

Y 2017 Earnings Call

Company Participants

- Andrea Fernandes, Investor Relation Manager

Other Participants

- Roberto Otero, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, and welcome to EcoRodovias Fourth Quarter of 2017 Earnings Conference Call. With us here today are, Mr. Marcelino Seras, the Company's CEO; Marcello Guidotti, CFO and IRO; Andrea Fernandes, IR Manager; and the IR team. This presentation is being recorded. And all participants will be in a listen-only mode during the presentation. After that, we will begin the questions-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 www.ecorodovias.com.br/ir. There, 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 information -- 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 fourth quarter of 2017's results. Ms. Fernandes, you may proceed.

Andrea Fernandes {BIO 21294199 <GO>}

Good morning. Welcome to EcoRodovias conference call now concerning the results of the fourth quarter of 2017. We thank you for your interest and your participation. The beginning of 2018 was marked by some important accomplishments for EcoRodovias, strengthening our strategy of extending the duration of highway concession portfolio, always with capital discipline and respecting our financial capacity.

FINAL

Grupo EcoRodovias won the auction for the North Beltway organized by the Sao Paulo government, acquired the Concessionaria de Rodovias Minas Gerais, MGO in the secondary market, and won the auction of the BR-135 carried out by the government of Minas Gerais. It's important to highlight that with this new asset, the duration of our highway portfolio went from 13 years and one month to 17 years and four months. The management strategy are focusing on the highway factor, the constant search for operating efficiency. The privileged location and the quality of our highway portfolio has allowed us to communicate to the market every quarter a good, solid operation and financial performance, with the highlight for the --

to the Group in EBITDA for our highway concession.

We can see on slide two that the consolidated traffic of equivalent paying vehicles in the fourth quarter of 2017 presented growth of 4.7% and was 3.8% in 2017. The average tariff posted an increase of 5.6% in the fourth quarter of 2017 and was 8% in the year, 2017 due to the tariff adjustments and triggers recorded in the last 12 months. The increase in traffic during the quarter is mostly a result of a larger traffic of heavy vehicles that with growth in Ecovias dos Imigrantes, Ecovia Caminho do Mar, and Ecosul, influenced by the increase in grains exports, and at Ecopistas and Eco101, with the recovery of industrial production in the region and the increase of light vehicle traffic at Ecovias dos Imigrantes, Ecopistas, and Ecovia Caminho do Mar due to the increase in the flow of tourists and the favorable weather. At Ecocataratas, due to an increase in the flow of shopping tourism in Paraguay and at Ecoponte with the beginning of operations of the Cafuba Charitas Tunnel in the city of Niteroi in May 2017, which improved access to the bridge.

As for the Group's consolidated results on slide three, proforma, net revenues achieved BRL665 million in the fourth quarter and 2.6 billion in 2017, an increase of 7.7% and 10%, respectively. Net revenue of highway concessions increased 9.6% in the fourth quarter of 2017 and 11.7% in the year 2017, positively affected by the contractual adjustments of tariff, toll tariff, and an improvement in traffic.

Now, moving on to slide four. Cash cost in the quarter posted an increase of 3.2% in the fourth quarter of 2017 and an increase of 0.6% in 2017. The comparable proforma EBITDA in the quarter also a growth of 12.3% and a margin of 66%. For the year 2017, comparable proforma EBITDA was at BRL1.7 billion, an increase of 15% and a margin of 67%.

And traffic improvement and tariff increases and cost discipline has led to an expansion of margins and EBITDA growth in 2017 at all our highway concessions, as we can see on slides number five and six, with a special notice to the EBITDA increase in almost BRL100 million in Ecovias dos Imigrantes, 21% at Ecovia Caminho do Mar, 24% of Eco101 with a margin of 49%, and an increase of 24% in the EBITDA of Ecoponte with a margin of 64%.

On slide seven, we show the evolution of the comparable net profit, with an increase of 9.5% compared to the same period of the previous year, with a positive impact of the increase in comparable EBITDA of BRL48 million offset by the greater amortization and depreciation of BRL30 million due to the largest asset base and a review of the traffic curve.

As for investment on slide eight, we maintain the Company's commitment investing according to the contracts and business needs. We can highlight the duplication works at Eco101 accesses to the red line in the port (inaudible) at Ecoponte and the extension of Ecopistas to be concluded in the first half of 2018. CapEx in the fourth quarter of 2017 was up BRL233 million and BRL773 million in the year 2017. Estimated CapEx for 2018 is approximately BRL987 million.

Moving on to slide number nine. Debt instrument is comprised of debentures 90% and the debt by index of 50% in CDI and 41% in IPCA. It's worth noting that the average cost of debt of 8.3% in December 2017. We closed the year of 2017 with BRL1.7 billion and long debt profile, stressing our financial dominance [ph] . The indicator of the comparable proforma net debt-EBITDA was up 2.5% at the end of -- 2.5 times at the end of 2017. The Company understands that we have the balance to implement the three asset gains, respecting the guidance of the Board as to the Group's consolidated financial leverage.

