

Q4 2017 Earnings Call

Company Participants

- Júlio Fontana Neto, CEO, Director & Chief IR Officer
- Ricardo Lewin, Chief Financial & Investor Relations Officer

Other Participants

- Soummo Mukherjee, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Rumo's Fourth Quarter 2017 Results Conference Call. With us here we have Mr. Júlio Fontana, CEO; Ricardo Lewin, Chief Financial and Investor Relations Officer; and Mr. Gustavo Marder, Investor Relations Manager.

We would like to inform you that this event is recorded, and all participants will be in a listen-only mode during the company's presentation. After Rumo's remarks, there will be a question-and-answer session for industry analysts. At that time, further instructions will be given. The audio and slide show of this presentation are available through live webcast at ri.rumolog.com. The slides can also be downloaded from the webcast platform.

Before proceeding, let me mention that forward-looking statements will be made under the Safe Harbor of the Securities Litigation Reform Act of 1996 (sic) [Private Securities Litigation Reform Act of 1995] (00:01:09). Forward-looking statements are based on the beliefs and assumptions of Rumo's 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 Rumo and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Júlio Fontana. You may begin your conference.

Júlio Fontana Neto

Good afternoon, everyone and thank you all to participating in the fourth quarter 2017 conference call of Rumo. I would like to start with some comments about our business. 2017 was very positive for agribusiness, which stood out as one of the highest-growth

sector of the Brazilian economy. Soybean and corn crops achieved productions and export records, benefiting the agricultural chain as a whole and fostering investment and development in the sector that is the most relevant to our business.

At Rumo, we remained focused on executing our CapEx plan, and as a direct result of this focus, we have seen a great transformation in our business. Evidence of our evolution is clear in the several efficiency and productivity indicators, such as the volume transported and the cost control, which, in turn, allowed a big jump in our operating profitability. We have reached our goals, with EBITDA very close to the top of our announced guidance range.

It's worth mentioning that our priority will always be operational safety, and safeguarding of our employees and all of our railway surroundings. Our Zero Accident Program has resulted in an outstanding evolution in major indexes of railway safety. We know that there is much to be done, we will work tirelessly, always focused on reducing accidents.

Our shareholders and the financial markets once again reinforced their confidence in Rumo. In early 2017, we debuted in the international bond market issuing \$750 million bonds. In October, we successfully concluded a second capital increase totaling BRL 2.6 billion. The capitalization brought the company to another level, enhancing liquidity and reducing the risk of our business. These benefits have already been seen, as in January 2018, Rumo once again issued bonds abroad totaling \$500 million at a considerably lower cost than the previous issuance.

For a company that projects growth above 10% a year, every year is a challenge. At Rumo, 2018 will not be different. We stay focused on our projects and especially on our operations. As the company's motto states, with focus on the train, the results we will obtain.

Ricardo Lewin {BIO 20342706 <GO>}

Good afternoon, everyone, and thank you, Júlio, for the initial words. I would like to start by reminding that at the end of 2016, we concluded a reverse merger process of Rumo Logística and Rumo S.A. by which name the former América Latina Logística is known.

So, the results we will be presenting are Rumo S.A. pro forma 2016 results, which take into consideration the accumulated results of Rumo Logística prior to the merger for comparison purpose beginning in slide number 3, Rumo's consolidated results. We had a great performance in the fourth quarter and year of 2017.

Investments resulted in higher transportation capacity, allowing Rumo to increase transported volume by 23% in 2017 when compared to 2016. This volume was available due to record corn and soybean crops which exports extended until the end of the year. Loading volume at our Port of Santos terminals increased 30% in the fourth quarter 2017, compared to the same quarter of 2016 as a result of the grain exports.

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Let's now turn to slide number 4, where we can see the company's consolidated financial performance. The financial performance reflected this successful execution of our business plan. EBITDA in fourth quarter 2017 was BRL 730 million, an increase of more than 100% compared to the fourth quarter 2016. In addition, we recorded substantial cost dilution driven by higher volume, which this quarter resulted in EBITDA margin increase to 46%. We also ended 2017 with a 46% margin, an increase of 6 percentage points compared to 2016.

Our leverage at the end of 2017 decreased to 2.6 times broad net debt/EBITDA versus 4 times in the third quarter 2017. This result was achieved mainly due to our capital increase concluded in October, in addition to our continued EBITDA growth.

