

Q1 2013 Earnings Call

Company Participants

- Corporate Participant
- Guilherme Machado, Investor Relations

Other Participants

- Analyst
- Celina Merrill
- Christian Audi
- Felipe Koh
- Fernando Ferreira
- Gustavo Gregori
- Martin Tapia

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Cosan Limited And Cosan SA First Quarter at the Fiscal Year of 2013 Results Conference Call. Today with us we have Mr. Marcos Marinho Lutz, Cosan's CEO, and Guilherme Machado, Head of IR.

We would like to inform you that this event is recorded and all participants' will be in listen-only mode during the company's presentation. After Cosan Limited and Cosan SA's remarks, there will be a question-and-answer session for industry analysts at that time further instructions will be given [Operator Instructions].

The audio and slide show of this presentation are available through live webcast at www.cosan.com.br/ir. The slides can 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. forward-looking statements are based on the believes and assumptions of Cosan Limited and Cosan SA'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 result of Cosan Limited and Cosan SA

and could cause results to differ materially from those expressed in such forward-looking statements.

Now I will turn the conference over to the Head of IR Guilherme Machado. Mr. Machado you may begin your conference.

Guilherme Machado {BIO 17920567 <GO>}

Thank you, good morning I would like to thank you all for joining our conference call for the results of first quarter of fiscal year 2013. And I'd like to start highlighting that in this fiscal year due to the signatures agreement with -- we are not going to show Cosan Alimentos as a separate business unit and particular for this quarter, we are going to show its results in our financial statement as discontinued business.

And for the next quarters moving ahead, we are going only to recognize our stake of 11.70% income after the contribution Cosan Alimentos business. I would like to start talking about consolidated results.

In this quarter, we had a positive variation of 18.1% in our net revenues mainly due to the increase in the revenues of Raízen Combustíveis' of distribution segment and that jumped from R\$5.2 billion of net revenues first Q '12 to R\$6.1 billion in 1Q '13.

Just to remember that we do a proportional consolidation of 50% of both Raízen Combustíveis' and Raízen Energia in our figures and 100% of Rumo and the other business segment.

Talking about the EBITDA we had a negative impact of 15.1% in our figures 502 in first Q '12 moving to 427 roughly in first Q, 13, this is mainly due to the impact of the delay in the beginning of the crop season in the of Raízen Energia that crashed almost 40% less if you compare to previous year, and it reflects the delay in the beginning of the crop season. It is important to highlight and make it clear that we do not to believe in the disruption of the crop season as we observe during the last fiscal year.

We do believe in the fiscal year that has been delayed during to the climate conditions in this fiscal year 2013.

Moving ahead and talking about the net income. We had, our net income had a negative impact of 110% jumping from R\$167 million in the first Q '12 compared to a net loss in this first quarter 2013 of R\$17 million and this is mainly due to a negative impact of the exchange variation which is non-cash effect that impacted our results and we did an exercise to adjust these effects in order to offset the exchange variation effect as well, the result of sales of assets in both quarters and the reduction in this exercise shows that we had a negative impact of 36% which again is mainly related to the delay in the beginning of the harvest in this crop season fiscal year 2013.

Moving to Raízen Combustíveis' which is the fuel distribution business that we jointly control with Shell, we had an increase in the volume of -- in fiscal year 2013 of roughly 5% jumping from 5.1 billion liters sold in first quarter '12 to 5.3 billion liters of fuel sold in this quarter.

And the net revenues increased roughly \$0.06 jumping from R\$9.7 billion to R\$10.3 billion mainly due to the higher volumes sold in both gasoline and diesel which, a product that has higher unit margins compared to other products.

Talking about EBITDA, we had a significant increase in the EBITDA of roughly 19% jumping from R\$310 million in this fiscal year to R\$367 million in first quarter 2013 with margins jumping from 3.2% to 3.6% which represent an EBITDA -- of R\$69 an significant increase of roughly 13% may be due to the better mix of projects sold in our network and the higher penetration of Shell brand as we move forward in the conversion -- brand service stations

Raízen Energia which is the business that accounts for the sugar, ethanol and energy cogeneration production that we also control generally with Shell. Talking about the operation performance as we have already mentioned it was mainly impacted by climate effect that represented brought during the winter harvest period where we expect the growth of that sugarcane fields and also the rains during the beginning of the harvesting process that the caused a delay in the beginning of the crop season that used to start in the end of -- and we have started effectively in the first quarter of May.

