

Y 2018 Earnings Call

Company Participants

- Aurelio Pavinato, Chief Executive Officer
- Ivo Marcon Brum, Chief Financial Officer and Investor Relations Officer

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we'd like to welcome everyone to SLC Agricola Third (sic) [Fourth] Quarter of 2018 Earnings Conference Call. Today, we have first, Mr. Aurelio Pavinato, CEO; and Mr. Ivo Marcon Brum, CFO and Investor Relations Officer. We'd like to inform you that this event is being recorded and all participants will be in listen-only mode during the conference 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 slide show, may be accessed through SLC Agricola website at www.slcaagricola.com.br in the Investor Relations section by clicking on the banner webcast third (sic) [fourth] quarter 2018. 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 on 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 the results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the call conference over to Mr. Aurelio Pavinato, CEO. Mr. Pavinato, you may proceed.

Aurelio Pavinato {BIO 16456795 <GO>}

Good morning and thank you for participating in SLC Agricola's earnings conference call for the fourth quarter in fiscal year 2018. Let's turn to slide three, please. In our current strategic pace. We are focusing on four main pillars of opportunity, and our result achieved in 2018 confirmed that this strategy is adding value for the company.

On the high efficiency front, we reached, as you can see on slide four, a record yields soybean on the '17, '18 crop year and repeated the same excellent performance of the previous crop year in cotton. This level of performance was due to a series of the operational improvement initiatives that we have implemented over the past few years.

On slide five, you can see the strong expansion in cotton area that we delivered in line with our strategy to grow in higher value crops. You can also see on this slide, the progress made towards our marked asset light business model, which is measured by the ratio of all land to leased land.

In -- and lastly, on slide six, we show the advances made on the front of cost specifications and traceability, which is an initiative that adds value to our business and understates an important industry trend.

Let's go now to slide eight, where I will comment briefly on international prices of our main products. In our market, by the trade deal war between China and United States, and by a reduction in agricultural imports by China, the scenario for commodities was pressured by concerns related to the uncertainties on world economic growth, which contributed to the natural volatility in agriculture market.

Cotton prices fell in recent months, mainly due to weaker short-term demand reflecting the trade war. The short-term supply demand scenario for the fiber remains favorable. However, given the significant production shortfall in United States in the '19 -- '18-'19 crop year and the fact that China stock should end the cycle at their lower level in five year.

Despite the weaker demand in recent months, structurally we have observed growth in cotton consumption, with the fiber maintaining in each share in the textile industry.

And in soybean, as you can see in the price chart on slide nine. Prices remained highly volatile throughout 2018. Despite the lower crops including [ph] in Chicago, the prices paid in local currency through Brazilian producers during the year remains above the level of the same period last crop year, supported in part by the premium paid to producers of international prices during the second semester of the year and by the weaker Brazilian real. Current prices in Chicago, which are considered low based on the company's production cost, should results in a contractual in planted area in the United States in the '19-'20 crop year, according to some specialized consultancies.

Let's turn to slide 10, please. Corn price was less affected by the trade war during the low volume of trade in this commodity between United States and China. In the current scenario under which for the second straight year, global corn consumption is expected to surpass production, prices in global markets should tend to find support.

Turning to the scenario in Brazil. Production sales sharpened in '17/'18 by 17% compared to the '16/'17 crop year, which provided higher local prices for corn.

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 period.

Ivo Marcon Brum {BIO 16639894 <GO>}

Good morning, everyone. Let's go to slide 12, which shows some highlights from our income statement for the period. The operational improvements also supported record financial results for the year, including for the net revenue which surpassed the mark of BRL2 billion, growing 13% year-over-year and for adjusted EBITDA from the operations, which ended the year at BRL669 million, up to from BRL568 million in 2017. Another financial highlight was the second straight year of EBITDA margin of over 30%.

Net income also surpassed an important mark of BRL500 million growing from the level of net income from our agriculture operations in 2017 and with the margin of 19%.

Let's turn to slide 13, please. 2018 marked the year, another year of, sorry, 2018 marked yet another year of the positive free cash flow, which come to BRL208 million contributing to (inaudible) the receipt of BRL64 million from the second installment of the land sales made in 2017.

Net debt, which is broken down on the slide 14. Increased from the end of 2017, basically due to the fact that the free cash flow generated was used to pay dividends and to calculate and compute the stock buy back program. However, financial leverage remains very comfortable with the net debt to EBITDA ratio quickly at 1.4 times.

I will now pass the call back over Pavinato, who will comment on the outlook for the next crop year.

Aurelio Pavinato {BIO 16456795 <GO>}

Thank you, Ivo. Let's now go to slide 16. A large part of the soybean crop for the 18'-19 crop year has already been harvested and the condition point to exceeding the initial projection in terms of yields. The planting of the cotton first crop and second crop and corn in the second crop has already been concluded. With the crops presenting excellent development and excellent production potential.

Moreover, as you can see on slide seven (sic) [slide 17], where we have made substantial progress in selling our production, obtaining pricing levels above current costs and at the same levels of last crop year. Considering the good potential of the crops, the formation of the costs and the sales prices, we expect to maintain margins at high levels.

Thank you. We will be available for the questions

Questions And Answers

Operator

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

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