Moving to the next slide, slide number 5, we can see the performance breakdown of our business units. Let's start with the North Operation. As explained in previous slides, higher capacity allowed outstanding total transported volume growth. Specifically in the North Operation, volume grew more than 100% in the fourth quarter 2017 against the same period last year, reaching to 9.3 billion RTK.

Net revenue totaled BRL 1.2 billion in the fourth quarter 2017, mainly driven by higher demand for transportation of the record corn crop. North Operation EBITDA was up 104% against the fourth quarter 2016, reaching to BRL 672 million (sic) [BRL 673 million] (00:09:01), while margin reached 55% as a result of cost dilutions driven by higher volumes.

On the next slide, let's look at our market share information. In this slide, you can see how higher capacity allowed us to increase our market share in grain transported to this Port of Santos in 2017. Unlike 2016 when the corn crop failure significantly compromised grain exports, the Port of Santos, the main destination of cargos transported by North Operation, shipped approximately 36 million tons of grains in 2017. This represented a strong increase versus 27 million tons shipped in the previous year. Despite this remarkable export market growth, we reached 53% market share, 3 percentage points higher than in 2016, evidencing our successful investment plan execution.

Moving to slide number 7, we look at South Operation's performance. Since the inception of our CapEx plan, we have been working on revamping the South operation via several initiatives, such as process restructuring, fleet renewal and investments in terminals, yards and permanent way.

In 2017, better operational conditions, a direct result of these measures yielded tangible results. Transported volumes substantially increased in the fourth quarter 2017, reaching 3.6 billion RTK and contributing BRL 71 million to the total EBITDA, a leap of 171% versus the fourth quarter 2016 with 22% EBITDA margin. However, in the year, South Operation EBITDA came to BRL 301 million with 24% EBITDA margin against 12% in 2016.

Moving on to the next slide, we discuss our Container Operations' performance. The total volume of containers transported decreased in the fourth quarter 2017, reflecting the strategy of rationalizing non-profitable routes. Lower demand for refrigerated-product

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transportation also impacted EBITDA. It's worth mentioning that this operation has been restructured via diversification of cargos and customer base expansion which may result in gains of scale and profitability in the future.

Let's move to slide number 9 where we present the company's consolidated indebtedness position. Broad net debt decreased 24% to BRL 7.2 billion as of December 31, 2017. As already mentioned, we achieved a significant deleveraging of the company through a capital increase and EBITDA growth. As a result, today, Rumo is far better positioned in the credit market in our process of reduction in financing costs. Also, in 2017, approximately BRL 1.2 billion debt was rescheduled. In January 2018, we issued bonds in the international market totaling \$500 million at an interest below 6%, considerably below the cost of our first issue in 2017.

Moving to slide 10, we look at consolidated financial results and cash flow. Fourth quarter 2017's financial result was 5.6% below when compared to the fourth quarter 2016, led by CDI decrease quarter-over-quarter and lower expenses from leasing and real estate receivables certificates due to the amortization of this instrument. These effects were partially offset by higher average debt balance due to the issue of senior notes in February 2017. In financial income, we recorded an increase in financial investments yield due to the capital increase concluded in October.

Moving to the next slide, we present the historical trend of operating and financial performance indicators. Operating ratio was down 13% in the fourth quarter 2017 from fourth quarter 2016 and 7% in 2017 from the previous year, driven by higher transported volumes and the company's cost control measures. Diesel consumption measuring liters by TKB decreased 9% in 2017 due to higher operational efficiencies, especially the upgrade of our locomotives fleets.

Our operations recorded increased average load of railcars per day as a result of higher capacity and solid demand. Transit time increased due to the execution of works relating to CapEx plan. Higher efficiency at terminals of a region and destination offset this effect resulting in reduced asset cycle time.

Moving to the next slide, we will discuss our most recent market projections. Updated estimates on the 2017/2018 grain crop are highly positive. According to recent Agroconsult figures, total soybean production in Brazil and in the State of Mato Grosso is estimated to grow at approximately 3%. The corn crop estimate is for a 9% decrease in the Brazilian production and a 11% increase in the State of Mato Grosso. Despite these estimates, substantial carryover inventories should offset this production drop. Assuming this scenario, the volume available for our exports should allow us to achieve our objectives.

Now moving to the next slide, slide number 13, which includes our guidance for 2017 and the announcement of our estimates for 2018. Referring to 2017 guidance, EBITDA reached an amount very close to the top of our projected range, and CapEx was in line with our plan, ensuring the continued capacity increase of our railway.

