

## Q3 2015 Earnings Call

### Company Participants

- Andrea Fernandes, IR Manager
- Marcelino Seras, Chief Executive Officer
- Marcello Guidotti, Chief Financial Officer

### Other Participants

- Fernando Abdalla, Analyst
- Leandro Fontanesi, Analyst
- Marcio Prado, Analyst
- Renato Hallgren, Analyst
- Rogerio Araujo, Analyst
- Sami Karlik, Analyst
- Unidentified Participant
- Victor Mizusaki, Analyst

### Presentation

#### Operator

Good morning and welcome to EcoRodovias Third Quarter of 2015 Earnings Conference Call. With us today, we have Mr. Marcelino Seras, the Company CEO; Mr. Marcello Guidotti, CFO and IRO; Andrea Fernandes, IR Manager; and also the Investor Relations team. We would like to inform you that this presentation is being recorded and all participants will be in listen-only mode during the company's presentation. Afterwards, we will have the question-and-answer session exclusively for analysts and investors of the industry when further instructions will be provided.

(Operator Instructions) The audio and the slides of this call are being broadcast simultaneously at [www.ecorodovias.com.br/ir](http://www.ecorodovias.com.br/ir). This is where you will find the presentation for download from the webcast platform in the Investor Relations section. Before proceeding, we would like to clarify that forward-looking statements that may be made during this call relating to EcoRodovias' business prospects, projections as well as operational and financial targets are based on the management's beliefs and assumptions as well all the information currently available.

They involve risks, uncertainties and assumptions as they refer to future events and therefore they 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.

Now we would like to turn the floor over to Ms. Andrea Fernandes, Investor Relations, who will make the initial remarks about the third quarter of 2015 results. Ms. Fernandes, you may proceed.

## **Andrea Fernandes** {BIO 21294199 <GO>}

Good morning, and welcome to another EcoRodovias Group conference call today referring to the results of the third quarter of 2015. We thank you for your interest and your participation. The third quarter was marked by operating management discipline that resulted on a comparison basis in a 12% reduction in the cash cost and savings of BRL35 million by the growth of 9.8% to the average tariff for primary [ph] concession by the improvement in the Elog result coming from the implementation of the new strategic plan with asset optimization and higher operating efficiency and also the return of collection of suspended axles as of September 8 at the Caminho do Mar and Ecocataratas concessionaire.

Starting with the explanation about the results obtained in the third quarter of 2015, we can see on slide two that the consolidated traffic of paying equivalent vehicles had a growth of 5.9% in the quarter, and excluding the traffic of ECO101 and Ecoponte, we saw a 2.6% reduction in the quarter.

This reduction comes mainly from the non-collection of suspended axles at the Parana State concessionaire up to September 8th and up to now in Rio Grande do Sul, also the reduction in commercial traffic at Ecopistas influenced by the slump in industrial production and by the beginning of exemption of suspended axles collection and Dutra Corridor and also the reduction of the passenger vehicle flow in the border region, Ecosul and Ecocataratas due to the appreciation of the dollar.

As a positive highlight, we show the growth in passenger traffic in the state of Sao Paulo concession. At the Ecoporto, container handling at the quay operation had a 65.1% reduction in the quarter and warehousing operations had a reduction of 41.5%.

Quay operations were influenced by the completion period of the portainer installation in July 2015 by the discontinuity of two port services and by the slowdown in the economy, the reduction in the warehousing operation came from the lower volume of import cargo and also the reduction in warehouse material held at the port itself, at the terminal itself, due to the reduction in the port volume in relation to the consolidated performance of the Group on slide three in a comparable pro-forma fashion, net revenue reached BRL666 million in the quarter with a growth of 5.3%. Revenues were positively impacted by the beginning of toll collection at Ecoponte, by the contract at dos Imigrantes [ph] the toll tariffs at highway concessions, and the better performance of Elog, nevertheless they were negatively impacted by the reduction in the Ecoporto Santos handling operation.

FINAL

Going to slide number four, cash costs reached BRL294 million in the quarter, a reduction of 3.5% and in spite of the increase in cost due to the beginning of operations at ECO101 and Ecoponte and on the consolidation as of July 2015 of 100% of the Elog costs, which up to June 2015 were 80%. Net of the effect on a comparable basis, the reduction was 12.4% or BRL35 million, special mention to BRL21 million of savings at the Services and Holding companies related to the streamlining of our headcount and reduction of expenses at third-party services and savings of BRL11.9 million at Ecoporto due to the lower volume of operations and also headcount streamlining.

