

Q3 2021 Earnings Call

Company Participants

- Andrea Fernandes, Investor Relation Director
- Marcello Guidotti, Chief Financial, Investor Relations Officer and Human Resources Management

Other Participants

- Luiz Pecanha, Analyst
- Murilo Freiburger, Analyst
- Regis Cardoso, Analyst
- Thais Cascello, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning, and welcome to Ecorodovias' Third Quarter of 2021 Earnings Conference Call. With us here today are Marcello Guidotti, CFO and IRO; and Andrea Fernandes, IR Director. This presentation is being recorded. And all participants will be in listen-only mode during the presentation. After that, we will begin the question-and-answer session for analysts and investors only when further instructions will be provided. (Operator Instructions) The audio and the slides of this conference call are being broadcast simultaneously at ri.ecorodovias.com.br, where you will find the presentation for download from the webcast platform in the Investor Relations section.

Before proceeding, we would like to clarify that the forward-looking statements that may be made during this conference call relating to Ecorodovias' business prospects, projections and operational and financial targets are based on the management's beliefs and assumptions as well as on currently available information. They involve risks, uncertainties and assumptions as they refer to future events and hence, depend on circumstances that may or may not occur.

Investors should understand that general economic conditions, industry conditions and other operating factors may affect the future performance of Ecorodovias and lead to results that differ materially from those expressed in such forward-looking statements.

I will now turn the floor over to Ms. Andrea Fernandes, who will discuss the third quarter of 2021's results. Ms. Andrea, you may proceed.

Andrea Fernandes {BIO 21294199 <GO>}

Good morning. Welcome to Grupo EcoRodovias conference call today discussing the earnings of the third quarter of 2021. We thank you all for your interest and participation. The third quarter was marked by some important achievements. We signed the contracts for federal concession, BR-153, Tocantins Goias, to operate it for 35 years, in line with the company's growth strategy.

In September, the Shareholders Meeting of Holding do Araguaia approved the issue of BRL1.4 billion in incentivized debentures with maturity of 15 years for the payment of promissory notes issued in August 2021. The ESG agenda continues to progress. The company conducted a study of its main risks and vulnerabilities related to the effects of climate change for the years 2030 and 2050 and its operations. The study was carried out at all of the group's units and pointed the key risks in our highways, considering five climate-related events; floods, landslides, heatwaves, strong winds and rising sea levels. The findings of the study will help the company in its preparation to address climate change by making both structural changes and adapting its operational strategy. More details on our ESG agenda are available on Page 2 of the earnings release.

Moving on to operations performance on Slide 2. We can see the monthly evolution of consolidated traffic and comparable traffic during the first nine months of 2021 compared to the same periods in 2020 and in 2019. It's important to note that in the months of July, August and September 2021, comparable traffic presented an increase of 1.8%, 3.3%, and 5.5%, respectively, compared to those months in 2019.

As for the third quarter, we see on Slide 3 that the variation of consolidated traffic posted an increase of 17.7%. Excluding the start of operations at Ecovias do Cerrado, comparable traffic presented a 7.9% increase in the quarter due to the flexibilization of social distancing measures and the progress of the vaccination campaign. The highlight is light vehicles with an increase of 12%.

As for the group's consolidated financial performance on Slide 4, we see the evolution of gross revenue with an increase of 19.3% in the third quarter. Excluding construction revenues, gross revenue increased by 19.6%, driven by the start of toll collection at Ecovias do Cerrado, traffic increase and tariff adjustment. The highlight is the increase of a BRL127.9 million in electronic toll collection, AVI.

On Slide 5, we show gross revenue in the nine months of 2021, which increased 20.3% and 15.7%, when we exclude construction revenues. Note the increase of BRL415.2 million for highway concessions.

On Slide 6, net revenue excluding construction revenue grew 19.7% in the quarter and adjusted cash costs amounted to BRL285 million. This increase in cash costs is mainly due to higher personnel expenses caused by a wage increase in March 2021, provisions for the demobilization of Ecocataratas and Ecovia Caminho do Mar due to the termination of the concession agreements in November 2021, increase of operations at Ecoporto, a normalization of conservation and maintenance expenses in 2021.

On Slide 7, adjusted EBITDA amounted to BRL636.4 million in the third quarter. That's 20.6% higher year-on-year with an EBITDA margin of 69%. The adjusted EBITDA for the nine months of 2021 was of BRL1.8 billion, as we can see on Slide 8.

