

## Q3 2021 Earnings Call

### Company Participants

- Aurelio Pavinato, Chief Executive Officer
- Ivo Marcon Brum, Chief Financial Officer

### Presentation

#### Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to SLC Agricola Third Quarter of 2021 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 that 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 this time further instructions will be given. Also today's live webcast, both audio and slide show may be accessed through SLC Agricola website at [www.slccagricola.com.br](http://www.slccagricola.com.br) in the Investor Relations sections by clicking on the banner webcast through Q '21. The following presentation is also available to download on the webcast platform.

The following information is available in thousand of Brazilian real in the IFRS except when otherwise indicated. Before proceeding, let me mention the 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 the future events and therefore depend on circumstance 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. You may proceed.

#### **Aurelio Pavinato** {BIO 16456795 <GO>}

Good morning. We would like to thank you all for participating in the conference call to announce the results of the third quarter of 2021 for SLC Agricola. This quarter was marked by the beginning of the control of the business management of Terra Santa Agro SA on July 1 of the year with the completion of the merger of Terra Santa Agro SA shares 2,516,000 new shares from SLC Agricola common shares were issued in favor of Terra Santa shareholders.

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On October 29, according to the material factor disclosed on that date, we finalized final price adjustments agreement between SLC Agricola and Terra Santa Propriedades Agrícolas resulting in payment in favor of SLC Agricola of BRL20 million. This value is broken down as follows, BRL12 million through the payment of finance advisory contracts, obligation contracts by Terra Santa with bank entities, and BRL8 million paid in Brazilian currency.

As you can see on Slide 3, the consideration transferred was BRL192.8 million. It comprises the value, the fair value of the shares issued. The cash consideration arising from the right to use the lease, the change in assets and liabilities, and finally at the present value of the tax credits. The value of goodwill generated in this transaction was BRL47.3 million arising from the ratio between the consideration transferred by SLC Agricola versus the value of assets and liabilities acquired.

On Slide 4, we also show that some assets and liabilities were not assumed by SLC Agricola thus surplus assets and liabilities provided for in the association agreement and other covenants will be carried out by the company and upon settlement will be received or collected from the former shareholders without burning our bonus on the part of the company.

The amount of the contingent assets and liabilities resulted in a net contingent liability of BRL53.8 million. Integration of the processes, systems and people is taking place gradually and in a very positive way taking advantage of the best proxy of both companies. The best combination is in line with our current strategy pursuing the achievement of the asset light growth pillar.

We can move on to Slide 6 where I will now comment on the market outlook. The third quarter of 2021 was marked by an increasing cotton price on the New York Stock Exchange spot contract where the price of fiber surpassed 100 cents per pound mark. The reduction in planted area in the American territory for the 2021-2022 crop cycle and in Brazil in 2021 crop year were the main reasons for price variations in prices from the point of view of supply.

Regarding the demand scenario, the growth of imports by China stands out where it is estimated at in 2021 cycle. The imported volume reached approximately 13 million bales, the highest in the last six years for 2021-2022 also the volume is also higher than the average of last six years. We see a volume of approximately 10.5 million bales. The increase in global demand for fiber and the scenario for reduced production in the main exporting countries are factors that have contributed to the global balance between supply and demand closing 2021-2022 in a deficit condition of approximately 2.3 million bales according to USDA estimates.

In soybean, during the third quarter of this year, the price observed in Chicago added to the premiums in Brazil and the exchange rate depreciation allowed pricing in real to reach levels higher than those observed in the best cycle and more recently results in price above the BRL170 per bag according to CEPEA's survey at the Paranagua basin, whose equivalent quotation would be \$13.5 per bushel. The sales volume of North American

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soybean has been an important support factor for the oil seed prices on the Chicago stock exchange since the volume committed to China, in general, total shows the normalization of sales between the United States and the Asian country.

At the global level for the current 2021-2022 cycle, the relationship between supply and demand should show a surplus of approximately six million tonnes following the positive balance of 3.2 million tonnes in 2021 and negative of 18.5 million tonnes in '19-'20. However, the confirmation of (inaudible) will bring important climate situation to the South region of South America, especially Argentina, which could lead to price instability.

