

Q3 2020 Earnings Call

Company Participants

- Marcus Vinicius Macedo, Head of Investor Relations
- Waldo Edwin Perez Leskovar, Chief Financial Officer and Investor Relations Officer

Other Participants

- Regis Cardoso, Analyst
- Unidentified Participant
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning, ladies and gentlemen, thank you for waiting, welcome to the CCR SA Earnings Release Call to discuss our results in the Third Quarter of 2020. All participants will be on listen-only mode during the presentation delivered by the company, then we'll have a question-and-answer session and at that time, further instructions will be provided. (Operator Instructions) We'd like to highlight that any forward-looking statements that may be done during this earnings release presentation concerning our business prospects or any operating and financial forecasts and targets are based on beliefs and assumptions by CCR's Board, as well as on all the information available to the company at the moment.

These forward-looking statements are not a guarantee of performance, as they concern future events and therefore depend on things that may or may not happen, they entail risks and uncertainty. Investors must understand that the overall economic scenario, changes to our industry and other operating factors may impact the company's future, leading to outcomes that may be significantly different from the forecasts contained in such forward-looking statements.

Now, I would like to hand it over to Mr. Waldo Perez, our CFO and Investor Relations Officer.

Mr. Waldo you may speak.

Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Good morning. I would like to tell you that, today with us we have Mr. Marcus Macedo, our Investor Relations Manager. We have Ms. Flavia Godoy; Caique Moraes also from our IR team. Before we talk specifically about the results of the third quarter of 2020, I would like

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to stress some of the important changes that we've carried out recently at the company. First, we changed our schedule and structure for the Board of Directors, as announced on October 17, I would like to talk about the exiting of Mr. Eduardo de Toledo, who has been the VP of Corporate Management since November 2018. He got to the company at a transformation moment for the company and he helped us change CCR. We would like to thank him for his important contribution throughout the time he spent at the company.

We made some changes, because we want a more horizontal Board, the biggest highlights of these restructuring are as follows. First, we redistributed activities that were centralized in the VP position of Corporate Management. I also started to take care of the control office in addition to finances and IR. Marcio Iha who was the Director, Planning and Control and Corporate Risks has now become the officer who is in charge of Business Services. This is an area focused on optimizing shared services. This encompasses CCR (inaudible) and supplies. We also have an office of management so that we can focus on the talents of our group, and we are still looking for someone to take over this department.

Gustavo Lopes, who was recently hired now took over the office of new Business Development. He has the clear goal of identifying and developing new investment opportunities. He also wants to bring about transformation in the group. Roberto Penna who was is officer responsible for the legal department is also taking care of governmental initiatives as well and Pedro Su, with governance and compliance internally is now also in charge of Corporate Risk and Internal controls.

So, we create a single area through this merger, this reinforces our commitment with the best practices of corporate governance in the industry. All of these changes are meant to support the growth that we intend to have over the next years. This new stage is supported by the pillars, people, culture and the intensification of ESG Systems and sustainable development. These are the focal pillars that will support this development. These were the main messages I wanted to share with you before we talk about the financial results this quarter.

Now, before the third quarter of 2020 even though we were going through a pandemic and even though that had an impact on our results, I would like to say that we see a clear trend of improvement, especially for highways, which obviously has an impact on profit. We could see that in the weekly announcements we had regarding the traffic. I would also like to highlight that in the week between the 23rd and 29th of October, we had the first positive results when it came to highways, excluding ViaSul we also had improvements in urban mobility with an average of around 50% and in airports, we have 60% to 70%, even though this is significant impact this is much smaller than at the beginning of the pandemic, so we see a scenario of improvement. It is also important to highlight the leveraging that we have at CCR with the net debt over EBITDA index. Even though this is the scenario, we have a robust cash position and we've kept our leverage year-over-year.

This is a level that we think is healthy for the maintenance and growth of this company. Additionally, I would like to stress that we were able to finish before our expected deadline; the fundraising plan that we had planned for 2020. I would like to wrap it up saying that even though we are going through a pandemic, we have been very resilient.

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We are optimistic about the future, the reorganization I mentioned a bit ago is making this company more agile to work on the big pipeline of projects for the future.

