

Q4 2012 Earnings Call

Company Participants

- Eduardo Pelleissone, CEO
- Rodrigo Campos, CFO, IRO
- Unidentified Speaker, Unknown

Other Participants

- Antonio Barreto, Analyst
- Mark Suarez, Analyst
- Stephen Trent, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to America Latina Logistica, ALL's Fourth Quarter 2012 and 2012 earnings conference call. Today with us, we have Eduardo Pelleissone, CEO and Rodrigo Campos, CFO and IRO and Carlos Eduardo Baron, IR Manager for ALL.

We would like to inform you that this event is being recorded and all participants will be in a listen only mode during the Company's presentation. After ALL's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions) We have a simultaneous webcast that may be accessed through ALL's IR website, www.all-logistica.com/ir.

The slide presentation may be downloaded from this website. Please feel free to flip through the slides during the conference call. There will be a replay facility for this call for one week.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of ALL 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 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 ALL and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Rodrigo Campos, CFO and IRO for the Company for a brief explanation of how ALL's figures are presented and then Mr. Eduardo Pelleisone, CEO, who will start the presentation. Mr. Campos, you may begin the conference.

Rodrigo Campos {BIO 16203706 <GO>}

Good morning, everyone. Prior to pass to Eduardo in order he can speak about the numbers of 4Q in 2012, I would like to make a comment on the numbers we will release throughout this presentation.

As you know, we have created Brado in 1st April last year and we created Ritmo in 1st July last year. So in order, the results be comparable with last year, we are considering pro forma numbers of Brado and Ritmo as if Brado and Ritmo were created in 1st January. So when we talk about companies itself, we will compare with the pro forma numbers. When we talk about consolidated numbers, we will be talking about the release numbers in 2012 compared with release numbers in 2011.

And one additional point, our EBITDA and adjusted EBITDA is that we are reporting in this presentation is already in accordance with CVM instructions 527 which aims to standardize the EBITDA of release in all -- among all Brazilian companies. So we are ready in accordance to this resolution and we are comparing to 2011 EBITDA also according to this resolution to be comparable. With that, I pass to Eduardo to start the presentation.

Eduardo Pelleisone {BIO 7120426 <GO>}

Thank you, Rodrigo. Good morning, you all. I will start with the First Quarter and 2012 highlights.

Our consolidated EBITDA grew 10.4% in a better market scenario as we faced in the Third Quarter of 2012 especially in agriculture business where the second corn crop increased almost 85% against 2011.

Important to mention that the second corn crop is representative in the states of Mato Grosso, Mato Grosso do Sul and Parana but is not in Santa Catarina and Rio Grande do Sul whereas the first half of the year crop shortfall was pronounced as a result the total crop in 2012 increased only 3.6% in our coverage area compared to 2011.

In industrial business, the market environment was also challenging as the industrial production fell almost 3% in the First Quarter of 2012 compared to 2011. The real volumes increased 7.2% in the First Quarter in Brazil pushed by a 12.1% growth in agricultural segments.

Our average yield grew 5.7% reflecting inflation and diesel pass through and how were take or pay contracts and our better freight price in spot market mainly in that agricultural segments reflecting a better corn and sugar export scenario which was 21% higher than in the First Quarter 2011.

Rail operations EBITDA margin increased almost 1% reflecting a good cost control that happened all over the year.

Brado's EBITDA increased 10.4% to BRL10 million. In Ritmo, our EBITDA increased 24.8% to BRL8.4 million pushed by a good growth intermodel volumes we exchange from 0 to 6.3 million driving kilometers in the First Quarter of 2012.

We concluded the investment on the extension of our large gauge rail network to Rondonopolis, an important step to ALL rail operations become free cash positive.

Going to slide five talking about ALL consolidated results, our EBITDA increased 10.4% in the Fourth Quarter to BRL332 million and went up in 2012 to BRL1,683.7 million.

Our net income grew BRL12 million in the Fourth Quarter and went down 3.1% in 2012 to BRL237.3 million. It's important to mention that excluding Brado's creation non-cash gain of BRL34 million in 2011, our net income increased 12.5% in 2012.

Going to slide six, talking about the rail operation in Brazil. As I mentioned, we had a good agriculture market in the states of Mato Grosso, Mato Grosso do Sul. And Parana. The rail volumes increased 7.2% in the Fourth Quarter pushed by a 12.1% growth in commodities driven by productivity improvements and our average yield increase 5.7% as I mentioned before.