On Slide 9, we see the evolution of net income in the third quarter of 2021, up BRL72.1 million, vis-a-vis, the third quarter of 2020. Net income was affected mainly by the EBITDA increase in the quarter and by the reversal of the provision for fines in the Civil Non-Prosecution Agreement in the third quarter of 2021, which was not ratified as per the Material Fact disclosed by the company in September.

Net income in the nine months of 2021 amounted to BRL359.1 million, as you can see on Slide 10. As for investments on Slide 11, CapEx in the third quarter of 2021 reached BRL892.8 million, considering the payment of concession fee for Ecovias do Araguaia, amounting to BRL357.5 million. The highlight is the road widening works and conservation works at Eco135, Eco050 and Eco101, as well as special road conservation works at Ecocataratas, Ecovias do Cerrado and Ecosul.

On Slide 12, we closed the quarter with net debt of BRL7.3 billion, an increase, vis-a-vis, the previous quarter, due mainly to the issue of promissory notes at Holding do Araguaia in the amount of BRL1.4 billion. The proceeds from said issue were used for capital injection in Ecovias do Araguaia and a deposit of BRL1.1 billion in the reserve account, as well as payment of the concession fee of BRL357.5 million. Leverage measured by the net debt over adjusted EBITDA indicator was of 3.1 times compared to 2.6 times in the second quarter of 2021.

Moving on to Slide 13. We closed the quarter with cash balance of BRL3.4 billion, which represents 0.7 time the short-term debt. Maturities in 2022 total BRL4.2 billion and are distributed as follows: BRL1.1 billion at Ecorodovias Infraestrutura e Logística; BRL592 million at Ecorodovias Concessionaires e Serviços; BRL962 million at Ecovias dos Imigrantes and BRL1.4 billion at Holding do Araguaia, which will be settled using the net proceeds from the first issue of the incentivized debentures for a term of 15 years.

On Slide 14, we see Ecorodovias' growth drivers. The capitalization of the company in the amount of BRL1.7 billion, as well as partnerships in future bids, target projects that generates cash already on day zero, extension of the contracts for Ecovias dos Imigrantes. Dividend distribution in line with the growth cycle and future cash generation are factors that make us comfortable with the company's financial and competitive capacity and will allow us to seek investment opportunities in the Brazilian highway market.

Slide 15 shows the main milestones of the deliveries at Ecovias do Araguaia. Since the winning of the auction in April of this year, Holding do Araguaia had financing for the payment of the concession fee and deposit in the -- in capital injection to fulfill concession obligations between August and September. In September, the concession agreement was signed and in October, we signed the term of listing and transfer of assets, as well as the construction agreement to carry out the works that are mandatory as per the concession agreement.

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Slides 16 to 21 present the main ESG indicators, in particular the enhancement and inclusion of new ESG goals for the leadership. The company continues to study the upcoming highway concessions and the federal concessions in Parana, CRT and TriAngulo Mineiro in the state of Minas Gerais.

This concludes our presentation. We would like to move on to the questions-and-answer session. Operator, we are ready for the questions from our analysts and investors. Thank you.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session for investors and analysts. (Operator Instructions) Our first question is from Regis Cardoso, Credit Suisse.

Q - Regis Cardoso {BIO 20098524 <GO>}

Good morning. Congratulations on the results. Two quick questions here from my side. One of them about the CapEx level in the third quarter. I wanted to understand if it's closer to a normalized level or if there was any one-time event effect because we saw a relevant increase, even excluding the BRL358 million, the BR-163 [ph] [BR-153] [sic] and the annual comparisons. There has been a considerable increase.

And my other question is, if this leverage level of 3.1 is a limiting aspect in the decision to participate in future bids. Of course, the main event in terms of size of concession is Dutra now this week. So what are the alternatives to participate or -- and not having any leverage issues? If you can talk about the covenants, I know that there is a covenant of 3.5, but sometimes it's distributed in the subsidiaries. So if you can talk a little bit about this firepower, BR-153, I don't know if I said it.

A - Marcello Guidotti {BIO 16618352 <GO>}

Good morning, Regis. It's Marcello. Thank you for your question. About CapEx, as you said, excluding the payment of the concession fee for Ecovias do Araguaia BR-153, CapEx in this quarter is more normalized. There was some postponements in the first and second quarter that were normalized now. So, we expect the fourth quarter to be at the same level of the third quarter. So it's more of a seasonal effect, I'd say since the works were delayed for operational reasons, nothing that we couldn't overcome. But now they're being realized. So both with the Eco135, Eco101, that's still in its construction cycle, Ecovias do Cerrado as well coming in. So, I think it's what was expected. It took a little time in the first and second quarter, but now it's started in the third quarter and will remain in the fourth.