So we had a negative impact in the sugarcane crushed of roughly 40% reaching 11 million tonnes of sugarcane crushed compared to 18 million tonnes crushed in the previous quarter. And the sugar production -- also a decrease of roughly 46% reaching 643,000 tonnes produced in the period.

And also the ethanol production recognized a decrease of 44% reaching 350 million liters produced in this quarter. The TSR, the total sugar recovery in the sugarcane also called ATR in Portuguese decrease of roughly 4% reaching 120 tonnes of sugar per tonne.

And the volume of energy produced in the -- over the quarters remained mainly due to the investment that we had made in the past years to increase the capacity for energy production in our side. So we have produced 424,000 megawatts in this quarter. We saw an average price of R\$467 per megawatt hour.

The financial performance of Raízen Energia -- of the crop season also is reflected in financial figures. So, we had a decrease of 22.8% in the net revenues, reaching R\$1.3 billion in this first quarter 2013 compared to R\$1.6 billion in the previous quarter. And EBITDA increased roughly in the same proportion of 21%, reaching R\$323 million with margins of 25.6%.

Talking about our hedge position, on June 30, 2012, we were 74% hedged for our total sugar production to be exported of 2.8 million tonnes of sugar at an average price of \$.0229 per pound with an FX of R\$1.92. We have already started to hedge part of our

production for the next crop season. So we are at this moment, our figure of May 30, we were hedged 14% for the same volume expected to be sold at 2.8 million tonnes of sugar at a price of \$0.216 per pound with an FX on average of R\$2.2.

Moving to business that Cosan controls 100%, I'm talking about Rumo. In operational figure, we have also decreased roughly 32% in the total volume loaded in the port due to the delay in the production of sugar in the Center South of Brazil with an average unit revenue of R\$69 per tonne loaded. In the net revenues we also had a negative impact of R\$0.256 reaching R\$105 million compared to R\$141 million in the previous quarter.

In terms of EBITDA, we had a decrease of 21% reaching R\$43 million in this quarter compared to R\$54.3 million in the first quarter of 2012 with an EBITDA margin of 41%.

Moving to the other business segments which account for the lubricants and specialties and also the base oil as well as the lease of lands and contingencies related to the business contributed to Raízen and the corporate structures of Cosan regardless Raízen, obviously. We had a net revenue that increased R\$0.316 reaching R\$317 million compared to R\$241 million in the previous quarter mainly due to the increase of the lubricant and base oil volumes in this period and also increase of 2% of the distribution of lubricant and operations of Bolivia, Uruguay and Paraguay recently acquired. EBITDA jumped from R\$27 million in first quarter 2012 to R\$38 million in first quarter 2013, an increase of 42.2%, and the margins reached 12% in this sector.

Moving to our indebtedness position, we had an increase in our net debt position from the fourth quarter of 2012 to this first quarter of 2013 of roughly R\$900 million. We had a net debt of R\$3.9 billion compared to R\$3.1 billion in the previous quarter, an increase of 28%. And our debt is 59% denominated in reais and 41% U.S. dollar denominated.

And talking about maturities, 23% of our debt is positioned in the short-term and 77% is positioned in the long-term. So, the most important here is the increase of the debt is compounded by the debt that we have acquired to complete the acquisition of Comma Oil & Chemicals in the UK, their lubricants business that we recently acquired from ExxonMobil. The increase of -- consolidated proportion is -- mainly ENDS line and trade finance lines and also the exchange variation that impacted the U.S. dollar denominated that's roughly R\$400 million.

So if we do the calculations of our net debt position to the EBITDA for the last 12 months, we have a leverage position of 1.7 times and considering the capital -- description that Shell has to do in Raízen and we consolidated --.

I think it's important to highlight that for the last annual shareholders' meeting we have approved the dividend payment of R\$250 million for the fiscal year ended March 31st and will be paid in this fiscal year.

