

Q4 2013 Earnings Call

Company Participants

- Alexandre Santoro, CEO
- Rodrigo Barros De Moura Campos, CFO, IR Officer

Other Participants

- Alexandre Falcao, Analyst
- Kevin Kaznica, Analyst
- Mark Suarez, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. at this time I would like to welcome you everyone to Americana Latina Logistica, ALL Fourth Quarter and Full Year of 2013 earnings conference call. Today with us we have Alexandre Santoro, CEO and Rodrigo Campos, COO and IRO and Pedro Albuquerque, IR Superintendent for ALL.

We would like to inform you that this is being 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. Should any participant need assistance during this call, please press star zero to reach the Operator.

We have simultaneous webcast that may be accessed through ALL's IR website, www.all-logistica.com/IR. The live presentation may be downloaded from this website.

Please feel free to flip through the slides during the conference call. There will be a replacement facility for this call for one week.

Before proceeding let me mention that forward-looking statements are based on beliefs and assumptions of ALL management and any information currently available to the company may 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, (inaudible) conditions, and other operating factors could also effect future results of ALL and could results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to Mr. Rodrigo Campos, CFO and IRO for the company for a brief explanation of how ALL figures are presented. Then Mr. Alexandre Santoro will start the presentation. Mr. Campos you may begin the conference.

Rodrigo Barros De Moura Campos {BIO 16203706 <GO>}

Thank you, thank you all for joining the ALL results conference call. Just a brief comment on the numbers here before I turn the presentation over to Santoro. First adjusted EBITDA which is reported in this presentation as according to CVM Instruction 527/12 and the numbers of EBITDA may defer from previous released and ALL adjusted EBITDA is constituted by the operational profit before financial expenses, added to depreciation and amortization and equity earnings and loss on investments.

And one more point, you know that as it was released before the Argentina rescinded our concessions in the country and as a result the numbers of Argentina are shown in a line called Results of Discontinued Operations. So as the Argentina operations were discontinued all the discussions about ALL rail operations and consolidated operations do not include ALL Argentina numbers unless other wise stated.

With that I would like to pass to Alexandre Santoro to continue the presentation.

Alexandre Santoro {BIO 7120418 <GO>}

Thanks Rodrigo and good morning every body, this is Alexandre Santoro speaking. We would like to highlight a few important points in our 2013 results. We reached consolidated adjusted EBITDA growth of 8.4% in 2013. (inaudible) increased in our rail operation and from a contribution from Brado Logistica.

Our trucking business, Ritmo Logistica didn't perform so well even though we grew volumes around 6% in 2013.

The Fourth Quarter we have one of the worst accidents of our history in the city of Sao Jose do Rio Preto. Investigations indicate that the combinations of a type of collapsible soil and problems of (inaudible) and drainage were the main cause of this accident.

In terms of transported volumes our operations faced a very challenging operational environment last year as we had to deal with unexpected port restrictions during a major part of the year. And as we also suffered with the accident that we talked about. We are going to explore a bit more of these issues around this presentation.

Our tariff raised 10% reflecting the inflation and diesel price passed through to our contracts and spot markets. And we have concluded the (inaudible) the new realigned that advanced through the agriculture frontier of Brazil and represents a milestone to ALL cash generations. The volumes ramped up since August and it is prepared to operate at full capacity since then. And now we are operating about one million tons per month.

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Brado continued its pace of double digit volume growth in market share gains. The number of transported containers is at 24% in 2013 and the adjusted EBITDA increased 30% as compared to last year.

In August completed its capitalization process with a capitalization injection of R\$400 million by a new shareholder, (FIFTCS). The capitalization proceeds will support Brado's investments plan and should accelerate volume growth until 2014.

Ritmo volumes increased almost 6% pressured by a 41% increased in its Intermodal business unit. The adjusted EBITDA decreased 4% impacted by extraordinary costs related to discontinuation of some operations.

It is important to remember that Vitera our other business, the Vitera Mine concluded the first phase of its (inaudible) mine which certified that the mine has inferred reserves of around 10 billion tons with an average iron ore grade of 46%. And the company is pretty close to conclude the second phase of this investigation.

In the port front IBAMA adjusted the previous environmental license for the iron ore operation. Also an important achievement for the Vitera project.

And the discontinuation of our operation in Argentina that was already planned and will represent a contribution for our cash flow generation. This was a positive event around next year.