About leverage, I won't say anything about Dutra, obviously. But in general, a 3.1 makes us comfortable. We know the projects. There are projects that are already -- that are born with cash generation with the possibility of partnerships and equity, the strong cash generation coming from our mature projects, as well as the extension of the Ecovias

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maturity with the renewed capacity to use the financial position. So all that is being taken into account when we consider new opportunities. We monitor our covenants, as you said. There are different levels, but the past covenants get to 4, 4.5. And we have a lot of clarity on our capacity, on our targets and we'll -- and our levers. So, we are comfortable. The numbers are doing well. It's been a quarter where it was very positive. Traffic is coming back. And that brings us even more room for growth. But again, long-term growth, very cautious, looking at everything.

Thank you, Regis.

Q - Regis Cardoso {BIO 20098524 <GO>}

Thank you, Guidotti.

Operator

Our next question, Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning. Congratulations on the results. I have two questions. First, the results of the third quarter. You mentioned that the provisioning for the termination of the concession of Ecocataratas and Caminho do Mar. But if you can detail it further what's the provision and if there is anything else that would impact the results of the fourth quarter?

And my second question, about the timeline for the debt schedule. Andrea mentioned the details for 2022, but if you can also give us more details of what you're thinking about the reconditioning of this debt?

A - Marcello Guidotti {BIO 16618352 <GO>}

Good morning, Victor. Thank you for your question. About the provision for Ecovias and Ecocataratas, it is something that has already been done in the past quarters. And now we have a final adjustment. We're getting close to the end of the concessions. There'll be something on the fourth quarter. About the provisions, it's about -- in this quarter, BRL2 million. There were other costs that were punctual in some programs. The key executives of the concessions that will remain with the Ecorodovias Group and of course, for new opportunities. Combining the two things, provisions and these retention packages, it's about BRL3 million, BRL3.5 million.

About the timeline of the debt, it's quite simple. Ecovias do Araguaia, we're finalizing the liquidation of the debentures with a maturity of 15 years that will replace the promissory notes, that is well designed to fit in the project. That's great news. The debt at the Ecorodovias Infraestrutura e Logística holding maturing in March of BRL1.1 billion, notwithstanding the works now and discussing with the banks and taking debentures to the market to roll out the debt. And there is some maturities at Ecovias dos Imigrantes close to BRL900 million. Ecovias dos Imigrantes has low leverage. There is opportunity to restructure this debt. With the amendment already signed, we can extent, prolong this debt and we're starting to study the alternatives. But I don't see any problems there and

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the remaining will be coming from the cash of the projects. So with Infra and Ecovias do Araguaia, it's well operational. Ecovias do Araguaia is settled.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Thank you.

Operator

(Operator Instructions) We have a question on the web. I don't know if we should read and answer the question. I can read it. The question is about CapEx. We saw this year an expressive movement of important metals for maintenance and the CapEx of the highways. If there is a risk in how to work around this increase in costs from Paulo Tanizaki RPS [ph].

A - Marcello Guidotti {BIO 16618352 <GO>}

Paulo, thank you for your question. You saw in our quarter reviews that we updated all our CapEx base. It has been increasing and the base has been adjusted. And of course, we monitor the developments of the main inputs that are part of the materials that we need. There is an increase, but it's a punctual increase that may affect CapEx here and there in 2021, 2022, but it's not an impact that will affect the entire CapEx future curve. As we always mentioned, there are internal levers to prevent great consumption of these inputs at high moments and use different technical solutions. So, there may be occasional impacts. Some of them reflects in the inflation rate as well. And the company is always watchful so that there are specific one-time events and not a permanent effect in the curve. Thank you.

Operator

We have a question from Murilo Freiberger from Bank of America.

Q - Murilo Freiberger {BIO 17385357 <GO>}

Good morning. We wanted to talk a little bit about the auctions that are coming up. We have Dutra now and we know that there are others in Parana. And of course, there is an edge for bids, but if you can talk a little bit about the strategy for the next auctions, are you going to come in with partners? I don't know if you can talk about this or not for the next bids in the -- for these assets. I think Dutra is happening now. But what's the timing for the Parana concession at your mind. It important and others are participating. So if you have anything that you can tell us about the future auctions, it would be interesting.