So, what's left our guidance. We would like to reinforce that we have unchanged the figures that were released in the fourth quarter of 2012. That shows that the company is

quite confident that all the figures will be delivered with our most efforts in now the different business lines that we operate.

And I would like to conclude my presentation here and revert to for Q&A section. Thank you, all.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session for investors and analysts. [Operator Instructions]. The first question is from Fernando Ferreira, Merrill Lynch. Please go ahead.

Q - Fernando Ferreira {BIO 2389113 <GO>}

Thank you. Good morning everyone. I have two questions, first on Rumo. When we compared in this quarter the revenues from transportation and also from the port, they were very different and also the -- increased in this quarter. Was there any adjustment on the take-or-pay or did you receive any extra take-or-pay revenues in this quarter from your contract with --?

A - Corporate Participant

Yes, we actually received pretty much every month some adjustment. So at the end, the way the contract works is we review a program and after that, I mean after the month is concluded, we track if any let's say -- is due to the -- service or our service. For instance we take too long to unload the train, this is kind of our fault versus them not bringing at the train when scheduled is their fault or having this taking too long to get -- is their fault.

So, we do that, and this has been kind of every month. I think throughout this year we have still have that I mean still we have all the investments done for the duplication from -- is ready at the end of the year I mean till that time I think we will have that adjustment towards the

Q - Fernando Ferreira {BIO 2389113 <GO>}

Sure and are you able to quantify how much you had in this quarter?

A - Guilherme Machado {BIO 17920567 <GO>}

I think this is not a relevant number for investors of Cosan and then I think at the end these things the difference that I will be making during the service as scheduled and contracted. So this is not relevant on your side, you should see those basically composing the profit that we will be having if the service will be provided so this is would not change anything.

Q - Fernando Ferreira {BIO 2389113 <GO>}

Okay thank you. And the second question is on the margins on the fuel distribution side. Just help me understand your guidance here. If I look at the highest EBITDA or the lowest volume and the opposite as well, we get to a range of 56 to 71.

But if I use the lowest EBITDA and lowest volume and the highest EBITDA and the volume I get to a range of 62 to 65, right? And you reported 69 in this quarter. So what sort of range you are actually thinking for the year which makes sense and do you think that margins will trend down from here or you expect pretty much the same level going forward?

A - Guilherme Machado {BIO 17920567 <GO>}

Again, as I mentioned, I mean the main drivers are mix, so obviously when you have a market that allows you to have a better mix, which means more aviation fuel, more let's say high end or let's say premium fuel.

So we launched a premium diesel fuel and we extending the -- gasoline fuel whole chain and this is done in the very structured and successful way, so this is the driver so this is kind of

The other driver I would say is the mix of ethanol versus gasoline that you know that like less here again repeating gasoline with more predominant and more -- was to better level margin so, again we are kind of optimistic I would say that we are probably doing more to the ceiling of the guidance than to the bottom but, I mean it is too early in the year to say that we will be actually through the roof on the guidance.

Q - Fernando Ferreira {BIO 2389113 <GO>}

Okay thanks Marcos.

Operator

The next question is from Celina Merrill, Credit Suisse. Please go ahead.

Q - Analyst

Hi good morning and thank you for taking the question. I just had question on sugarcane harvest and wanted to know if you could provide on update on how the weather is looking so. And have you caught up on crushing volumes after that delay in start or is that something you expect to see in the next few months? Thank you.

A - Guilherme Machado {BIO 17920567 <GO>}

Well, I think, firstly it is the important to explain. When we say delay in harvest, this is not really because we were actually delaying as a, let's say as normally delays happen for I mean nothing is ready and stuff like that.

The delay is due to the fact that we had a larger crushing capacity than we have to cane to crush, and because we have an agricultural view that fits in the middle of year when the

weather is dryer and is colder so the concentration of sucrose in the cane actually goes up.

You want to crush ideally everything in one year in terms of agricultural yields so one you have more crushing capacity than cane you concentrate your crop. So we have been crushing in the good days close to 340,000 tonnes cane in a good day.