Why don't we move forward and go to slide number six. Our consolidated adjusted which at one point (inaudible) with 8.4% growth against 2012 and our rail operations contributed with 8% EBITDA growth and Brado posted an improvement of 30% year-over-year, while Ritmo Logistica EBITDA performance upset a part of it.

AS you already know our net income had been affected by the right off of assets in Argentina and our concessions were rescinded. Without the effect of Argentina our net profits grew 3.5% year-over-year. Now I would like to pass to Rodrigo who will discuss the results of our business units as well as the financial consolidated highlights. Thank you.

Rodrigo Barros De Moura Campos {BIO 16203706 <GO>}

Thank you, Santoro. It is starting with slide seven which shows the results of our rail operations. It is important to mention that 2013 was one of the toughest years in our history in terms of our operational scenario. As we faced several problems which effected port capacity during the year.

If you take on the grain side, for example, at Port of Santos, the two main important terminals in terms rail loading at TGG and Terminal 39 had problems which impacted mainly the second and third Q which are the peak quarters in terms of transportation of the crop. So at the end of the day TGG had a fire incident and terminal 39 had an accident with a sheep which affected one of the terminal loaders.

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So we operated with an important restrictions on the site of Port of Santos, also on the sugar side the extension works which are happening in the sugar terminals in Port of Santos also helped to restrict capacity in sugar along the year and at the end of the year one of the main terminals in the sugar side was in a fire also and should be recovered along the first half of 2014.

And also we have some problems mainly in July related in terms of excessive rains which interrupted Port of Santos and Port of (Palaigua). So this was a year of very unusual things and several problems happening on the port side which, of course, impacted the unloading process create rail car lines on the entrance of the port and have a propagation effect on the railroad, effected productivity, and at the end of the day we didn't grow volumes as we expected.

So when we take full year, our volumes went down 1.2% as compared to 2012. In the fourth Q volumes went down 4% also impacted by the accident in Sao Jose do Rio Pioto which Santoro mentioned in the beginning of the presentation, which impacted our Wide Gauge corridor. But at the end of the year with all these problems we were able to increase EBITDA 8% from R\$1.620 billion to R\$1.750 billion. Mainly driven by a tariff increase. Passing through inflation and passing through diesel price increases.

When we go to the agricultural the volumes went down 1.5% in 2012, EBITDA increased 9.9% on the year driven by huge gains. And in the quarter the volume went down 5% at the Wide Gauge corridor where there the accident was the main one in terms of agriculture commodity business units.

Industrial products we have a stable year in terms of volumes. Volumes were in line with 2012 and with volume decrease in the first half of the year and a volume increase in the second half of the year. So important recover in the second half industrial business with a good growth rates in Brado, which is our Logistic company, our container logistic business. And with also a good increase in wood and paper mainly in the El Dorado project with the ramp up of El Dorado, which pushed industrial volumes up. Partially compensated by reduction in other volumes driven by a weak and destructive in Brazil.

Industrial products EBITDA increased 8.4% in the year, reaching R\$61.3 million and were increased 1% in the 4Q 2013.

When we go to Brado, you know that Brado is our logistic business and Brado Logistic Solution is very competitive as existing logistics in Brazil. Those logistics that integrates, the rail and trucking, has a big cost advantage as compared to the trucking logistics. Which has the major part of the market share in Brazil.

And so Brado keeps growing volumes at very high rates. We increased volumes 24% in 2014, gaining market share, but today Brado has only 4% market share yet. We have a plan of reaching, in five years, 12% market share.

And also EBITDA had a good growth rate, it increased 31% during the year, reaching R\$55 million. In terms of EBITDA, as Santoro said, with the capitalization Brado is prepared to

increase investments and accelerate the rate of growth in order to reach our targets of market share along the next years.

In Ritmo in slide 13 our volume increased 6% pushed mainly by the Intermodal business unit, which basically transports volumes by truck to the rail so this is the main market opportunity we believe Ritmo has and this is the unit which pushed Ritmo volumes in 2013.

And in terms of EBITDA the EBITDA of Ritmo decreased 4.1% because basically driven by extraordinary costs related to the discontinuation of some operations on the company.

So going to slide 14 we see that our net revenues increased, consolidated net revenues increased 9.2%. Adjusted EBITDA, page 15, increased 8.4% with a consolidated EBITDA margin of 50%. Our net income, slide 16, was R\$13 million which is a big reduction as compared with last year, but when you exclude the effect of this discontinuation of our operation in Argentina, we would reach R\$300 million in terms of net income which would represent a 3.5% increase as compared with last year. Also without defects of Argentina.