Our EBITDA grew 15% to BRL324.3 million in the Fourth Quarter and our EBITDA margin increased 0.7% reflecting a good cost control.

Going to slide number seven, talking about agricultural commodities, as I mentioned our last call is the first crop decreased 15.6% in ALL region. The second corn crop which harvest began in the end of July increased almost 85% as a result, the total crop in ALL coverage area grew 3.8% in 2012. So as we faced in the Third Quarter, we faced in the Fourth Quarter 2012 a good market in the corridors of Mato Grosso to Santos and Parana to Paranagua and a very tough market in the states of Santa Catarina, Rio Grande do Sul.

In that scenario, our volumes grew 12.1% in the Fourth Quarter of 2012 and 9.1% in 2012. Our market share in the ports of Paranagua, Sao Francisco, Rio Grande. And Santos decreased from 77% to 71% and the corn and sugar exports increased 21% in the Fourth Quarter of 2012.

Going to slide eight, our net revenues grew 18.1% in the Fourth Quarter and driven by a 12.1% growth -- volume growth and a 5.3% increase in yield. Our EBITDA grew 19.9% to BRL264.2 million and our EBITDA margin increased from 49.8% to 50.5% with a good cost performance.

Going to slide number nine, talking about industrial products, in the industrial segment, volumes decreased 6.7% in the Fourth Quarter and 5.3% in 2012. In intermodel flows, volumes were down 6.4% impacted by lower iron products transportations between

Corumba in the states of Sao Paulo. Pure rail flows volumes decreased 6.8% in the Fourth Quarter, driven by a week volumes and construction segment.

Going to slide number 10, our net revenues went down 2.6% in the Fourth Quarter driven by a decrease in volumes and partially offset by a 4.45 increase in yields. EBITDA decreased 2.3% to BRL16 million in margins grew to 46.6%.

Going to slide 11 talking about Argentina. In Argentina, as we've been explaining, we faced a very tough market as of the soy production in ALL coverage areas decreased 50% when compared to 2011. Our volumes decreased 28.6% in the Fourth Quarter and our yield increased almost 73.8% in the Fourth Quarter of 2012 reflecting our rail cost pass-through and 1.2% exchange rate variation. Now I will pass the word to Rodrigo Brado, Ritmo. And our financial statements.

Rodrigo Campos {BIO 16203706 <GO>}

Thank you, Edward oh. Going to slide 12 where we show the Brado volumes, we see that the 4Q was very significant previous quarters of the year. Brado's volumes increased close to 10% in Q4 with material volume increase in the court orders that we had rolling asset throughout the year.

So in the Rio Grande corridor, volumes increased more than 50%. In Wild Guage corridors volumes increased more than 20%. The volume growth could be even better if we had a better performance in Mercosul. Mercosul corridor volume decreased 20% driven by the customs restrictions in Argentina that we are seeing throughout this year.

When we look 2012 volumes, our volumes increased 12% in the number of containers and 12.2% in RTKs.

Going to slide 13, we see that the net revenues of Brado grew 9% in 4Q reaching BRL62 million and adjusted EBITDA increased 10% to BRL10 million in the quarter. In 2012, the net revenues increased 16% and adjusted EBITDA increased almost 20% through the all the year.

When we go to slide 14 and we start to talk about Ritmo Logistica, our trucking business, we see that Ritmo had a very good quarter reverting the trend of the previous quarters throughout the years.

Our volumes increased 14.3% in 4Q. We keep growing volumes in Intermodel business. Remember that Ritmo started to operate Intermodel business which are all this cargo which exist around the rail network so all of these trucking connections to the ALL rail network. So Ritmo has started this business unit this year and is growing volumes quarter by quarter and the volume in the 4Q increased almost 15% as compared with 3Q 2012.

And we also have a good quarter in dedicated solutions unit with volume and margin growth in general cargo and a better quarter in the automotive segment. As you know, we

discontinued an operation of GM and the volumes are lowered throughout the year. But we were able to increase tariffs and adjust results of automotive segment for this new restructure. In 2012, Ritmo's volumes increased 16% pushed by the Intermodel volumes.

Going to slide 15, we see that net revenues grew 13.3% in the 4Q and adjusted EBITDA increased almost 25% in 4Q, a very good result and in 2012, revenue grew 16% pushed by Intermodel revenue and adjusted EBITDA grew 1.3% to BRL26.2 million.