The company continues to focus on operating efficiency gains and cost reduction. The comparable pro-forma EBITDA for the quarter was BRL372 million, a 13.6% growth and a 55.9% margin as we show on slide five. In spite of the adverse market conditions, our highway concessions showed a strong resilience of their results measured by the 12.4% growth in EBITDA for the quarter when compared to the same period in 2014, in which it was BRL354 million.

On slide six, we show the evolution of our net income. The main effects of the quarterly variations were increase in the net financial expense in BRL105 million due to the variation of the IPCA, the SELIC, the dollar and the increase in the gross debt. The bigger asset base accounted for the increase in depreciation and amortization by BRL13 million.

In relation to investments, slide 7, we keep the Company's commitment to invest according to our contracts and the business needs and we can highlight the initial works of ECO101 and the works of Ecopistas. The estimated CapEx for 2015 proportional to EcoRodovias' participation is approximately BRL650 million in line with the estimate that we published at the beginning of the year.

On slide eight, we show the debt per instrument 82% debentures, and the pro-forma net debt to EBITDA indicator 3.2 times in September 2015. Continuing on slide 9, we can see our debt per index and the main ones are our IPCA and CDI.

We closed the quarter with cash of BRL523 million of the total commitments that we have for the fourth quarter of 2015, BRL222 million refer to Holding company promissory note that will be shackled with our own resources and third parties results as well. BRL317 million of the BNDES bridge loan for ECO101 that was postponed to May 2016 and will be replaced by the long-term loan in advance the concession stage, as we can see the results of this quarter during 2015, we implemented actions aiming at a new level of operating efficiency, especially by means of opportunities for cost reduction and improvement.

We will intensify our endeavors in the fourth quarter and in 2016 revising our processes and our cost base, our CapEx base applying to all our businesses the zero base budget matrix methodology. With relation to the government infrastructure program, we understand that there could be delays in the schedule -- original schedule by the government during the current political and macroeconomic environment.

Moving forward, the company continues to track the infrastructure program and continues to be focused on the contract amendment for the highways. I would like mention that investment [ph] opportunities are always analyzed in the light of capital discipline and considered according to the financial capacity of the company and the return from each project.

With this, we conclude our presentation. Now we would like to open for questions. Operator, we are ready to receive questions from analysts and investors. Thank you very much.

## Questions And Answers

### Operator

Thank you very much. Now we will start the Q&A session for investors and analysts. (Operator Instructions) The first question comes from Sami Karlik, Bank of Votorantim.

#### Q - Sami Karlik {BIO 16221284 <GO>}

Good morning, everyone. I have two questions. I would like to know if you can give us an update regarding your divestment from assets, mainly at Elog [ph] and Ecoporto, especially Elog is that improved results significantly in the third quarter. I would like to understand and what kind of multiples would you be considering as acceptable for the sale of these assets. I believe that Ecoporto would be more long term. And the second question has to do with the capital structure of the company. The bridge loan of the BNDES that you mentioned with the extension of the maturity, is the cost going up? I believe that it should be, yeah 3 plus 4, but what kind of cost do you believe you will have for the new financing with the BNDES?

#### A - Marcelino Seras {BIO 16618338 <GO>}

Sami, this is Marcelino. The divestment process is going ahead normally, the thing you have in a normal asset sale, the investors that are interested are finally engaged [ph] and having access to information and as provided by the process itself and we believe that the conclusion and the information to the market should occur in the medium run, maybe during the first quarter of next year this is what we expect. As announced, let's just leave it and postpone this kind of information as we receive the final proposal.

#### A - Marcello Guidotti {BIO 16618352 <GO>}

This is Marcello, about the ECO101 financing, we have already divested totally the short-term, it was extended, but due to the delay in the signing of the long-term contract, it's already in the final stages and we expect to you have the okay by the company very soon. The short one has the plus 366 [ph], the long-term interest rate plus 366 this is back to the dollar and in the long run, when you change to the long run in January, 2016, all the financials will be replaced by the financing in long-term interest rates. But it is more inexpensive, still in negotiation, but it will be cheaper than this one. Thank you.

## Operator

Renato Hallgren, Banco do Brasil.

### Q - Renato Hallgren {BIO 17989415 <GO>}

Good morning. Thank you for the question. Regarding ECO101, the tariff was 18.61% that is at 8.3 [ph] referred to inflation and the remaining has to do with the non-collection of the suspended axles and costs that were not provided for in the contract. So could you talk about this last item, the costs which were not provided for in the contract, what is the current in this regard?