In slide 17, we show our balance sheet, net financial debt to EBITDA and the year in 2.2 times as compared to 2.3 times in 2012. With that I would like to pass over to Alexandre Santoro to make some additional comments.

Alexandre Santoro {BIO 7120418 <GO>}

Rodrigo, to wrap our our call I would to make a few additional comments and mainly reprising our expectations for 2014.

We expected to be able to benefit from a very good year, in terms of market and (units), as a crop would grow over a strong 2013 base. The operational condition should improve when compared to last year. As most of the port problems have already been solved by the beginning of this year. TGG and Terminal 39 are already operating heavily and investments for the recovery and expansion of terminals are planned in the sugar segments.

Still looking for the ports, we concluded the duplication of the right bordered (inaudible) project with MRS and Santos. Creating an environment for a better asset turnover and productivity.

We are also going to reap the benefits from Rondonopolis which will operate at capacity during the whole year, increasing transported distance as most of the volume usually loaded in Alto Araguaia.

The company will keep focused, increasing productivity and capacity of our assets and we expect total CapEx of around R\$800 million in our operation for 2014. Moreover, we keep focused on reaching the necessary approvals to duplicate the rail tracks between Campinas and Santos, which will be an important milestone for structurally increasing productivity and capacity on our Wide Gauge corridor.

Now talking about the recent news. We received a proposal sent by Rumo Logistics aiming at a combining the activities of ALL and Rumo. Toward the incorporation of the ALL shares into Rumo Logistics. The proposal considers our (inaudible) value for ALL of almost R\$7 billion and increased price of R\$10.18 per share, and R\$4 billion for Rumo. The proposal which is binding for Rumo will be submitted to the alliances of our Board of Directors and if approved our shareholders will be called to resolve on the incorporation.

With this I conclude our presentation and put ourselves available for qualifying any doubt you guys may have. Thank you.

Questions And Answers

Operator

Thank you, this call is now open for questions. (Operator's Instructions). Mr. Alexandre Falcao from HSBC would like to make a question.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Good morning, everyone, I have two questions actually. The first one is regarding the assisted operations that after the accident in Malha Paulista. How much of that will impact First Quarter results and first that is already suspended, how much of that can we see on Fourth Quarter results?

And second, given the time for situation of ports in Brazil, can you compare that to last years situation and if this would have an impact on results as well? Thank you.

A - Rodrigo Barros De Moura Campos {BIO 16203706 <GO>}

Alexandre, this is Rodrigo speaking. In terms of the assisted operation in Malha Paulista, now what we have are punctual restrictions only in the (urban) area, Sao Jose do Rio Preto. So at the end of the day we don't expect any material impacting the quarter, no. We have a more normal operation there.

Of course, we did a lot of works in order to protect, given that the soil has these characteristics of being collapsible, and given the urban problems of drainage that you have at that region. But given that there are punctual restrictions on the track right now.

And in terms of port and in terms of grain side the terminals the problems we had are so, we have a more normal port. Remember that all these problems happened in the second Q and effected mostly second and third Q, but I mean we have a more normal situation on the grain terminals we don't expect problems there.

In terms of sugar terminals, the works on sugar terminals keeps happening so the restrictions we faced last year are still there. Additional capacity are expected even considering that it is hard to anticipate land. And the terminal which was fired is expected to be operational again in the first half of 2014.

So that is the situation on the ports, what I can tell you is in the First Quarter, the situation at the grain terminals are normal. We have also the improvement from (Codaspy) in the last margin of the ports, so much better environment as compared to last year.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Okay. Thanks so much.

Operator

Mark Suarez from Euro Pacifica Capital would like to make a question.

Q - Mark Suarez {BIO 16366613 <GO>}

Yes. Good morning everyone. If I could just start with the proposed merger with Rumo, if you will. I know you guys mentioned you are focused on reaching the necessary approvals for the duplication of the rail tracks. I mean between Campinas and Santos. It sounds to me like from your comments also in the prior question that, it seems to be that the terminals are fully restored and you are actually making a lot of progress in your sugar terminals as you eluded to the first half of the year.

So I am wondering the other benefits or synergies will be to merge ALL and Rumo into one logistic unit beyond the share price premium implicit by that proposal? I am wondering what are the other benefits if you will? It sounds to be like you are going could potentially resolve the arbitration process that you have with Rumo on your own, so what are the other benefits that could come out of this merger?

A - Rodrigo Barros De Moura Campos {BIO 16203706 <GO>}

Mark it is important to have in mind that what we have here is a proposal that Rumo signed to ALL that we are sending to our Board and our Board has 40 days to analyze and to decide if they accept the proposal or if they do not accept the proposal.

