, we had a volume of 21 billion liters sold in the year of 2012, net revenues of roughly R\$40 billion and an EBITDA of R\$1.3 billion with a margin of 3.3%. The EBITDA per cubic meter for the fiscal year of 2012 was 62.4, almost R\$20 higher than our indication or projections in the beginning of the fiscal year of R\$43.

And the adjusted EBITDA per cubic meter was of R\$70.5, which basically means that we had an adjustment R\$15 million as non-recurring expenses during this last quarter as a function of certain reserves for the payment of variable compensation to the management that had not been incurred before. And the reason why we had distribution of payment has to do with the fact that the performances was much better than expected. And therefore, the bonuses went up as well.

Now moving to the companies that we consolidate 100%, which is the so-called controlled group of companies within Cosan. We had an increase in the volume loaded from 7.5 million to 7.76 million tonnes an increase in the average revenue from 60 to 74.

The net revenues of the company went up by 28% from 448,572 and EBITDA jumped from R\$146 million to R\$213 million with a margin of 37.3% up from 32.6% last year representing a nominal increase of 46% in the EBITDA of the company last year.

Cosan Alimentos, 2012 was the last year we had consolidated Cosan Alimentos as we have recently announced that we will be contributing this business to Camil forming a new food company where we will have 11.7% which will be managed by the controlling shareholders of Camil.

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So in 2012 even though we had a reduction in the volume sold in the domestic market, we had an increase in the average price, but also an increase in the average cost of the company as a function of the increase in the price of sugar, which is used as an input for the production of refined sugar.

We had a jump in the net revenues of 7.3% reaching R\$942 million and a reduction in EBITDA of 8.3% as a function of this cost increase to R\$70 million represented by an EBITDA margin of 7.4%.

So as far as the other businesses portfolio, we have the lubricants business which also includes the sale of base oil and the land lease that we provide to Raízen based on the portfolio of land that we currently have at Cosan.

And as far as this company, we have the allocation of 100% of our corporate expenses in Cosan, which is something we didn't do in the past. And also some contingencies related to the businesses that when contributed to Raízen and which liabilities remained with Cosan has remained with Shell as well. So we have an increase in net revenues of 28.5% from R\$832.65 billion last year and a reduction in EBITDA from R\$147 million to R\$49 million.

Just wanted to emphasize that in the fiscal year of 2011, 100% of the EBITDA was related to the lubricants business, since then we increased our revenues once we integrated the lubricants business with the base oil business and the reduction in EBITDA has to do with all these other factors or costs that have been allocated to this other business line in our company.

Talk a little bit about the net debt position of Cosan, we saw a reduction in the net debt of the company in the last quarter of 2012 compared to the third quarter 2012. We saw a reduction mainly given the fact that the debt at Raízen level got reduced as well and we basically saw also a reduction in our leverage ratio on a net debt-to-EBITDA basis, which went down to 1.2 times, which is the lowest leverage of the company ever.

We will incur an additional debt for the acquisition of Comgás which will improve the capital structure of the company and will also increase the leverage ratio of Cosan in this fiscal year. But we believe that we are going to have the chance to deleverage our balance sheet quickly once we start generating cash from the businesses and through dividend distribution coming from the companies that will form our portfolio from now on.

Now moving to the guidance, We have provided some guidance to the market now for the new crop year. We had net revenue last year of R\$24 billion and we project R\$26 billion to R\$29 billion for this coming year.

Current EBITDA of R\$2.1 billion and now we are projecting R\$2.2 billion to R\$2.5 billion, a CapEx of R\$2.1 billion last year and we project R\$2.1 billion to R\$2.4 billion for next year.

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For Raízen Energia, we are forecasting in total crushing sugarcane from 52 million tonnes to 55 million tonnes, where we crushed 53 million tonnes last year. Sugar sold of 3.9 million tonnes to 4.2 million tonnes compared to 3.97 million tonnes last year.