A - Marcello Guidotti {BIO 16618352 <GO>}

Murilo, good morning. Thank you for your question. We've very transparent in the sense we keep track of the federal program as a whole. And as you said, we highlight this integration in Parana that estimated to the second or third quarter. So in 2021, there is no defined date, but it's towards the second or third quarters. We keep track of the concessions that are close to the termination and it changes the characteristics of the auctions. But there is a basis for integration. We are looking at these opportunities and

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studying them, the federal auctions, CRT in Rio de Janeiro as well. That's an interesting point. We have presence in Minas Gerais, and that also attracts our attention about the concessions. In Minas Triangulo Mineiro, we will probably be in the first quarter of next year. And we remain watching Sao Paulo, the (inaudible). There is some delay on the bids here, but we have been declaring to investors that they are part of our main targets and we are always paying attention to the possibilities of studies if we go alone or if we have any financial partners as we did at the Ecovias do Araguaia. Everything is going well. I believe we can continue with the strategy, but we are open to that as an opportunity. So for 2022 in general, these are our targets as we've been declaring to the market. Thank you.

Q - Murilo Freiburger {BIO 17385357 <GO>}

Excellent. Thank you, Guidotti.

Operator

Next question, Thais Cascello, Itau.

Q - Thais Cascello {BIO 17454851 <GO>}

Good morning. Two questions here. First, about the income tax, the effective rate. Even with the adjustment that you had this quarter, I just wanted to confirm if this is a result of better earnings that dilutes losses. That would be my first question. It's more to confirm it and understand what we could expect.

And my second question about indebtedness that was answered to Regis. But I'll include something else here, not related to the quarter necessarily, but to ask about the new CEO, the nomination of the (inaudible) CEO to the position, how this is going and what we could expect for his tenure? Thank you.

A - Marcello Guidotti {BIO 16618352 <GO>}

Thais, good morning. Thank you for your questions. About the first one, your answer is perfect. It's exactly as you said, positive result is coming. And I confirm it. It's something that depends on future results. So the company intends to increase its earnings results. So that trend will continue.

The second question about the indebtedness that was answered about the CEO. He was appointed and now we are working on the permission since it's a foreigner. There are some requirements in terms of documentation and we are working on that. In November, he may be confirmed on the position and then it will be available to all of you, to investors to talk. But for now, he was just appointed.

Thank you, Thais.

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Next question, Luiz Pecanha, Banco Safra.

Q - Luiz Pecanha {BIO 6374391 <GO>}

Good morning. Question about a comment you made in the beginning of the third quarter regarding the potential re-balancing of the concessions. Due to the losses in traffic with the pandemic, I would like to know if you have any dimensioning of what type of -- what levels of value would be reimbursed if all concessions have this clause in the contract that may allow this reimbursement of traffic due to the traffic loss? And how our test has been positioned about this unbalancing, if they recognize this liability publicly? I imagine that in terms of the agility or speed, what we can expect?

A - Marcello Guidotti {BIO 16618352 <GO>}

Thank you for your question, Luiz. About this recognition, a public recognition during the pandemic, there have been many declarations statements from the federal government and the test [ph]. And of course, it's a force majeure event, but we're beyond that now. In addition to recognition, we want to receive the re-balancing. It's going well at the federal level, but I have declared here that there are not extremely representative amount. Our traffic and federal concessions over the pandemic was supported by the volumes to export commodities.

So, they're not expressive values, but we are making progress with the calculation and probably we'll have a tariff adjustment to rebalance this loss. It's nothing too significant. Here in Sao Paulo, the discussions are suspended yet still in terms of finalization or conclusions or something that may not be accepted. But everyone is being dedicated with the agency to finalize the discussions on the rebalancing that we understand is our priority. So, we're making progress in other agendas. But in Sao Paulo, we're not talking about expressive amount either. There are amounts that may be rebalanced simply. It's nothing too expressive.

Q - Luiz Pecanha {BIO 6374391 <GO>}

Excellent. Thank you.

Operator

We now conclude our question-and-answer session. I will turn the floor over to Andrea Fernandes for her final remarks.

A - Andrea Fernandes {BIO 21294199 <GO>}

I thank you all for your participation on this conference call, and my team and I remain available for any doubts. Thank you. Have a good day.

Operator

Ecorodovias' conference call is now closed. Thank you very much for your participation. Have a great day.

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