So it should be -- what we are forecasting by that you will see that probably in 150 to be done with your crop so in a year like that you want to start late and finish early in the year like 2008, 2007 when you had actually a lot of cane and actually less cane at the end of the year, then you want to start as early as you can and finish as late as you can, which is a very different let's say scenario from this year.

So, having said that, we will probably crush on the date that we were scheduling. We might have a delay or let's say early start when we make a programming use a standard or an average rainfall in a weekly basis and basically if we have an early start of rain, we then crush a little slower at the end and you end up crushing for more time and finishing your crop later. But again, this year is a year where actually the crushing won't be a challenge. The challenge will be the efficiency and obviously the challenge will be on the agricultural side to be prepared for actually larger crops, way larger crops next year. So for that purpose, actually the rainfall at the beginning of the year was a positive. This rainfall will probably produce a little larger crop, but not with more product, because there will be less sugar per tonne and more tonne. But this for sure helps the other years. So the planting season was actually very good weather.

Q - Celina Merrill {BIO 6748233 <GO>}

Okay, that's very helpful. Thank you.

Operator

Your next question is from Martin Tapia, Raymond James. Please go ahead.

Q - Martin Tapia {BIO 19204832 <GO>}

Hi, good morning. Thank you for the call. My first question is regarding the catch-up issuance in question and -- ethanol production that you are expecting to happen in the following quarters. Should we see it happening in both the second quarter and third quarter or should we expect a normal second Q on extraordinary third Q at the end of the year?

My question has to do with the gross margin for sugar and ethanol. Could you explain the significant reduction in ethanol gross margin this quarter and provide any guidance on your expectation for relative profitability between sugar and ethanol over the next month? That's all. Thank you.

A - Corporate Participant

FINAL

We will expect actually a catch-up on second and third Q, yes. So in theory we should be crushing, I mean we have more capacity this year to crush. So in the peak month, so the second Q will be actually better than last year because of more crushing capacity.

The ethanol thing is a lot explained by actually the delayed start as well, because remember, I mean in the last two years and this year is not different, it will be a third year that way, ethanol staying less or having less margin than sugar. So what makes people do here is they actually do the most -- towards sugar mix possible, which means that at the beginning of the crop and the -- of the crop, they actually get even more sugar oriented, because at the end you want to somehow maximize whether or not you -- the downstream of your mill which actually where your distillery and your sugar factory is located, they are actually running idle, so you can actually have even more flexibility to make towards -- products versus the other. This is actually more important in the end because everything is kind of stabilized during the crop, because at the beginning it's tough to do sugar and you end up reducing ethanol at the beginning, you also stabilize the yield. So you have some discount on that.

But the rest biggest factor is you end up having more idle equipment on the ethanol plant. So the allocation of cost is more towards ethanol, you end up having less, even worse margin on the ethanol side.

Operator

Are we ready for the next question? The next question is from Christian Audi, Santander. Please go ahead.

Q - Christian Audi {BIO 1825501 <GO>}

Thanks. Just to clarify on the sugar and ethanol, on this point that you just made about catching up, I just want to understand. So in your view, the catch-up is something that would happen more now in the second quarter than on the third quarter? Is that a catching up process that will really evenly happen both in the second and then in the third?

A - Corporate Participant

At the end, it's tough to say that. we run on statistics here, so it's probability. I would say that in theory you will have a very strong second quarter. if you have a weather like we are having today, good old days, you'll be actually doing a good part of the --.

At the end we are not that far from our plan. We are very close to the plan and the plan actually -- strong crushing month during the dry season which is actually the idea of concentrating the crop. So if you have regular rain or average rain, average of 10 years would be a basis. We're talking about having a big chunk of recuperating on this quarter we're in now and then probably less than half of the total on the last one. But if you have some additional rain, you have plenty of room in the last quarter to actually catch up on the difference.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. And then on the distribution side going back to the topic of mix, it sounds like from a sustainability point of view that for 2012 it's fair to assume that there's quite positive mix that you've experienced should continue. But my question is more looking at 2013. Do you see anything that could significantly change what has been an attractive product mix for you, whether it's government intervention or anything else? Or no, it's really more 2014 issue? In other words, for the rest of this year and into 2013 is it fair to assume that the product mix will remain quite positive for you and it's really a question mark of what happens in 2014? How do you see that?