The volume of ethanol sold we expect to be between 1.85 billion liters to 2.05 billion liters and the energy sold in this current fiscal year, we believe to reach 1650 to 1850 megawatt hour.

The EBITDA projected for Raízen Energia should be in the range of R\$2.2 billion to R\$2.5 billion as we had R\$2.235 billion of EBITDA last year.

For Raízen Combustíveis, we project the volumes sold to be between 21 billion and 23 billion liters with an EBITDA of 1.3 to 1.5 our EBITDA last year was of R\$1.3 billion and the volume sold reached 20.9 billion liters.

For Rumo, we project a volume loaded between 8 million and 10 million tonnes and an EBITDA of R\$260 million to R\$300 million. For the lubricants business, we project an EBITDA of 220 to 260 based on the current EBITDA which is R\$105 million.

Well this is what we had to say and this is pretty much the information we wanted to share with you. I would like to turn it back to you now for questions. Thank you.

Questions And Answers

Operator

Thank you sir. We will now begin the question-and-answer session. [Operator Instructions]. The first question we have comes from Celina Merrill of Credit Suisse. Please go ahead.

Q - Celina Merrill {BIO 6748233 <GO>}

Hi. Thank you for taking my call. I had a couple of questions about sugar and ethanol sectors specifically. Can you give me your sort of current views on sugar prices in the market what do you think are the drivers of this reduction in international prices that we are seeing now?

And then secondly, given your guidance for slightly higher crushing volumes for next year, is this your expectations that overall the harvest in the Central-South is going to be a little higher or is it a result of your investments in CapEx and replanting and expanding your area after last year?

A - Marcos Marinho Lutz {BIO 6779636 <GO>}

Celina, this is Marcos speaking. Well, first we are a little different than the average in terms of what we have done in terms of investments. So we don't see a improvement in production for this year or on the Central-South of Brazil.

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Although this all varies with the rainfall regime and other variables, but mainly rain. So far the weather has been good, but we'll have to say that if you have for instance not expected rainfalls in July, August this might increase volumes, but might not actually increase let's say sugar volumes, because you change a little bit the way the harvest goes.

In terms of price scenarios, we have been strongly, I mean all the commodities have been strongly affected by macroeconomics, so this has also impacted sugar. And on the sugar case, we also had very strong crop on the northern hemisphere.

So this was clearly a driver this year, mainly Thailand I would say. Out of all the crops, we've seen, the one that surprised me was Thailand, and Thailand is one that actually can keep on those levels for a longer run. But besides that I don't see a long-run of let's see the world extending much without Brazil which is what we've seen in those two years.

If you got a longer season, you'll see that due to the fact that Brazil has a large capacity for expansion with the variable land and et cetera Brazil has been contributing at least half of the growth in let's say demand as a supplier.

So for that reason it's actually where comes my strong belief that on the medium to long run prices should be at the level that justify investments in capacity increase in Brazil. And this means in current dollar terms probably close to \$0.23 a pound. So that's kind of our medium to long-term view. But the short-term is tough to guess because this is very impacted for other causes outside of the market.

Q - Celina Merrill {BIO 6748233 <GO>}

But as you think about this next coming harvest, do you have a new sort of expectation of international prices based on the recent movement in the last few months?

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

No, we have actually had roughly half of the next year -- this year's export. Our current policy is actually not to hedge much and this is not based on a bearish or bullish view, but is based on the fact that we believe on the long run, we should not carry large position, hedging positions, we should not try to have hedging -- we don't have hedging as a source of let's say bottom-line, we have hedging as a let's say, stabilizer in our cash flows and today we don't need as much.

So we have hedged, half, the valuation in dollar terms have been strong, but in Real terms have not been that strong because the Dollar to Real exchange rate changed a lot, so compensated a big part of what actually was the change in Dollar terms for the sugar price.

Q - Celina Merrill {BIO 6748233 <GO>}

Okay. Thank you very much.

