

## Q2 2012 Earnings Call

### Company Participants

- Ivo Marcon Brum, IR, CFO

### Other Participants

- Alessandro Baldoni, Analyst
- Isabella Simonato, Analyst
- Pedro Richards, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen and thank you for waiting. At this time we would like to welcome everyone to SLC Agricola Second Quarter of 2012 earnings conference call. Today we have with us Ivo Marcon Brum, CFO and Investor Relations Officer.

We would like to inform you that this event is being reported and all participants will be in a 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 slideshow may be accessed through SLC Agricola website at [www.slccagricola.com.br](http://www.slccagricola.com.br) in the investor relations section by clicking on the banner webcast 2Q 2012. The following presentation is also available to download on the webcast platform.

The following information is available in (thousand Brazilian real and 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 and 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 the results to differ materially from those expressed in such forward-looking statements.

At this time, I'll turn the conference call over to Ivo Marcon Brum, CFO and Investor Relations Officer. Mr. Brum, you may proceed.

## Ivo Marcon Brum {BIO 16639894 <GO>}

Good morning, and thank you for participating in the SLC Agricola conference call for the Second Quarter of 2012. You can proceed to slide three where we demonstrate the result of our land portfolio appraisal four 2012. In comparison to 2011 our land portfolio presented a nominal increase of BRL295.4 million or an average (actor) appreciation of 18.2%.

Due to the current accounting of the dollars in Brazil, it's not possible to recognize these gains in our income statement. However, we believe that this important value creation for the shareholders, which will validate the Company's strategy to invest in the farmland to chase the terms that exceeded the marked average.

We also highlighted that ours (inaudible) its first trench of capital contribution as foreseen in the contract with our partner. This cash shall be used to acquisition and develop of new farms giving support to the Company's growth plan.

We can now move to slide four where we demonstrate evolution of the international price of our commodities. Soybean price reached historical peaks in the Second Quarter of the year closing the period with an average quotation of \$14.30 per bushel.

At 2011 and 2012 crop there was reduction in global output due to climatic problems in Brazil, Argentina, and more central United States. The biggest soybean producers. In case we see a further deterioration at the crop condition in the United States we might enter into a demand rationing scenario which might increase even more the soybean price.

For corn at the end of the Second Quarter the market was already showing signs of significant decrease in the price due to the adverse weather conditions in the US.

A new reduction in use as a way for the August to US import which will be released tomorrow. The July report to USDA had already reduced its forecast for corn by 12% in the comparison to that initial forecast.

The high-priced level for crops such as soybean and corn should bring more reduction to the global cotton planted area once the grains offer at this point more effective margins. The last (advance) they estimate for this 2012/2013 crop posted again a deduction to the US cotton planted area. Estimate a drop of 14.3% in comparison to the previous crop.

Let's move please move on to slide five where you sure the figures on use for 2011/2012 crops. Here you show our current forecast for productivity already adjusted for the impacts from the lower rate fall in the Western Bahia in February and March added to the higher participation level in Mato Grosso and mato Grosso do Sul sates.

In this quarter we concluded the soybean harvest with on average yield of 3.1 tons per hectare a deduction of 5% in comparison with the initial forecast. Also considering that the

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reduction in the cotton first crop yield should be offset by the expected in yields for the cotton second crop.

The total production loss for the quarter will be 7,300 tons or 4.7% lower in comparison to the initial forecast. Doing the same analysis for corn we have that this big loss of reduction will be merely 816 tons or 0.3% on the initial forecast.

This shows the importance of the company's strategy of diversifying geographically the production units and also in crops and within planting periods.

You can now move to slide six where we present the comparison of the net revenues volumes that Second Quarter 2012 against Second Quarter 2011.

Volume invoice in Second Quarter 2012 was 15% higher than the Second Quarter 2011 mainly due to the higher pattern in corn volume that was invoiced in the period.

That add to the increase in inventory price for soybean to net revenue to BRL226.8 million in the Second Quarter 2012, an increase of 8% against 2011. Even though the mark to market for cotton by large customers was lower in the Second Quarter 2012 mainly due to the change at the cotton price levels between quarters.

You can go now to slide seven where we present the summary of our financial results for Second Quarter 2012. Gross profit totaled BRL3.6 million a nominal reduction of BRL17.6 million against Second Quarter 2011. Notably due to the mark to market of the large assets had the net revenue a variation of BRL54.6 million between quarters.

Due to the lower cotton spot price during the harvest period, around (74 dollar per pound cents) however considering that the company works with a hedging policy when the cotton is effectively invoiced in the next quarters, you have recognition of the margins with the hedge price with our clients.