Corn prices in the CBOT spot contract and in the Brazilian domestic market continued to show prices at levels above the historical average of recent years maintaining partially the upward trajectory starts in '20. Throughout the third quarter of '21, the scenario of demand measures mainly by US corn sales to China continued to support grain prices in Chicago. In the Brazilian scenario, where important second corn producing regions face adverse weather conditions for crop development. Production in 2021 hence ends at approximately 87 million tonnes, 15% lower than in the previous cycle. In the world scenario, the difference between supply and demand should present of volume of 25.7 million tonnes at consumption higher than production, which is also an important factor to be monitored as a guide in the formation of future corn prices on the international market.

After this summary about the market review, let's move on to Slide 8, where we present the final yields for the 2021 harvest. We intend that -- we end 2021 harvest with good results. Operational efficiencies deliveries that demonstrate our pursuit of a distance from the national average. Another strong pillar of our current strategy.

In soybeans, the pivot reached 3,970 kilograms per hectare fourth consecutively year of records and 12.5% higher than the national average. Cotton, from first and second crop harvest ended with an average yield of 1,850 kilograms per hectare, 5.6% higher than national average. In corn's second harvest we've obtained 5,715 kilograms per hectare of productivity, 31% higher than the national average. The productivity realize in -- was below the estimated potential due to the irregularity in the distribution of rain volumes throughout the months of March and April mainly the farms of South Mato Grosso.

On Slide 9, we show the results of the independent land valuation for '21 carried out by Deloitte. In August, the new evaluation of SLC Agrícola's land portfolio was completed, which had a total value of BRL6.90 billion, an increase of 75.2% compared to 2020. The average value of our arable land is currently at BRL35.7000 per hectare which brings our NAV to BRL8.3 billion which corresponded to NAV per share of BRL43.34 per share.

Now I would like to turn the floor over to my colleague, Ivo Brum, CFO and Investor Relations Officer for comments on the main financial indicators.

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

Good morning, everybody. Can we please move on to Slide 11 where we bring you some highlights of our income statement for the third quarter of 2021. Before analyzing the

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numbers we would like to point out that as we took over the management of Terra Santa Agro business in the quarter, the consolidated interim financial statements also include the result of Terra Santa Agro to enable comparability between periods for third quarter 2020 and nine months '20 reflect a combination of data released by SLC Agricola and Terra Santa in both periods.

Our analysis were conducted in relation to the combined net periods. Net revenue of 2.4% in the third quarter of 2021 and 33% in nine months of 2021 compared to the same period of the previous year. Highlights, higher price invoiced in both periods it should be noted that this quarter, we had the contribution off BRL112 million in net revenue from Terra Santa. In the quarter adjusted EBITDA was recorded ending at BRL330 million, an increase of 36%. The adjusted EBITDA margin was 34%, an increase of 7.8 percentage points compared to the third quarter of 2020.

The main variation in the quarter were the higher gross income from crops added to the measurement of the fair value of investment properties partially offset by general and administrative expenses. Our adjusted EBITDA from Tara Santa operation in the quarter was BRL17 million. In nine months of 2021, we reached an important milestone for the nine month period surpassing for the first time BRL1 billion with a realization of BRL1.1 billion in the adjusted EBITDA, an increase of 94% compared to nine months of 2020. The adjusted EBITDA margin was 39% with a growth of 12.5 percentage points.

The relevant advance in the adjusted EBITDA shares substantially to the increase in gross income reflecting higher invoiced price for all crops and productivity achieved for soybeans. This important -- It is important to highlight that the new valuation of SLC Agricola's subsidiary close land portfolio which presents our total value of BRL6.9 billion, an increase 75% compared to 2020. Invested properties areas leased to third-party had an appreciation of BRL106 million impact backing the third quarter result.

We reached a new -- net income of BRL113 million into the third quarter of 2021 and BRL937 million in the nine months of 2021. In the quarter, the net income from the Terra Santa operation was BRL20 million. In both periods we had a very robust growth and increase in net margin of 18 percentage points in the quarter and 19 percentage points. That relates to nine months. The main factors that contributed to this variation were the increase in the gross revenue, the effect of better sales, the price revision it and the positive effect of accounting dynamics for Biological Assets were due to the expectation of higher margin compared to the previous cotton year.