Operator

The next question we have comes from Fernando Ferreira of Merrill Lynch. Please go ahead.

Q - Fernando Ferreira {BIO 2389113 <GO>}

Thanks. Good morning everyone. I have two questions. First one, I'd like to understand a little bit better the guidance on the sugar and ethanol side. As we expect a flat crushing and the prices in Real terms, in local currency they are sort of flat. Why are you expecting an EBITDA growth here, are you expecting cost to go down or you still expect these prices to rebound from current levels?

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

So far, we are at an average hedging price higher than we were at this point in time last year, which give us enough room for an increase in our EBITDA compared to last year. We could have a potential negative impact in the coming months, which should be compensated by a better efficiency and an expansion in our crushing capacity to the replanting of the fields?

Q - Fernando Ferreira {BIO 2389113 <GO>}

Okay. So you are expecting a portion of cost increase or cost decline already in this harvest right?

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

Yes.

Q - Fernando Ferreira {BIO 2389113 <GO>}

Okay. And then the second question do you have a target for opening and conversion of gas stations and authorizing Combustíveis for this year?

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

Is it how many stations, we are going to open this year?

Q - Fernando Ferreira {BIO 2389113 <GO>}

Yes, and your conversion as well.

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

We have a new station coming from the recent re-branding of -- which will take place in this fiscal year and we have the additional conversion of the stations branded Esso. So in total we should have around 400 stations.

Q - Fernando Ferreira {BIO 2389113 <GO>}

New...

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

Yes new stations, other new stations yes...

Q - Fernando Ferreira {BIO 2389113 <GO>}

All right. Thank you.

Operator

[Operator Instructions]. The next question we have comes from Pedro Herrera of HSBC.

Q - Pedro Herrera {BIO 15159561 <GO>}

Hi. Good morning. Good morning, gentlemen. A quick question regarding, can you give an update on your status on the restructuring of the share to CZZ with the CSAN3 shares where is that, what do you expect in terms of timing and what exactly is it that is left to be done?

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

Yeah I think the objective is to do the collapsing of CZZ into Cosan, it's up to their controlling shareholders to decide the timing to do it, he has been in conversation with other partners, other shareholder of the company, with the purpose of building some sort of agreement to increase his holding power, once the collapse takes place, what I can tell I'm not taking part of this conversation, I can tell you that as far as I'm concerned that they are making good progress and the objective is to do it.

Q - Pedro Herrera {BIO 15159561 <GO>}

Okay. Thank you.

Operator

And next question we have comes from Martin Tapia of Raymond James.

Q - Martin Tapia {BIO 19204832 <GO>}

My question has already been answered but I have a doubt on the CapEx, I didn't understand in terms of CapEx, what do you expect for 2012 of this year?

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

Yeah. For this new fiscal year 2012 to 2014, we are working with -- sorry 2012, 2013, we are working with a range between R\$2.1 billion and R\$2.4 billion. It's in our letter in the webcast presentation, out of which 60% of this CapEx should be related to the sugar and ethanol business, which is under Raízen Energia.

Q - Martin Tapia {BIO 19204832 <GO>}

Okay. Thank you very much.

Operator

[Operator Instructions]. It appears that we have no further questions at this time. We'll go ahead and conclude our question-and-answer session. I would now like to turn the conference back over to management for any closing remarks. Gentlemen?

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

Well, thank you all for participating in our call. We're very pleased with the performance of our different businesses in a very challenging year for our company. I think it shows not only the resilience of our business portfolio but the process of building a very strong business under Cosan, especially in adverse scenarios like the one in the upstream business, we managed to deliver very good results and we believe it's going to be the case moving forward. Thank you very much for your support and we'll talk to you soon. Thank you.

Operator

And we thank you sir and to the rest of the management for your time. The conference is now concluded. We thank you all for attending today's presentation. At this time, you may disconnect your lines. Thank you all and take care.

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