

Q2 2018 Earnings Call

Company Participants

- Aurelio Pavinato, Chief Executive Officer
- Ivo Marcon Brum, Chief Financial and Investor Relations Officer

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to SLC Agrícola Second Quarter of 2018 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 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 slide show, may be accessed through SLC Agrícola website at www.slccagricola.com.br in the Investor Relations section by clicking on the banner Webcast 2Q '18.

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 Agrícola 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 not or may 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 will turn the conference over to Mr. Aurelio Pavinato, CEO. Mr. Pavinato, you may proceed.

Aurelio Pavinato {BIO 16456795 <GO>}

Good morning. Thank you for participating in SLC Agrícola's earnings conference call for the second quarter of 2018.

Let's turn to Slide three, please. The results for the second quarter of 2018 once again reflect the consolidation of our current strategy. One pillar of which concentrates on

improving the efficiency of our business. In addition to the excellent result obtained in the soybean harvest, which registered high yields of 3,756 kilograms per hectare, up 14% year-over-year.

And in cotton, (inaudible) harvested -- now two-third harvested -- completely harvested led us to revise upwards our cotton lint yield estimate to 1,787 kilograms per hectare, which is 7% higher than our initial forecast, 18% higher than the five year average to the '15/'16 crop year, and in line with the record we set last year. In other words, for the second straight year, we are delivering yields at a whole new level and well above our initial forecast.

Let's turn to Slide five, where we begin our comments on recent price variation in our main products and short-term price outlook. During 2018, cotton spot prices on ICE have risen 10% from the initial days of the year, and 20% compared to the same period last year. According to the USDA forecast published on Friday, world cotton consumption in the '18/'19 crop year should reach the mark of BRL127.6 million bales which would represent a new record and surpass the record of 123 million bales set in '07/'08.

In comparison, we see a world production of the 120 million bales, meaning a reduction of inventory of 7 million bales. With regard to China, the world's largest cotton consumer, the USDA supply and demand report for July, as you can see on Slide six, presented revisions to historical data for the country's consumption and ending stocks, which contributed to the optimistic scenario as well as downward revisions of world cotton fiber stocks.

Another important factor is the concern with the cotton crop in the United States. As we mentioned it in the earnings conference call for the first quarter, the drought in Texas, which is the country's main cotton producing region, is having severe impact, which has led the USDA to project a cotton abandonment rate of 25% in its latest report. As a result, the U.S. cotton crop should amount to 19.2 million bales around 8% smaller than last crop year.

In the case of soybean, whose price chart is on Slide seven, you can see that growth in the Chicago Board of Trade were adversely affected by development in the ongoing trade war between United States and China, which led the labor to impose an additional tariff of 25% on U.S. soybean imports. Another factor affecting soybean prices was the good conditions of the U.S. crops for this year. However, as the chart also shows, soybean prices in Brazil have not fallen, since the market of the Brazilian soybean as part of the U.S. soybean, which will include the additional tariff.

Turning to slide eight, Corn price also had a fall in recent months in Chicago due to the decline in soybean prices as well as the crops good conditions in the United States, which is the main producer of this commodity. However, at the global level, corn consumption should exceed supply for the second straight year. According to the latest USDA data, this deficit should amount to 37 [ph] million tons in the '18/'19 cycle.

In Brazil domestic market, however, the scenario is totally different. Corn price in Brazil had remained above BRL40 per bag in Campinas [ph], the combination of a contraction in

planted area for the first corn crop in Brazil and the consolidation of a crop shortfall in regions producing a second crop in the country's South, led mainly by the state of Parana, our factors that helped to keep prices stable in the domestic market during 2018. According to CONAB, corn production should be 50% lower than in the '16/'17 crop year.

I will now pass the call over to my colleague, Ivo Brum, our CFO and IRO, who will comment on our financial results in the period.

Ivo Marcon Brum {BIO 16639894 <GO>}

Good morning, everyone. Let's move to slide 10, which shows some highlights from our income statement for the period. Our net revenue both year-over-year growth of 35% in the quarter and 28% in the year-to-date, supported mainly by the higher cotton and soybean volumes invoiced by the better cotton prices in the period. Another important factor was the determination of the fair value of Biological Assets of BRL288 million in the second quarter, which reflects the gross margin expectation for the most of the cotton fields already incorporating the excellent field being (inaudible) in the harvest that is ongoing.

Adjusted EBITDA in the quarter came to BRL158.8 million, more than double of EBITDA delivered in the first quarter of 2017 hence this margin was 34%. The (inaudible) also basically reflect the higher volume of the cotton soybean invoiced in the quarter and the better unit margin for the both crops, mainly due to the lower unit cost giving the better yields. In the year-to-date, adjusted EBITDA was BRL309 million or 56.8% higher than in the same period last crop year. Net income was BRL160 million -- BRL168 million in the quarter and BRL337 million in the year-to-date, reflecting the higher volume voiced and higher margins as mentioned earlier, and determination of the fair value of Biological Assets.

Turning to slide 11, you can see the days of our debt, with the ratio of the net debt-to-EBITDA in the last 12 months, standing at 1.3 times, which is a very comfortable level.

I will now pass the call back over to Pavinato, who will comment on the outlook for the rest of the crop year and the coming crop year.

Aurelio Pavinato {BIO 16456795 <GO>}

Thank you, Ivo. Given the good progress of our cotton fiber, we have already practically concluded the crop year. And as you can see on the table of hedge position on Slide 13, which most sales already need supports the expectation of the level of operating market activity in the first half of the year, will be maintained through the rest of the year.

And lastly on Slide 14, you can see a table of our initial guidance for planted areas in the '18/'19 crop year of 455,000 hectares or 12.8% larger than last crop year, which already incorporated the Pantanal Farm whose lease was announced to the market on May 28. I also should highlight in the table, the expansion plans for the cotton crop of 29% year-over-year for a total planted area of 121,000 hectares.

Thank you. Let's now open the call for questions-and-answers.

Questions And Answers

Operator

Ladies and gentlemen, we will now initiate the question-and-answer session. (Operator Instructions) Thank you. This does conclude today's presentation. You may disconnect your line at this time, and have a nice day.

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