Going to slide 16, we see that our revenues grew 11.4%. Our EBITDA on slide 17 grew 7% during the year and despite all of the weakness in the industrial production in Brazil and a very tough scenario we faced in the first half of 2012 in the agricultural commodities and our margins, our consolidated margin went from a 49% to 47%. Here is an important point to explain.

This reduction in consolidated margin is related to a mix effect because we increase margins in our rail business also margins were good in Brado and Ritmo. But Brado is a new business with a margin around 20%. Ritmo is a business with a margin of around 10% as compared with a 50% margin of the railroad business.

So at the end of the day, the changing mix made the margin vote down even considering that margins are increasing when we look business by business.

On page 18, we can see our net income. Our net income when you exclude the fact that gained we had in the creation of Brado in 2011, the net income grew almost 12.5% as compared to last year to BRL237 million.

On slide 19, we see our leverage, our net financial debt with adjusted EBITDA ratio. If so we ended 2012 with a ratio of 2.3 times and important to mention here as Eduardo commented in the beginning of the presentation, is that with the conclusion of Rondonopolis, our CapEx went down to the normal organic growth level, around BRL700 million and we have all of the cash generation of our normal organic growth plus all of the cash generation related with this in new line to Rondonopolis.

So at the end of the day, the inclusion of Rondonopolis is a very important step in our cash flow generation. With that, I pass back the word to Eduardo Pelleissone.

Eduardo Pelleissone {BIO 7120426 <GO>}

Thank you, Rodrigo. For additional comments, first our CapEx for organic growth was progressing as expected and an amount of BRL665 million in 2012. Rondonopolis is well underway to start operation in the Second Quarter of 2013. It still depends on obtaining the operational license, which should happen them by the end of April.

In addition, the initial projections for 2013 are also optimistic. As the first estimate from Conab points to a 12% of total crop increase in ALL coverage area when compared to 2012 and industrial volumes will benefit from the ramp-up of Eldorado Project.

In Vetria, Coffey Mining concluded the first phase of that the Evaluation of Mineral Reserves, which estimates 10 million tons of inferred mineral reserves. As this was an initial estimate of 1 billion tons.

That being said, we will start the Q&A.

Questions And Answers

Operator

Thank you. The floor is now open for questions. (Operator Instructions). Our first question comes from Antonio Barreto with Itau. Please go ahead.

Q - Antonio Barreto {BIO 17449798 <GO>}

Good morning, Rodrigo. Good morning, Eduardo. My first question is how do you see the risk for competition on the transported volumes and that the new government tracks are likely to bring?

I'm asking this because looking at the minutes from the tender document at that the government released, they related the demand study where they talk about competition between the Lucas do Rio Verde and ALL's (inaudible). Do you guys agree with that? Do you guys have any kind of assessment for us to get an idea of what kind of demand risk we are exposed here?

A - Rodrigo Campos {BIO 16203706 <GO>}

Antonio, when we think about this thing about competition that you mention, it's important to mention that the new resolution, the new regulatory framework for railroad is in place since August 2011 and a very is no operator running in my rail network which is not me.

All the trains running are ran by ALL because you know that in the real business of this scale is a key thing. Know how is a key thing. So the new regulatory framework has almost one year and a half so we don't see with caution all of these new regulatory framework.

I would say that to we were supporters of the new regulatory framework. It makes it possible to create Brado, to create Ritmo and we are seeing no competition in our rail network today.

When we talk about the new concessions, there is a project to reach Lucas do Rio Verde as you said but if you look at the distances involved on the project, the only viable alternative keeps being the route from Mato Grosso to Santos. The distances much lower when you compare one railroad with the other. So I see no impact of this new project when it happens.

A - Unidentified Speaker

Just to add to Rodrigo, we'll talk about the competition now that the government has said, the competition that they're talking about is from is the corridor to Mato Grosso do Santos that is operated today by ALL and the new corridor from Lucas do Rio Verde to Itaqui. From going from Lucas do Rio Verde to Itaqui, you have to spend something like 1.5 thousand kilometers more than in the corridor from Rondonopolis to Santos, 1.5 thousand kilometers more than in our corridor doesn't seem to be too much competitive.

Q - Antonio Barreto {BIO 17449798 <GO>}

Okay, that's perfect. Very clear, guys, thank you.

And my second question is can you help us estimate what is the additional volume in RTKs that you guys expect just by concluding that the Rondonopolis project considering that you guys expect it to be done if I'm not mistaken by the end of April.