A - Corporate Participant

I think, if you asked that to me a year ago, I would say that probably we can have a recoup quite close. But I don't see that happening very soon. I really believe at this point that if you again regain the attractiveness of the ethanol production, you will still need something like five years to catch up what is not being invested in and grown to have mixed that are compared to three years ago. Because at the end the internal consumption has been grown, so the -- the auto fuel as a whole is growing. So gasoline, important gasoline is really I mean more than 100,000 barrels a week so far. I mean, it is getting very, very towards gasoline and I think the catch-up of this process, I mean you will need -- first people planting and having let's say the full capacity of installed factories running, which is actually a two years cycle, three years cycle and this is happening now probably if we have the conditions that are necessary in two years, it will be ready for that.

But when you're talking about the other needs, then you're talking about greenfield and this is kind of a five-year to six-year project to start and run and then probably seven to be kind of full capacity. So, then we're talking about longer range of years. So, again, I think at this point for the stock exchange investor, we're talking about something that is quite structural for a while.

Q - Christian Audi {BIO 1825501 <GO>}

Okay. And also on the distribution side, can you provide us with an update on -- we're halfway through the year for your re-branding process. How many of the -- I believe the target was around 1,400 conversion sales been made. Where do we stand mid-year into this process?

A - Corporate Participant

We are disappointed with that number you mentioned in terms of contract signings, so which is kind of the first milestone on profit. Out of that, I'll say 80% is converted to a degree. The rest is work in progress and this is really our throughput. So we can do x conversions per month with the service providers we had contracted for that matter. So for that kind of a -- we want to have a pipeline that is full and a process that is efficient and we convert x -- per month. So we have that happening well.

Now you have at the end the last 200 to 300 stations that are under negotiation and this negotiation is, I mean the way we are doing, we've been doing a thing that is more long-term oriented. So we want to not only negotiate the sale, come here and re-brand your

site and then tomorrow we will have another brand, but we are actually revisiting the contract, signing a long-term contract and reading on the economics and having everything set to actually start kind of a new life and a new -- very, very structured and we are in line with all the other companies. So, this is why we have that last 200, 300 contracts to be signed and this will probably be finalized this year, something like that.

Q - Christian Audi {BIO 1825501 <GO>}

I mean this is very impressive thing that which you deal this. So given that quite a bit has been done already in the first half of the year, can we assume that maybe for the rest of the year margins are more stabilized because the bulk of this re-branding, like you said, are maybe for some contracts already signed is behind and so the thing that there is upside to the margin you're generating this quarter may be progressing given that there is only 200, 300 plus under negotiation so that you have to think that it's more flattish from here to the end of the -- from now to the end of the year and maybe at -- it comes more in 2013?

A - Corporate Participant

Again, I think they have -- other than the more physical things you see on the synergy and the work on the company, already at this point we start shifting from synergies to really doing a good work. So at the end, a lot of things...

[Technical Difficulty].

...but I think a lot of things are -- and we are learning a lot on the process and we have many, many initiatives from convenient stores towards method of payment. All the way to branding relationship management, logistics, infrastructure, a lot of stuff that has been done since we started this process and this has actually been very successful. Some of those initiatives actually started before the JV. I mean in Cosan fuels and lubricants, still when we started opening mills, we opened like -- we made four investments in new terminals for opening new markets and others. When we merged the companies, the new infrastructure was starting and ready to do stuff.

So from now on, we'll start to really have trouble in separating synergies from normal...

Q - Christian Audi {BIO 1825501 <GO>}

Right. And then on that front as we look ahead to 2013 thinking about CapEx, more specifically growth CapEx as opposed to maintenance CapEx for this distribution business, with the rebranding behind you, do you -- are you foreseeing, and I know you probably have not got to that point of doing the CapEx for next year, but do you foresee a growth CapEx for the distribution business for 2013 that is maybe as aggressive as it was in 2012 or we should expect kind of a more natural maybe decrease in this growth CapEx into 2013? How are you thinking about that?