We have RSC287 [ph] with an auction for December 2020, that is just an example, because we are preparing for that. We'll have 12 concessions of federal highways that will happen between 2021 and 2022. This group represents around 16,000 kilometers and BRL140 billion in investments in Brazil. For mobility concessions, more specifically, we have the 6th and 7th rounds of airports, and we'll have opportunities in other segments as well where CCR is not present at the moment. So we have a good horizon of opportunities in growth and we will go after that.

Now, I will hand it over to Marcus, who will be able to show our results for the third quarter of 2020.

Marcus Vinicius Macedo {BIO 15022391 <GO>}

Thank you Waldo. Good morning. I will be talking about the biggest figures of the third quarter of 2020. I will be talking about IFRS numbers and whenever I talk about same basis numbers, we are excluding new projects and assets where we had participation by the company. I just wanted to give you this context.

So, let's talk about this quarter. The traffic was decreased by 1.6% year-over-year, excluding ViaSul which was recently added, our decrease was 5.9%, which is a clear improvement compared to the second quarter of 2020. This has to do with an 18.4% decrease with light vehicles year-over-year and a 4.5% growth in the traffic of heavy vehicles year-over-year as well.

At the end of the release, we have a chart showing that even though we were majorly impacted by the pandemic, we have a clear path of recovery both for highways and the other businesses at the company. So, our adjusted same basis, net profit represents a 10.9% decrease year-over-year. Now, the same basis adjusted EBITDA fell by 16.5% with a margin of 59.8%, which represents a 4 percentage point decrease year-over-year. Of course, this has to do with the impact of the pandemic and the decrease in demand. Now, when it comes to costs, even though many of these costs were fixed because of the nature of our business, the company has shown control in this management. So, we had a decrease of 2.6% in the same basis expenses.

We also had an impact of more depreciation and amortization, because we are getting closer to the end of concession contracts for RodoNorte and NovaDutra. Even though we don't see a cash impact, we do see an impact in that profit. It is also important to say that we felt an impact in dollar-based businesses at the company. We saw reductions because of the pandemic as well. To see more information about our costs, please go to the cost section of our released document. Net profit, as the same basis was BRL93.3 million, 71.9%, down compared to last year. Now, net income totaled BRL118.3 million in the third quarter with a reduction of 65.2% year-over-year.

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This reduction in net income mainly reflects the impact because of opening new businesses and because of the new mobility restrictions that we've seen since mid-March because of the pandemic. This was also impacted by the points that I mentioned before, especially with the bigger depreciation and amortization during this period. Now, when it comes to net debt, we got to \$13.9 million in the third quarter, a 6.7% increase year-over-year. We had a 3.4% reduction in comparison to the second quarter of this year. Now, the leveraging of this company, measured by the adjusted EBITDA debt ratio was adjusted in comparison to the second quarter, so 2.7 times.

This shows excellent financial management at the group. So, even though we are facing a challenging scenario because of the pandemic, with a decrease in our results, we have control over our leveraging and we are at a comfortable position to move on with our growth strategy. I would also like to say that even though the pandemic has brought about a number of challenges, and has created significant impact in our basis, we see that the results of the third quarter of this year, show a clear route of recovery and we have robust and disciplined financial results and management and we are controlling costs.

I would now like to start the questions-and-answer session.

Questions And Answers

Operator

(Operator Instructions) Our first question is from Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi, good morning. I have a few questions. Here is the first one; let me ask you about regulating risk -- or regulatory risk. CCR is trying to give back the concession of Barcas in Rio de Janeiro and this process has not been finished yet and when we look at the city of Rio de Janeiro and what they are going through, there are also problems with the VLT concession and we've recently talked about the yellow line as well.

So, how interested is CCR in investing in the state of Rio de Janeiro and in the case of the VLT concession, one of the biggest discussion points is that some installments were in default, so what do you think about Rio de Janeiro and what can we do regarding these assets? My second question is about new businesses; CCR has also mentioned in the past that they were interested in investing in sanitation. So, thinking about new opportunities I want to understand the kind of opportunity CCR is looking for and if we think about the projects by the PPE, are you looking into different sectors like public concessions and parks or public lighting and parks?