We can move on Slide 12, where we present the company's adjusted net debt. We ended the third quarter of 2021 at BRL2.2 billion, an increase of BRL1.5 billion compared to the fourth quarter of 2020. Net debt was mainly impacted by increase in the working capital needs, the investment in the acquisition of Terra Santa Agro, and a new lease agreement with Agricola Xingu. The net debt to EBITDA ratio is currently 1.4 times.

On Slide 13, I would like to highlight three important events with Board approval. On 7 September '19 was approval to buy two million shares, on November 10, the approval to

proposal bonus shares of 10% ratio. So the next stage we will have a shareholder meeting to analyze it.

I will now turn the floor to Pavinato which will present perspective for the next quarter.

### **Aurelio Pavinato** {BIO 16456795 <GO>}

Yes, can we go to Slide 15. In September, we start the crop year 2021-2022 with an expectation of planting 668,000 hectares, a 44% growth compared to the previous crop year. This strong growth in the planted area reflects the last two operations completed by the company. the business combination with Terra Santa Agro SA and the lease agreement with Agricola Xingu.

Planting is progressing very well within the ideal window so that we currently have 82% of the planned area for soybean already planted. Short cycle varieties are plenty, 100% in the best window for our high production potential and enable the planting of second crop areas of corn and cotton in the best window as well. So far the crops are showing excellent development.

In terms of yield on Slide 16, we present our initial estimate for 2021-2022 harvest. I emphasize that our estimates are based on historical data and take into account our conservative basis scenario.

Regarding cost per hectare on Slide 17, we can see an estimated increase of 16.1% compared to the previous crop year in real terms. The main factors that contributed to these increases are a higher price for our main inputs notably seeds and fertilizer, higher fuel and energy costs due to the price and tariff increases respectively, increase in leasing costs since the percentage of planting on leased land increased to 69% in the current crop year versus 58% in the previous crop year and also due to the increase in the value of the soybean bags in reals which is the indexation of the contracts. These increases are naturally being offset by sales price increases as we can see on the slide where we present the hedge table for the next crop.

We are advancing our hedge position for 2021,2022 harvests reaching international price level that allow us to maintain excellent margin in 2022.

Additionally, we've already rolled in the hedge for the 2022-2023 harvest. Due to the up some inputs, we had already purchased around 20% of the demand of chemicals and 70% of the demand of potash for both products, the price we purchased were lower than the current price marked especially for potassium. Our strategy for purchasing the rest of the inputs is to wait for an equity exchange ratio between the input prices and commodity prices as there has essentially been a strong increase in input prices.

I emphasize that our hedging strategy is aimed to protect and stabilize the company's operating margins and our track record of validation of this policy. Regardless of the short-term fluctuations in input and commodity prices.

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SLC Agricola SA achieved the strong growth in terms of planted area this harvest due to the incorporation of Terra Santa Agro and the lease agreement with Agricola Xingu and to adapt international -- the internal structure to support this new cycle we are disclosing today communicate to the market the new structure of the operational department.

The operation department was divided into two departments, two offices, production, seed production and supply office and operational office. The officer Gustavo Lunardi remains in the Supply and Seed Production Officer and the Operational Officer has been taken by Mr. Leonardo Celini, he used to be Regional Manager, Rio Grande do Sul until now and from now on he is our new Operational Officer. We announce it today for the company and announce to the market this increment on our officer to support this expansion in terms of supply, seed production and the production of our commodities.

Finally, on Slide 20 we comment on some actions taken is in terms of ESG. We are conducting a new Materiality survey of our stakeholders which will be used to review the topics of greatest interest and strategic relevance. That is -- those that can be influenced by seasonal actions of the organization and it's stakeholders reflecting significant economic, environmental and social impact inside and outside of the organization. Based on this priority teams will be identified that will be present and validated by the company senior management and will support the construction in the 2021 integrated report.

In view of the socio-economic crisis that Brazil is facing due to the pandemic, this quarter SLC Agricola donates through the SLC Institute 108 tonnes of food that will be contributed to improve the reality of thousands of Brazilians. One of the institutions benefiting from the food bank is Rio Grande do Sul. In all associations of entities and families from more than 30 municipalities located in seven Brazilian states received food baskets.

Thank you and now we will open the call to the question session.

## Questions And Answers

### Operator

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

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