It is still a proposal and I prefer to not comment hypothetically on the effects of the merger as if it happened, because it still has to be approved. So I prefer to not comment hypothetically and limit myself to material fact we have released on Monday.

Q - Mark Suarez {BIO 16366613 <GO>}

And to just go back on the duplication of the rail track between Campinas and Santos. You mentioned you are focusing on those approvals. Once you pass that stage will you seek out third party resources or financing in addition to the resources you already have in order to complete it. What are the next steps to complete that project if you will going forward?

A - Rodrigo Barros De Moura Campos {BIO 16203706 <GO>}

In (inaudible) of the negotiations we have with Rumo and another thing. This is one of the most important investment plans we have. One, it represents a big increase in terms of capacity and productivity in the White Gauge corridor, which is our main corridor. So we

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are very focused on that. Today, the main bottleneck to this project is the Union's approval, the (Fumi) approval on our environmental license in order to have the environmental license and to start duplications in two small segments of this track between Campinas and Santos.

We are very focused on that and last month we received a lot of help with this objective from government. So at the end of the day it is advancing but it is still hard to anticipate any date to have this approval. But it is advancing well.

Q - Mark Suarez {BIO 16366613 <GO>}

Okay. Then finally, just on that point there in terms of sugar volumes on a monthly basis. Do you really need to duplicate those tracks to fulfill the one million tons a month? Or do you feel that now with the expansion of the sugar capacity at the terminals and your network being restored at a more normal level that you can satisfy those volumes?

A - Rodrigo Barros De Moura Campos {BIO 16203706 <GO>}

Actually, today we still have the restrictions on the ports in sugar. So today the port is the biggest restrictions in terms of our sugar operation. But in terms of volumes which are implicit in our agreement with Rumo, you must have both, you must have port capacity addressed to accommodate all the one million tons you are mentioning.

So to accommodate all the volumes of the agreement and also you must have that structural change in the railroad with the duplication of the track between Campinas and Santos. Both things must be together in order to be able to carry on all these volumes.

Remember that we have been investing and we have been going through productivity gains, organic growth rates, between 8%, 10%, 12% per year on average along the years. But I mean this increase from one million tons of sugar to 10 million tons of sugar, which are on the curve of the agreement of Rumo, it depends on structural change it doesn't fit only on the organic change.

And the duplication is that structural change on the railroad, the refurbishment of the port should be the structural change of the port. So both things must be together. But today the main bottleneck is at the ports.

Q - Mark Suarez {BIO 16366613 <GO>}

Okay, that is all I have for now, let me go back to the queue. Thanks for your time guys.

Operator

Stephen Trent from Citigroup, would like to make a question.

Q - Kevin Kaznica {BIO 17875244 <GO>}

Okay, I'm sorry, can you hear me?

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A - Rodrigo Barros De Moura Campos {BIO 16203706 <GO>}

Yes, yes, Stephen.

Q - Kevin Kaznica {BIO 17875244 <GO>}

Hi, this is Kevin Kaznica in for Stephen Trent. Just a couple of quick questions. Of the R\$800 million CapEx in 2014, I don't recall if you mentioned how much of that would be for Brado?

A - Rodrigo Barros De Moura Campos {BIO 16203706 <GO>}

(Stephen), actually this R\$800 million is related to rail operations. It is for rail operations, CapEx for rail operations.

Q - Kevin Kaznica {BIO 17875244 <GO>}

Okay, understood. So I guess my next question would be, you have been talking about all the problems at ports have been resolved except for on the sugar side. So when do you feel that your capacity at the Santos port will normalize? Do you think since it was effected mostly in late Second Quarter and Third Quarter 2013, the First Quarter 2014 won't really see an impact year-over-year?

A - Rodrigo Barros De Moura Campos {BIO 16203706 <GO>}

Yes. It is still normalized in the grain segments. So can't see the results right now but the only point which is important to mention is that in the first Q 2013 we didn't have problems at the port on the grain side. The main problems were on the second and third Q, which is the peak of the crop season. So we now have a normalized port in the grain side, we should see that on results.

We have additionally the (Codas) work which segregates the trucking and rail capacity in a large portion of the left bordering of Santos, so we should face a much better situation this year.

But the main impact will be in the second and third Q because those were the quarters when we had the bottleneck last year.