At around \$1 per pound. Adjusted EBITDA for the quarter was BRL62.8 million to BRL38.7 million in the Second Quarter 2011 chiefly due to a higher cotton volumes in the quarter.

The company is utilizing the adjusted EBITDA metrics once we understand that the measure the effective cash generation of the business is necessary to excluded the known cash effects from the large assets on revenues and cost.

Net results for the quarter was negative at BRL45.3 million from a positive BRL42 million in the Second Quarter 2011. The result was impacted chiefly from the reduction in gross profit from net revenue, initial revenue.

The net financial revenue (through) negative monetary variation of BRL39 million in the quarter due to the increase in the soybean bag price which is the index for that related to land acquisition.

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It is always important to highlight that this monetary variation was due immediately cash effect once its referred to lend payments lasted installments in 2017.

We may now move to slide eight where we present the break down for the net debt. Company's gross debt closed the quarter at BRL867.3 million an increase of 24% on the First Quarter of the year.

The main increase in the structure of the debt came from the trades finest lines increase of BRL133.6 million in the quarter with the proposed to give support to a company's expansion and also increase the maturity of the debt.

(July) as collateral the company's export receivables. We should highlight that from the increase in growth that BRL46.8 million was due to the effects variation in the period which impacted the portion of the debt denominating dollars. This variation was booked under the hedge account in dollars.

Net debt to adjusted EBITDA ratio closed the Second Quarter 2012 at 2.1 times while net debt to NAV ratio closed the period at 28%. Thank you. We now would like to open for questions.

## Questions And Answers

### Operator

(Operator Instructions)

Our first question comes from Isabella Simonato from Merrill Lynch. Please go ahead with your question.

#### **Q - Isabella Simonato** {BIO 16693071 <GO>}

Good morning, everyone. I have two questions. First I would like to better understand. We are starting to see some consulting companies talking about the possibility of an El Nino in the next season.

I would like to understand what should be the impact if that's the case to the regions you guys produce and the second question is on hedging.

Since the end of the Second Quarter, have you accelerated hedges for soybean and cotton and what level are they now in terms of pricing? Thank you.

#### **A - Ivo Marcon Brum** {BIO 16639894 <GO>}

Thank you, Isabel for the question in. About the El Niño. It's in our view that the next crop with gather regular rainfall especially in the south of south America because generally in our area in the (Saraha Bayon) you have heavier rainfall and into the year you can see that you have some problems.

But even though we have this problem I will skip the good level or you lose 5% in the soybean 5% in terms of the cotton so we didn't have a big loss because of that. So our review for the next crop will be a normal level of precipitation and Mrs. in South America.

In terms of the hedge, you have (one on table) the pay of the price. Of course after its based on the June 30 so of course you advance a little in this position and probably next month or next week so you advance much more if the price of the soybean for the next crop keeps it level or increase you are waiting for the USDA report tomorrow to make sure that you can advance now or can wait more time.

In terms of the cotton, we think that the level of the price you don't have good margins, not for us specifically, but the producer so we have a time to sell the cotton because we just regard this quarter in June/July the next three years so we have a time so we can wait better fair price and you believe that you have a better price next year.

**Q - Isabella Simonato** {BIO 16693071 <GO>}

Okay. Thank you.

## Operator

Our next question comes from Alessandro Baldoni from Deutsche Bank. Please go ahead with your questions.

**Q - Alessandro Baldoni** {BIO 16127503 <GO>}

Good morning. About the monetary variation related to the debt of the land purchased. What is the total amount of the debt related to the acquisition and in which line are they booked on your balance sheet?

**A - Ivo Marcon Brum** {BIO 16639894 <GO>}

Just one second, Baldoni we are checking for the table here.

**Q - Alessandro Baldoni** {BIO 16127503 <GO>}

Sure.

**A - Ivo Marcon Brum** {BIO 16639894 <GO>}

On the balance sheet its under notes payables on the balance sheet and we are just looking for the amount in soybean bags here on the inventory. Baldoni, you have around 200,000 bags as of now our debt. So the total debt. Part is short term, part is long term.

**Q - Alessandro Baldoni** {BIO 16127503 <GO>}

Okay. And just on this notes payable, BRL127 million, no, BRL79 million, no --

**A - Ivo Marcon Brum** {BIO 16639894 <GO>}

Short and long term. They are short and long term so in total bags are around 200,000 bags so of course, because of that, if you have a variation price of the soybean bags increased or reduced the price or the debt so in our view of course we have a good price at this moment, but you know that next year cert; -- Brazil, United States, and Argentina increase, the production of the soybean and so probably the price you reduce from other level, normal level and so that debt is a long term debt, the deep part so it's not cash at this moment and so certainly you can reduce this level of the debt of the next quarters.

