

## Y 2017 Earnings Call

### Company Participants

- Aurelio Pavinato, Chief Executive Officer
- Ivo Marcon Brum, Chief Financial and Investor Relations 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 Fourth Quarter of 2017 and Year of 2017 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 a listen-only mode during the company's presentation. After the company's remarks are completed, there will be a question-and-answer session. At that time, further instructions will be given. (Operator Instructions).

Also, today's live webcast, both audio and slideshow, may be accessed through SLC Agricola website at [www.slcaagricola.com.br](http://www.slcaagricola.com.br) in the Investor Relations section by clicking on the banner webcast 4Q17. The following presentation is also available to download on the webcast platform. The following information is available in thousand of Brazilian reais and in IFRS, except when otherwise indicated.

Before proceeding, let me mention that forward-looking statements are based on the belief and assumptions of SLC Agricola 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 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. Mr. Pavinato, you may proceed.

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

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Good morning, and welcome to SLC Agricola's Earnings Conference Call for fourth quarter and fiscal year 2017. Let's turn to slide three please. As we commented in the message from our management of our earnings release, 2017 was an excellent year for our business which was made possible by the groundwork we have done in recent years, which we refer to as Phase 3. This figure shows that after a period of strong expansion in planted area from our IPO in 2007 until mid 2015 [ph]. We have now redirected our efforts to projects focused on operating efficiency gains and prioritizing strategies that added value to our business. It strengthened our certifications and realized the appreciation in our property prices. These initiatives are our asset bearing fruits, as you will see a bit later and we'll further improve the efficiency and stability on the production front, while improving profitability and cash generation on the financial front.

Let's go to slide four, where I will detail some of our achievements in the year. In '16-'17 crop year, we harvested 393,000 hectares and set a new record for our Cotton Lint yield of 1,807 kilo grams per hectare based on the yields of first and second cotton crops, which is 13 -- above -- 13% above our initial target and 11% higher than the national average.

The soybean yield also beat our target by around 7%. With this level of productivity, the financial results of our agriculture operation also easily beat our initial target to set new records of BRL568 million for EBITDA and BRL289 million for net income. Another important event of the year announced in December was sale of 11,600 hectares, which is aligned with the current strategy to realize the real estate gains and boosted our EBITDA by BRL170 million and our net income by BRL80 million. These results made it possible to pay special dividends of BRL200 million in October last year representing a divided yield of 9%. We are also proposing to the annual shareholders meeting in April, the payment of another BRL200 million in dividends.

During 2017 and in early 2018, we concluded two share repurchase programs in the total amount of 3.6 million shares, and are in the final phase of acquisition in a third program involving another 2 million shares. The main reason for the buyback programs is the excessive discount in our stock price compared to the company's net book value. Yesterday, the Board of Directors approved the cancellation of 3.6 million shares.

Let's turn to slide five please. In 2017, we also concluded our first Sustainability Report which was produced in accordance with the international framework of the Global Reporting Initiatives, GRI, and aligned with the principles of transparency and good practice. The Parnaiba and Planeste Farms have obtained certification under the standards ISO 14001 and NBR 16001 and OHSAS 18001, which brings us to seven, the number of our farms, with this level of certification. And Planalto Farm have obtained ISO 9001 certification. Note that no other company in the industry in Brazil has this level of certification.

In terms of people management, we registered another decline in employee turnover to 16.7%, marking the first straight year of a decline in this indicator. By means of the comparison, our turnover in 2013 was of 40% [ph]. Due to this and other initiatives, we are awarded by Great Place to Work as the seventh best company to work for Rio Grande do

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Sul State, finding preposition in relation to 2016. All these efforts are aligned with Phase 3 of our strategy with seeks to build a more efficient, secure and robust company.

Let's go now to slide seven, where I will comment briefly on the price of our main products and recent demands. Cotton prices in the international market rose significantly during the fourth quarter and in the early 2018, reaching 85 [ph] cents/pound, mainly due to the production problems in India and Pakistan in the '17-'18 crop year. Combined with the continued recovery in the fiber consumption, the USDA estimates global cotton consumption in '17-'18 crop year at 120 million bales, 5.3% higher than in the previous crop year and the highest level in eight years.

Another sector pushing cotton prices higher in recent years has been the process to reduce China's stocks, which is now in the third straight year. After the current phase, estimates are calling for China to once again, as of 2019 import high volumes of cotton which is positive for our prices. As introduced, is the outlook for smaller US crop in the '18-'19 crop year, which is yet to be planted. Given the severe drought in the country's main producing regions, as you can see in the figure on slide 8, with this situation potentially worsening, given the latest projections, which you can see on slide nine.

For soybean and corn on slide 10, you can see that the prices for these crops also had rising in recent months, mainly due to the continuation of significant shortfalls in Argentina with the Buenos Aires Grain Exchange estimating reductions in relation to initial estimates of 10 million tons for soybean and 5 million tons for corn and market expectations are currently calling for first downward revisions in these numbers. The shortfall has been the main driver of prices in recent weeks.

I will now pass the call over to my colleague Ivo Brum, our CFO and IRO, who will comment on our financial results in the periods.

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

Good morning, everyone. Let's go to slide 12, which presents a summary of our financial highlights in 2017. Net revenue was BRZ 1,806 million, up 16% on 2016, supported by excellent yields obtained in the crop year as Pavinato already mentioned. Total adjusted EBITDA, in other words, considering both our agricultural operation and our land sales come to BRZ 738 million, with agriculture operation posting a margin of 30.6% for a total margin of 39.8%, and net income was BRZ 369 million, with the agriculture operation posted a net margin of 15.6% for a total net margin of 19.9%. Another highlight was our administrative expense which increased in line with the inflation in 2017 and correspond to only 2.4% of net revenue, down from 3.4% of net revenue five years ago in 2012.

Let's turn to slide 13. We presented the pace of our debt. Adjusted net debt ended the year down 2.8% on a year earlier. We also worked during 2017 to lengthen our debt maturity profile and to raise funds at more attractive rates. As part of this effort, we issued BRL200 million in certificates of agribusiness like receivables with a term of three years. Meanwhile because of our strong operating results and the EBITDA generated by our land sales, the net debt/EBITDA ratio fell to just 1.12 times, down significantly from a

year earlier. Another important factor was the free cash flow, which as you can see on the slide 14 was positive for the third straight year, in line with our strategy at 202 million in 2017, bringing average free cash flow in the last three years to BRL196 million.

I will now pass the call back over to Pavinato who will comment on this crop year and outlook for 2018.

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

Thank you, Ivo. Let's go now to slide 16. The prospect for the '17-'18 crop year are excellent. As of March 5, we had harvested 47% of the soybean crop, with a yield of 60.8 bags per hectare, a level we expect to maintain through the end of half, which will be above our budget yield target of 56 bags per hectare. For our Cotton 1st crop, planting remained within the ideal planting window at each of our units with the crop presenting excellent production potential. Planting operation for Cotton 2nd crop were concluded in the first half of February, with the crop present excellent aspects, while the Corn 2nd crop is in the final planting phase, therefore also within the recommended window of planting.

The next slide, slide 17, presents an updated table with our sales prices for 2018. As you can see, we already have secured a good percentage of our hedging for the year at prices similar to those obtained in 2017 based on the amount in Brazilian reals. Our production cost per hectare also have remained stable between the last crop year and this one as you can see on slide 18. As a results, we expect our high level of profitability to get through into 2018 as well. Thank you and we will now start the question-and-answer session.

## **Questions And Answers**

### **Operator**

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

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