Guidance on EBITDA and CapEx for 2018 is as follow. We estimate a growth of approximately 15% in EBITDA in a range from BRL 3.050 billion to BRL 3.250 billion. CapEx range is from BRL 1.9 billion to BRL 2.1 billion, in line with our announced business plan.

On the next slide, we restate our long-term guidance. We are maintaining volume and EBITDA targets for 2020 and the CapEx curves for 2018, 2019 and 2020. This proposal results in 20% annual EBITDA growth. It's worth noting that Rumo has achieved 20% annualized growth since 2015, the year when our CapEx plan was initiated, reinforcing our execution capacity to achieve our long-term objective.

Before finishing my presentation, I would like to invite you to the Cosan Day which will be held on March 16 in New York and March 19 in São Paulo. I'm here with Júlio Fontana, Rumo's CEO, and Gustavo Marder, our IR Manager along with the rest of our finance team and we remain at your disposal for any clarifications during the Q&A session. Thank you.

Q&A

Operator

Excuse me, ladies and gentlemen, we will now begin the question-and-answer session. Our first question comes from Soummo Mukherjee with Mizuho Bank.

Q - Soummo Mukherjee {BIO 6619902 <GO>}

Hi. Thanks for the opportunity to ask a question, and congratulations on the results. My question was just to confirm in terms of take-or-pay contracts, what is the absolute amount of the volumes that are secured by take-or-pay? Some articles on Bloomberg saying that this is 100% of the 2018 volumes. I just wanted to confirm that. Thank you.

A - Ricardo Lewin {BIO 20342706 <GO>}

Hi. This is Ricardo Lewin. Thank you for your question. And it's right, approximately 100% of the 2018 volume is already guaranteed in concert with take-or-pay. Okay?

Q - Soummo Mukherjee {BIO 6619902 <GO>}

And if I may just a quick follow-up, in terms of the BNDES plans. I know that's with the capitalization you probably don't rely on it as much, but could you just update us on where that stands? What is the timeline expected on that?

A - Júlio Fontana Neto

Yeah, for sure. In December last year, the credit area from BNDES approved the landing facilities and the next step is the negotiation of the contract. We are right now negotiating this contract and after that contract is negotiated, it goes to the approval of the directory of BNDES, okay? What's important to stay here is, is that our business plan does not depend on the lending from BNDES, okay? We already have enough funding and cash generation to support the long-term business plan that was disclosed to the market.

Q - Soummo Mukherjee {BIO 6619902 <GO>}

Great. Thank you very much.

A - Júlio Fontana Neto

Thank you.

Operator

The next question comes from Jocelyn Jensen (00:21:44) with Lucror Analytics.

Hello. Thank you very much for taking my call. I don't know if you can give us some guidance about your leverage. It's my understanding that you have reduced your net leverage because you have done the equity injection. I would like to know if you are planning to do a new equity injection because we have seen two equity injections in the last year.

A - Júlio Fontana Neto

No. The company is already in an another financial leverage level and we don't need any capital injection anymore.

Q - Operator

And do you think is the - that 2.6 times is sustainable, EBITDA leverage this year?

A - Júlio Fontana Neto

Yes. Our focus is still reduce this. Our long-term focus is to time broad debt/EBITDA.

A - Ricardo Lewin {BIO 20342706 <GO>}

And not the optimum loan (00:22:55).

Q - Operator

Okay. And when do you expect to reach that?

A - Júlio Fontana Neto

In 2020, this is a long-term objective.

Q - Operator

Okay. Thank you very much.

A - Júlio Fontana Neto

Thank you.

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Operator

Excuse me. Ladies and gentlemen, before proceeding to closing statements, in behalf of Chorus Call, I'd like to ask you to - sorry to excuse us, for our webcast service Tailored (00:23:49). As there are no further questions, I'd like to invite Mr. Ricardo Lewin to proceed with his closing statements. Please go ahead, sir.

A - Ricardo Lewin {BIO 20342706 <GO>}

In name of Rumo, I would like to thank you all for participating of this call. Again, I'd like to apologize for the technical problems. And if you have any doubt, please contact the IR from Rumo, we are open to answer any doubt you have. Thank you very much.

Operator

This concludes Rumo's audio conference for today. Thank you very much for your participation. Have a good day.

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