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Thank you very much for your question, Victor. Well, let's talk about regulatory risk. Overall regardless of the location, any measure that may be a threat to regulatory agreements being complied with may be taken into account for the infrastructure sector as a whole. Now, when it comes to Barcas, the Group still wants to return this operation. We are still

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supporting initiatives by the Rio de Janeiro state government for a new auction. This process is underway. This is important to make up for the losses that we have right now with this contract. Now, in regard to VLT, the concession agreement has a lot of rebalancing. We are discussing and analyzing it with the granting authorities. We are sure that we will get to a consensus that will work for both the granting authorities and CCR. As a whole we will keep on investing in infrastructure in Brazil as long as these contracts are complied with; this is a very important thing.

When it comes to new businesses, as I said in my opening speech we have been analyzing this for a long time. There is a bidding plan by the government in these sectors - airport, urban mobility and highways. We have been prioritizing all of these opportunities and we have established the ones that look more appealing to us. Of course, we need to work on the request for proposals and we need to work on the specific traits of each concession to analyze whether or not they're interesting, but this is a focal point for our Group. Finally, you asked about other sectors; the CCR is an infrastructure company, right now we are in three sectors. However, yes, as an infrastructure player we want to look into other opportunities. We are always interested in investing in other opportunities; for that, we have a detailed analysis to understand the methods of each sector and the risk that is involved. That's how we calculate if we want to invest in other sectors. For now, I would say that we have a number of relevant opportunities in airports, urban mobility and highways. Let me follow up on something related to new businesses.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Given CCR's size, you may end up creating cuts in the size of projects right or is CCR taking every project into account when it comes to infrastructure?

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Well, we don't rule anything out. We analyze any opportunity that comes to our attention, both in the primary and secondary markets. Of course, we do have our priorities, so we may prioritize some opportunities thinking about risk and return because we want as much return as possible. When we think about our financial capacity, we think that we have enough -- a robust-enough balance to look for a significant number of opportunities. We will always follow our financial policies when it comes to long-term leveraging. But most opportunities we are interested in bring us better cash flow, they create cash flow. This make things easier when we think about the number of bidding processes we can take part in.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Great answers. Thank you.

Operator

Our next question is from Regis Cardoso, Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

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Good morning. Thank you. I have two questions. Let me follow up on Victor's question regarding ViaLagos. Can you please talk about similarities and differences that you see between the process you have for ViaLagos and the one you've had before? I would also like an update on the rebalancing you still need to make in Sao Paulo, do you have any expectations? Do you think this will be done in 2021? I would also like an update on the rebalancing due to COVID-19. Do you think any of your assets would not be eligible for that and do you envision the methodology that you will use, both for airports, urban mobility and also highways?

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

I was just writing down the questions. So first let's talk about ViaLagos. According to the State Secretariat of transportation, it's been clear that this provision is not legally grounded so it is not going to be adopted. Whenever we have the legal safety of a public contract being in threat of course, this would entail more difficulty in the future for a sector to attract investments and this may also be applicable to Linsa [ph] as well and everything needs to start with the executive, not the legislative.

This is about procedures that needs to be followed and CCR is still complying -- is still fulfilling every contract in Rio. We are providing quality services to our customers and we will keep running our operations; that's what we think -- we think ViaLagos is in the past. Now, let me talk about contract rebalancing for the state of Sao Paulo. We are still working with ATESP [ph] and the government of the state. We have been making good progress in these conversations. I think every stakeholder involved is interested in getting to a consensus when it comes to this topic.

We do hope, we are able to reach an agreement in the medium term and we want to get to something that is interested for the state government and for the CCR Group. We want to attract more investments to our customers and we want to faster the recovery of our economy. Now, when it comes to COVID-19 rebalancing efforts, we have been discussing them. Of course, they vary segment by segment, but overall the granting authorities wherever that's for airport, highways or urban mobility have made it clear that we have a force majeure case here.