Operating results, financial results, and the continued search for efficiency and technology innovations and in processes are the basis for our strategies to expand the duration of the highway concession portfolio to be sustainable in the long term, adding value to our shareholders.

This concludes our presentation. We would like to now turn over to the questions-and-answers 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 questions-and answers sessions for investors and analysts. (Operator Instructions)

Our first question is from Roberto Otero from Bank of America.

Q - Roberto Otero {BIO 16689399 <GO>}

Good morning. Good morning, Andrea. I have two quick questions from my side. If you could talk a little bit about the traffic performance now in the first two months of this year? And how -- or what's your expectation for the whole year?

And the second question is about the investigation of some concessions in the state of Parana. You mentioned the potential involvement of other concessionaires, in addition to Econorte. So considering you operate two assets in Parana, we wanted to know what you expect as the development of this operation? Thank you.

A - Andrea Fernandes {BIO 21294199 <GO>}

Roberto, thank you. I thank you for your question because it allows us to clarify. I'll start on your last question and then I'll go back to the first.

Two decisions were made -- very important decisions made last week on Thursday by the EcoRodovias group, The first guidance from our Board of Directors and the Committee was the implementation of a corporate committee for crisis management, co-ordinated by an independent Board member in order to monitor all the facts and take all the measures to protect the image, the integrity, and the ethics of EcoRodovias, within the Group's governance standards. As a result, the same committee has determined the -- that we carry out an audit immediately connected to this committee and the Board over all the companies that we're either on the news or mentioned in the public prosecutor's piece about the other concessionaire on that operation from last week. Above that, the companies that are named, allegedly a name of so-called (inaudible), identified either on the news or in the public prosecutor's and the Federal Police notification clarify that this audit has been concluded and we do not have and we have never had any contract or any contact with any of these companies mentioned on the media. And they are allegedly owned by the so-called (inaudible) of those black market dealers. There was also a broad and wide investigation, verification of the engineering contracts of some of the companies that were named. In those companies, the audit has been concluded. And it has been proven that the entire process of the auction with them in a competition to market process withholding the standards of EcoRodovias, and all the contracts have been broadly proven and verified. There are thousands of plans and projects and blueprints produced by these engineering funds with photographic proof, with the proof of payment of social security for the employees and obligation that the Company also has towards these employees. In such a way that today a committee meeting that is being organized, this material will be submitted as an important piece for -- to our Board and to our legal department so that this material remains available to the authorities as ever requested. So we are at ease. We have taken measures quickly. And the answers, the responses have also been quick, and there was nothing to fear.

About the second part, about traffic of this year. Of course, with the comparison, it's been very good traffic last year. But it still remains positive.

It was very well -- very good in January. In February, of course, there were a lot of rains, which wasn't as good for the traffic of light vehicles. But the accumulated for first two months has been positive compared to last year.

I thank you've again, Roberto, for the opportunity that you gave us to clarify this question. Thank you.

Q - Roberto Otero {BIO 16689399 <GO>}

Thank you.

Operator

(Operator Instructions) Our next question is from Pedro (inaudible) from JP Morgan.

Q - Unidentified Participant

Good morning. Thank you. I just wanted to understand that with the recent acquisitions that the Company still has an appetite for growth, if we will see you participating in other auctions that are expected or even maybe on secondary activities.

A - Andrea Fernandes {BIO 21294199 <GO>}

Pedro, good morning. We do not have today any forecast or expectation for the announcement of the publication of invitation to bid, especially in the state and federal governments that may be or could be our interest, I know some aspects that are being discussed now. And I'm sure you've been seeing this on the accounts of (inaudible). I believe that this will delay -- and I don't think it will be too close to federal actions. It will be probably something for the end of the year or probably 2019.

About the secondary market, as I had written before, we went to the secondary market and we found the best option for the MGO. But there is no interest in any other assets available in the secondary market today. So, of course, our dedication now will be to observe these assets, put them into EcoRodovias' culture in the case of MGO. In the case of 135, probably as far as the second half of the year for the Beltway, we believe it will be something more to the end of 2018, beginning of 2019. So we're putting the teams together and integrating them in our culture and our strategy for profitability in terms of costs and the improvement of the bus project in the engineering sector. So these today are our main focus -- the administration's main focus.

Q - Unidentified Participant

Excellent. Thank you.

Operator

We'll now close the questions-and-answers session. I will turn the floor to Ms. Andrea Fernandes for her final remarks. Please, Ms. Andrea Fernandes, you may go ahead.

A - Andrea Fernandes {BIO 21294199 <GO>}

I thank you all for your participation. I remain available, as does the Investor Relations department. Thank you very much. Have a great day.

Operator

EcoRodovias' conference call is now closed. Thank you very much for your participation. And we wish you all a very good day.

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall

have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.

FINAL

Bloomberg Transcript