And if you guys would just to give an idea of if this product slides by one month, let's say. And considering that the bulk of the Brazilian harvest is supposed to be transported to the next couple months, what would be the impact on those volumes?

A - Unidentified Speaker

Let me try to answer your question. The bottleneck for transporting my volumes is still our capacity. What we are going to do at the point that we start operating Rondonopolis, all the volumes that we are doing at Outa Laguio will transfer to Rondonopolis. When we transfer that volume from Outa Laguio to Rondonopolis, that creates an impact of 20% in our volumes from the corridor from Mato Grosso to Santos.

About the crop, the crop seems to be very good. We depend on the weather conditions for the Second Quarter crop. But all the time you have a lot of volume like it seems to be this year, we can fulfill our capacity for the whole year.

Q - Antonio Barreto {BIO 17449798 <GO>}

Okay, thank you.

Operator

The next question comes from Mark Suarez with Euro Pacific Capital. Please go ahead.

Q - Mark Suarez {BIO 16366613 <GO>}

Good morning, guys. My question pertains to if we can begin with container volumes I see that it's been accelerating for the past I will say since the beginning of the year which is a good sign and I see Brado volumes continuing to increase and in the Rio Grande corridor, the Wild Gauge in Q4 and I'm wondering to what is really driving that?

Is it just a matter of you adding capacity and volume is already there or is it a matter that you are now bringing in new clients and they're beginning to be aware of is the kind of

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product and the kind of service to you are offering and that is actually spurring more demand?

A - Unidentified Speaker

Mark, I would say both things. Of course we have a very small market share in Brado, around 2% and when we compare to the model we have and railroad transporting container with other countries we could reach 40%, 50%, 60%.

The logistics solution of Brado as compared it to the logistics solution in Brazil which uses the truck is much, much more economic, much more efficient. So along the time -- so the migration of the containers from the trucks to Brado, I think it's a normal thing. It's a gradual path considering that the clients should it get used to that, these clients are a very well service level and our growth rate reflects a lots -- it is the increasing existing clients plus the addition of new clients in Brado.

So at the end of the day, we have been growing volumes a lot, adding new clients, adding more volumes than existing clients. And it's not -- and the growth in Brado could even be higher if not for the restriction problems that we have in Argentina which is a representative corridor for Brado because in the rest of the corridors who volumes are growing very fast.

So as we add capacity, we should it take market share in Brado and we expect to increase the market share of Brado to 12% in five years.

Q - Mark Suarez {BIO 16366613 <GO>}

Great. And now we can just turn to the industrial volumes. I know industrial volumes have been weak. We been talking about especially construction. I know iron ore demand, internal demand from Mato Grosso to the state of Sao Paulo has been fairly weak if you compare it to 2011.

And another, you mentioned Eldorado segment could actually offer in material volume potential. I'm wondering what are your expectations are for that project if you have any volume expectations for this year and what timing in terms of volume ramp-up do you see as you go from quarter to the next?

A - Unidentified Speaker

I believe that in the middle of 2013, volumes will be full at Eldorado so we will have a easier, Eldorado is already operational. It started to operate at the end of last year and the volumes are ramping up. So this year we will have something, a very close to a full year. We will not have a full year but very close to a full year.

So it's very positive and the other thing which is good is that it's very hard to think 2013 as a similar year and industrial segment as 2012 given that 2012 was a year of industrial productions going down and it's hard to make an estimate of the economic activity for 2013. But it should be a much better year than 2012.

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Q - Mark Suarez {BIO 16366613 <GO>}

Okay. Great. And now turning to regulation, I know that there's been a new track legislation effectively lowering the hours and the just talking to shippers, talking to some of the transportation providers over the past two months or so, we get the sense that could potentially benefit demand for rail as well as (inaudible). Have you seen that impact your business so far or do you expect that to maybe change the game as we go through this year?

A - Unidentified Speaker

Mark, it's good to separate two things. There is a lot of news about freight price increasing in the First Quarter and so on when you compare with 2011. But it's good to remember that in Q1 2011 in Q2 2011, the freight prices in the spot market went down almost 30% last year. So if you come back to our results we explored the last year very well is the point of freight pricing going down.

So when we look to prices in first Q and probably second Q 2013 and when you come back to normal prices, prices which prevailed in 2010 for example, which represents a big increase compared with last year, where that crop in our region for example decreased like 15%.