In airports, we had the postponing of the concession of Belo Horizonte until December. We also saw a law saying that 50% of concession fees due in December will be refinanced for the remaining of the concession. PNVS [ph] was extremely quick in giving us a six-month standstill and they expanded it in October for another six months for urban mobility and airports. For highways, in the state of Sao Paulo, they've created a committee involving every stakeholder and granting authorities. They have already determined an overall model and now we need to go into specific details for each contract. And with (inaudible) we have already started talking to them and we have been making progress. But the pandemic is not over, we are still in it. So, it is challenging for us to put these values into numbers. As soon as the pandemic is over, I think it will be a little bit easier to determine and quantify everything and to think about the rebalancing of a number of concessions. But we have been doing this work and we trust in it.

Q - Regis Cardoso {BIO 20098524 <GO>}

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Very clear answer. Thank you.

Operator

(Operator Instructions) Our next question is from (inaudible) JPMorgan.

Q - Unidentified Participant

Hi good morning. Two follow-up questions. First one is related to growth. Waldo said that you have a lot of financial robustness for the next projects, would you take into account any potential partnerships for other projects like NovaDutra or even for smaller projects. My second question is, when we think about COVID-19 rebalancing. I would like to understand this conversation with state agencies and NTP. Do you see many differences because we understand that it's going to take us a while to leave the pandemic behind of us, but do you see differences in the conversations you have between these two agencies?

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

First, let me talk about partnerships. I think the CCR Group is prone to collaboration. If you think about all of our concessions, we have a wide range of relevant concessions, where we have partners. Overall, we are always interested in discussion -- discussing potential partnerships. And of course, every partnership needs to be of benefit to the CCR Group. Our partners need to add some value to our operations and vice versa. That is how we partnership will create value, not only in the concession, but also for the shareholders of the CCR group. We have our strategies and we have our priorities, so we will follow them. If we see opportunities with partnerships, we will consider them but we are always ready to move ahead on our own because we are one of the biggest players in this industry.

Now, your second question has to do with COVID-19 rebalancing efforts. You asked, if we see any difference with state concessions or national concessions? What I would tell you is they shared the same backdrop. The impacts in a way are a little bit different and specific to each concession. Some concessions are at different maturity levels, so overall rebalancing efforts need to take all of that into account, so it's not about ANTT or ATESP [ph] actually, we need to have a case-by-case analysis to see how much a specific concession has been impacted. So for each concession, we need specific rebalancing efforts because sometimes we need rebalancing in fees or in investments or in concession rules. Of course, these are the most obvious items, but we need to analyze everything with any regulating authority.

Q - Unidentified Participant

Thank you very much. That was very clear.

Operator

Our next question is from Victor Mizusaki from Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi, good morning. Let me ask you one last question because, we always get questions about this specific point. Recently journalist Fausto Macedo released an article talking about the self constitutions. He used this terminology to talk about the Public Ministry of Sao Paulo and when we look at CCR's audited balance for the third quarter, we see that the Board of Directors does not have access to all the information. I would like to understand if these investigations entail risk of more fines for CCR?

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Thank you for your question Victor. That was clear. Can everyone hear me?

Q - Victor Mizusaki {BIO 4087162 <GO>}

Yes.

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

All the data that has been collected in the internal review process have been forwarded, for the applicable authorities here. The company is still collaborating with the authorities to clarify any facts that may have happened during the period, they are investigating. According to legal provisions, anything that is related to self constitution in the Ministry of Sao Paulo are confidential. What I can tell you is that thus far, with the information we've had access to we don't see anything to be disclosed.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. According to the explanation note, and to date there is greater focus on former executives of CCR instead of current liabilities for CCR right?

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Exactly. We are collaborating with the Public Ministry and we have been providing them with any clarifications they need. We will keep on cooperating with them in this sense.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Great, thank you.

Operator

This is the end of the questions-and-answer session. I will now hand it over to Mr. Waldo Perez for his final remarks.

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Thank you very much for attending our earnings release call. If you have any further questions, our Investor Relations team will be happy to answer them. Thank you.

Operator

This is the end of CCR's earnings release presentation. Thank you very much for your attendance, and thank you for using Chorus Call. Have a great day.

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