A - Corporate Participant

FINAL

I think actually you should expect a slow decrease on that going forward given that the more you grow in this business, the more marginal the growth CapEx becomes. So for instance when you are growing and you're growing to a new region and then you have to actually put an infrastructure there, have not only on the OpEx side but also on the CapEx side, your operations will fall in the region. And after that, then you have to get stations and let's say invest in the market. When you're large enough, I mean even your contracts when you're strong in one certain region, even your contracts are cheaper. So again, these get better and better on the long run.

So there is a combination that you should expect that the CapEx originated on capturing the synergies or putting the companies together and having things organized as one single entity, this should be ending at the end of the year. And then the growth becomes cheaper on the long run as well. As we mentioned, the focus in growth areas is the white flag that we feel that, especially with our smaller mix of ethanol, we have really seen a lot more appealing to carry a brand than to be a -- so this is actually where we are really targeting to grow on the commercial side. And this is actually an expensive growth.

Q - Christian Audi {BIO 1825501 <GO>}

Right. And then what product expansion, this cheap growth that you're talking about, as you're looking to the next tier, how much of it would be more in the -- region versus the rest of Brazil more or less?

A - Corporate Participant

I don't know by heart, sorry. We can actually get some numbers on that and you can call Guilherme to tell you. But, we're quite balanced. We see opportunities in pretty much everywhere.

Operator

The next question is from Gustavo Gregori, Deutsche Bank. Please go ahead.

Q - Gustavo Gregori {BIO 16209398 <GO>}

Hi. Good morning. I wanted to ask if there are any updates on the CDB collapse?

A - Corporate Participant

I think there is no let's say updates on that. And since the last call I think we are in the same, we have -- I know there is conversation happening among shareholders. I am not really participating much on those. This is more a shareholder issue than anything. But nothing much exact or any milestone in Q2 to be worth telling on or notifying.

Q - Gustavo Gregori {BIO 16209398 <GO>}

Alright, thanks.

Operator

Your next question is from Felipe Koh, Citigroup. Please go ahead.

Q - Felipe Koh {BIO 17962174 <GO>}

Thank you. Thanks for taking my questions. -- joined the conference call in English. I have one question is, recently -- hello, can you guys hear me?

A - Corporate Participant

Yes. Hello?

Q - Felipe Koh {BIO 17962174 <GO>}

Okay. recently we heard, we read actually on the local newspapers about a questioning from the Brazilian federal tax entity, the -- about the amortizations of goodwill, some accusations in the past also.

I just wanted to check, did you see any risk of the -- trying to put a -- on the goodwill generated on the possible conclusion of the Comgás deal that -- in the coming months right as you mentioned in the Portuguese call? And also in the local newspaper also mentioned about the coming new deal, right, a good view on that. Can you give us a little color, elaborate on that? Thanks.

A - Corporate Participant

Yeah. If you want to get more -- I have Mr. -- our Controller here with us. But what he was saying while we were still in your question is that this is kind of quite a old subject that is being re-floated very often. So it's not something that is kind of a new initiative. It is something that has been talked about for a long time already, so probably more than three, four years.

Obviously, this can be a excuse, they changed the rule before we even closed the deal. If it's after we closed the deal, then I don't see much of a risk. But in your Comgás deal question, I don't quite got the question. If you could repeat what exactly you want to hear.

Q - Felipe Koh {BIO 17962174 <GO>}

Just want to check if there is any risk on your view that we could not see the -- regenerate from the goodwill. I think that you mentioned that in the previous calls that it's about R\$500 million, it's about R\$500 million to R\$600 million. That is a good amount of money. Just to check if you see any probability...

A - Corporate Participant

Not. So about the Comgás deal, yeah, I think in my last answer helps on that. There is a risk if something changes. But we don't believe there is a change that is that imminent and this is a longstanding discussion.

Q - Felipe Koh {BIO 17962174 <GO>}

Okay. Thank you.

Operator

Thank you. This concludes the question-and-answer session for investors and analysts. I will now turn the conference over to Mr. Guilherme Machado for any closing remarks.

A - Guilherme Machado {BIO 17920567 <GO>}

So I would like to again thank you all for joining us for conference call for the first quarter earning release for fiscal year 2013. And thank you all.

Operator

The conference has now concluded. Thank you all for attending today's presentation. You may now disconnect.

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