Q - Kevin Kaznica {BIO 17875244 <GO>}

Great, just one quick followup. When you said 40 days for the Board to analyze and decide if they want to accept the proposal for the Rumo contract, when can we expect that 40 days to end? Would that be from the day you guys made the announcement?

A - Rodrigo Barros De Moura Campos {BIO 16203706 <GO>}

Yes. It comes from the day of the announcement.

Q - Kevin Kaznica {BIO 17875244 <GO>}

Okay. Thank you very much.

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A - Rodrigo Barros De Moura Campos {BIO 16203706 <GO>}

Thank you, thank you Stephen.

Operator

Mr. Mark Suarez from Euro Pacifica Capital would like to make a question.

Q - Mark Suarez {BIO 16366613 <GO>}

Hello there again, just one follow up I forgot to ask on the first round. Just as a point of clarification the R\$800 million CapEx, does that include a portion to the duplication of those tracks? Or is that just simply for the rail operations, excluding that?

A - Rodrigo Barros De Moura Campos {BIO 16203706 <GO>}

That is a good question Mark. It does not include this, this is a part of the an obligation of Rumo. We are in the middle of this litigation, so of course, we cannot anticipate if we will have this with a CapEx from Rumo or not. But at the end of the day, if we don't we will do that CapEx by our own. So we are talking about R\$150 million more or less to complete the duplication. And as this is a very important CapEx that changes structurally. The capacity and improved activity on the railroad will be doing that (inaudible) of any other thing.

Q - Mark Suarez {BIO 16366613 <GO>}

Okay, so the R\$150 million, so just to clarify the R\$150 million towards that duplication would that come out of your own balance sheet or would you seek outside parties to fund the R\$150 million?

A - Rodrigo Barros De Moura Campos {BIO 16203706 <GO>}

I mean, it is part of our litigation with Rumo, so what I mean if we don't receive that from Rumo as originally expected we will do that by our own.

Q - Mark Suarez {BIO 16366613 <GO>}

Okay. Great. Thanks again.

A - Rodrigo Barros De Moura Campos {BIO 16203706 <GO>}

Thank you.

Operator

Mr. Victor Mizusaki from UBS would like to make a question.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hello, just a quick question on freight price. We have seen several news saying that (inaudible) pricing (inaudible) is up 13% on a yearly basis. So I don't know if you can

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comment a little bit about the spot price or you want to talk about real freight?

A - Rodrigo Barros De Moura Campos {BIO 16203706 <GO>}

Victor I believe we will see freight price environment similar to 2013, in terms of freight price growth. In 2013 we passed through inflation plus diesel prices and I believe we should see similar things in 2014. We had this 8% diesel price increase in December last year and we are average passing through inflation to our (inaudible).

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay. Thank you.

Operator

(Operator's Instructions). Mr. Alexandre Falcao of HSBC would like to make a question.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Thanks for the follow up. I would like you to touch on with the grains and the crop starting to be more of a factor right now. Can you give us a break down on what is the transportation levels because you have the restriction or at least the distribution NTT to guarantee a minimal level sugar in your operations, which (technical difficulty) 100 tons per month for this specific commodity.

Can you give us a little bit of break down on for February, March and April, what should be the breakdown for grains and sugar in your metrics of transportation?

A - Rodrigo Barros De Moura Campos {BIO 16203706 <GO>}

Alexandre I (inaudible) you to have a more general theme. The sugar transportation is limited by port capacity. So today what limits the sugar transportation is the port capacity at the end of the day is the number of rail cars the terminals are able to unload. So that is the capacity.

If you take last year we more or less three million something tons of sugar, in the wide gauge ten million tons of grains on the same corridor.

But at the end of day when you take since 2009 the agreement of Rumo, the sugar was the type of cargo that weighs more on the railroad. It more than doubled since 2009, growing more than any other type of cargo on the railroad. But today the mix is more or less three million for sugar and ten million for grains. That is what was happening last year and the volumes of transported sugar are limited by capacity today, not by rail.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Fantastic. Thank you.

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Operator

(Operator Instructions) I will turn over to Mr. Alexandre Santoro for final consideration. Mr. Alexandre Santoro you may give your final consideration.

A - Alexandre Santoro {BIO 7120418 <GO>}

Thank you, we are looking for this year with great optimism that we have a good crop and we have some good news from the ports. But let see if the First Quarter and get the crops started in (inaudible) grow so well. And we are optimistic for this year. Thank you, everybody and we are available for any questions you have here in the IR. Good bye.

Operator

Thank you, this concludes today's ALL earnings conference call. You may disconnect your lines at this time.

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