**Q - Alessandro Baldoni** {BIO 16127503 <GO>}

Okay, that's perfect, thank you.

## Operator

(Operator Instructions)

Our next question comes from Pedro Richards from Raymond James. Please go ahead with your question.

**Q - Pedro Richards** {BIO 19360889 <GO>}

Hi, Ivo, thanks for the call. My first question is in the previous conference call you mentioned that SEC was optimistic on the remaining of 2012 based on higher soybean prices and the depreciation of the local currency.

My question is if your expectation for the rest of the year have changed over the past month and if they did what is your new outlook for the next quarters and if we should expect a revision of the loss in the Second Quarter. That's my first question on your new outlook for the rest of the year.

My second question is if you could give any guidance on the upcoming 2012/2013 marketing year in addition to what you have just commented on El Niño if you are still planning to plant I think it was 280,000 acres and if you are changing the proper mix and how many acres will be transforming. Thanks.

**A - Ivo Marcon Brum** {BIO 16639894 <GO>}

Thank you, Pedro for the question. In terms of price in the results of the year to be fair with you our prices almost 100% locked so as you work with the hedge policy you advance this position during the semester and so you have a probably 5% of our sales to be locked for this year.

I think the main point for this year is that in terms of the debt index in the soybean. If the price reduces increase for certain increase our results if the price increases reduces our results.

So this is the variation that you can have this year. In terms of the soybean and cotton you almost 100%. Or at least 95%.

In terms of the crop for next year, the idea is to plant 280,000 acres. Our mix generally is 50% of soybean, 35% is cotton and 15% is corn.

As the price of the soybean and corn is higher, the margin is higher at the end of the quarter, it will probably increase in this area (inaudible) to crops and reduce cotton because I think that the producers need to respond to this level of price to really make sure the price increases for next season of the cotton.

**Q - Pedro Richards** {BIO 19360889 <GO>}

Okay. And how much of the share of cotton could go down in exchange of the other two crops?

**A - Ivo Marcon Brum** {BIO 16639894 <GO>}

So you can reduce and keep around 28% of the total area of the cotton planted area of the cotton.

**Q - Pedro Richards** {BIO 19360889 <GO>}

Okay.

**A - Ivo Marcon Brum** {BIO 16639894 <GO>}

28%.

**Q - Pedro Richards** {BIO 19360889 <GO>}

Okay. Thanks, and you're now transforming around 10,000 acres and what's your expectation to develop land in the next year.

**A - Ivo Marcon Brum** {BIO 16639894 <GO>}

For the next crop, we certainly will have almost 11,000 acres to plant for next crop. So because this is in process now it takes. For the next crop we're working to have the license so nowadays you cannot make sure to have the final position of the detail, but you are working with the government to define the new license and if you receive this license through the end of the year, (inaudible) can work to open more areas for the next crop.

**Q - Pedro Richards** {BIO 19360889 <GO>}

Okay. So should we expect a transformation, land transformation based off around 10,000 or 11,000 acres or you can accelerate that number every year? So you have 47,000.

**A - Ivo Marcon Brum** {BIO 16639894 <GO>}

So you have 47,000 acres to be opened but we need to really show the most for the government visibility from the environment of issues and the economic and social impacts so it will take time to receive the license.

It's hard for us to define this issue because it's not in our hands the situation. We need to wait for the statement from the government.

So we think that probably we have about 5000 to 8000 acres to be opened. We are working to have the license but we need to wait more six months to have the final position.

**Q - Pedro Richards** {BIO 19360889 <GO>}

Okay. Thanks a lot Ivo.

## Operator

At this time, I am showing no additional questions. This concludes today's question-and-answer session. At this time, I would like to turn the floor back over to Mr. Brum for any closing remarks.

**A - Ivo Marcon Brum** {BIO 16639894 <GO>}

Even though we faced some huge losses this season due to the dry year in excess rainfall in Mato Grosso state has already highlighted the focus for 2012 is still all positive. Once we already have (inaudible) the whole production volume for the year with hedge prices. Also a weaker real and the right price levels for soybean and corn bring good sales opportunities for the balance to be sold for the ones to be sold.

As for our growth plan, we are currently working with the target of 208,000 acres of the plan therefor 2012/2013 increase of 13%. Consider that you bring that into production, (inaudible), the end of 2011 and also the 10,900 acres that were (inaudible) this year and that will be available for the planting at the new season. Thank you for your participation and have a good day.

## Operator

Thank you. This concludes today's presentation. You may now disconnect or telephone lines. Have a nice day.

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