So it's a natural recovery of the freight price for the normal price just all of these prices increases, all of these new price increases are much more related to a very low base in 2011.

But when we go to the legislation you mentioned, it was exactly your question, it's important to mention that it's still not affecting prices and once the enforcement of the legislation starts to be in place in March, this is a legislation which was put in place in September last year. But I mean, given all of the protests and all the strikes in September, the government postponed the enforcement to March.

So the effects of this law we will see ahead and this is a legislation that could have an impact mainly in the medium and long distance rules. But today in the price, I see no effect of the new legislation.

Q - Mark Suarez {BIO 16366613 <GO>}

Okay. Great. That's all I got for now. Thank you, guys.

Operator

Your next question is from Stephen Trent with Citi. Please go ahead.

Q - Stephen Trent {BIO 5581382 <GO>}

Hi. Good morning gentlemen. Just two questions from me. I was wondering what's your take on your longer term strategy for Brado, whether you move ahead it with an IPO or you end up consolidating some piece of this?

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And then the other question that just pertains to yields. We did see something on diesel price increase out of Petrobras and I'm wondering if there is some possibility that you guys benefit from that or if there's going to be some kind of tax offset to that price increase? Thank you.

A - Rodrigo Campos {BIO 16203706 <GO>}

Stephen, this is Rodrigo. First, Brado, our plan is to bring an investor to the business and bring some additional money to Brado to finance all of the investments we have in the next five years. We have CapEx plan of BRL1 billion in order to increase our market share to 12%. So in order to do this, we should bring an investor to the project. Not an IPO for now. Our intention is to bring private equity investor to our business in this moment.

And regarding as the diesel price increase, the announcement is talking only about the diesel price increase, not about some compensation reduction of tariffs at this point. But all of the net effect that we have in the diesel price we pass through to our clients at the same date.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay, very clear. Thanks, Rodrigo. I'll let someone else ask a question and maybe I'll come back with a follow-up.

Operator

The next question comes -- (Operator Instructions) Our next question comes from Victor Mizusaki with UBS. Please go ahead.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning. Just two quick questions. The first one. We continue to see a very challenging situation in Argentina. So I don't if you can give some color about the divestment process.

And my second question, local papers such today said that ALL has plans to invest in ports. So I don't know if you can comment a little bit more about this plan and how could you finance your participation in these auctions.

A - Unidentified Speaker

Victor, first, in Argentina it's not a secret that we are trying to leave Argentina but there is no news I can give you about that right now. It's important to mention that 2012 was a typical year even for Argentina. The crop in Argentina dropped a very severely. If you take soybean crop around 50%. So it was a year of a very tough market scenario and our results reflected that.

But in a normal year in Argentina results would be more calibrated. What I mean is in Argentina our review of Argentina is a business is that we grow, the growth is very small if

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they have some demand a lot of time, a lot of attention of the management so that's the reason why we want to leave the country.

A - Eduardo Pelleissone {BIO 7120426 <GO>}

About the ports, Victor, Eduardo speaking. We are not planning to finance any investments in ports facilities. What is natural is everyone wants to invest in ports facilities call ALL because ALL can ports and bring volumes to the railroads for those projects.

So if we're going to make some port on that kind of deal it's going to be through volumes that we could bring for the port facilities.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay, thank you.

Operator

(Operator Instructions) We have a follow-up question from Stephen Trent with Citi. Please go ahead.

Q - Stephen Trent {BIO 5581382 <GO>}

Hello good to be with you again, gentlemen. I just thought I'd take the opportunity to see if you have some kind of update on what might be occurring with Cosan and the negotiations with the controlling shareholders. That would be great.

A - Eduardo Pelleissone {BIO 7120426 <GO>}

Stephen, Eduardo speaking. I would have no news about that deal.

Q - Stephen Trent {BIO 5581382 <GO>}

Okay. I appreciate that, Eduardo, thanks. That's all for me.

Operator

Thank you. We have no further questions at this time. I will now turn the call back over to Mr. Eduardo Pelleissone for final considerations. Mr. Pelleissone, you may give your final considerations at this time.

A - Eduardo Pelleissone {BIO 7120426 <GO>}

Thank you, all, any additional questions, please contact our investor relations team or visit our website. Thank you.

Operator

Thank you. This concludes ALL's Fourth Quarter 2012 and 2012 earnings conference call. You may disconnect your lines at this time.

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