### A - Marcelino Seras {BIO 16618338 <GO>}

This is Marcelino. These are normally adjustments that you carry out and we have to face the behavior of the entity, because we do this on an annual basis and you have the schedule and the investments, which are contractual and non-contractual. So there is (inaudible) result restorations and (inaudible) that would be delivered by the Elite [ph] contractually, and they were not delivered by the Elite. So these were the services, the repairs that were the objects of this increase in the tariff. And this occurs systematically everywhere, it's a case of Ecosul every year, it will be the case of Ecoponte as well such as it is the case of ECO101, this is just business as usual.

### Q - Sami Karlik {BIO 16221284 <GO>}

Thank you, Marcelino. Guidotti, you talked about financing of ECO101 and you mentioned that the cost will be reduced and also the grace periods were altered and the maturity of -- and you put the long-term interest rates plus 1052 [ph]. Is he referring to these figures or not?

### Q - Renato Hallgren {BIO 17989415 <GO>}

No, it's the short term cost, the one I referred to, when we negotiate the long-term, the long-term always has a lower price because it doesn't carry the part in dollar that is affecting very much the overall cost of the short-term of the BNDES loan, this variation of the dollar is an economic cost, it does not transform itself into a financial cost.

So economically speaking, we are being affected in the total due to the variation of the dollar linked to the 20% part of this and when we switch over to the long-term loan, we will have an improvement in the total cost for financing of ECO101 and in January, we will probably have this ready. Thank you.

## Operator

Rogerio Araujo from UBS.

### Q - Rogerio Araujo {BIO 17308156 <GO>}

Good morning, everyone. Thank you for the opportunity. My question has to do with sustainability of three points that we saw, which were very strong in the results of the third

quarter in Elog Holding company. And the Services division, I would like to know what was done in Elog, because you went from 15% to 20%, 20 additional points in margin and the sustainability of this margin level from now on. And regarding the Holding company, there was a dramatic reduction of costs over 20 million in the quarter, so could you specify where you achieved these cost reductions and if this is sustainable for the next few quarters?

And lastly in the Services company, what grew [ph] up your revenues and your margin, what do you expect for the future? So, these are my questions.

**A - Marcelino Seras** {BIO 16618338 <GO>}

Rogério, this is Marcelino. Elog first, this was driven by a strong management, a strategic reason that was followed by the Group in a very active manner. Elog really is on track now and the margins and the amount that you see today should be reflected as well in the next few quarters, of course taking into account the seasonality of the sector.

So Elog gets into what we expected since 2011 with the acquisition of this asset and in the case of the Holding company and the Services company, this was due to measures that we're taking based on the CBB method and having carried out the necessary adjustments, prudent adjustments on the part of the company and the company revisiting all the processes, and revisiting even the schedule, revisiting the organization of return [ph] of the companies and so we have been improving the results of these companies on a quarterly basis.

And also regarding our amendments, our contract amendments, today undoubtedly the main focus of the company, of course, all of the investments that have already been explained in this call.

**Q - Rogério Araujo** {BIO 17308156 <GO>}

Could you give us a breakdown of this cost reduction at the Holding company? How much was with consultancy services and headcount?

**A - Marcelino Seras** {BIO 16618338 <GO>}

What is important is to put the Holding company, (inaudible) people from one company to the other, and so you really have to look at the companies altogether that not isolatedly and this is also due to a comparison with previous quarters in which there was a lot of work done because of the expectation regarding the new auction that would be realized and that were not carried out this year and that was postponed for 2016. Thank you.

**Operator**

Our next question comes from (inaudible), Morgan Stanley.

**Q - Unidentified Participant**

Good morning everyone and thank you for the opportunity. Could you give me a follow-up about Elog along the lines of the previous questions, could you give us some more color regarding your initiatives at Elog and why you didn't do that before, let's say, in the last two or three quarters. And then I will ask my other questions.

**A - Marcelino Seras {BIO 16618338 <GO>}**

I believe that the performance of Elog is being achieved for the third consecutive quarter, showing better and better results undoubtedly, once again I repeat that this is because of the effort done by the top-level management can the (inaudible) strategic factors by the company and the good behavior that we have in the customs area and the non-customs area as well and I would say that this is the main explanation for the fact that the Elog is delivering this kind of results today.

My second question has to do with Ecopistas, should is shorter than Dutra. So we have to fix it by means of discussions that we are already carrying out with the renting agency regarding this [due] that we have because of the suspended axles, non-collection in the case of Ecopistas.

**Q - Unidentified Participant**

My second question has to do with Ecopistas, should we continue to see loss of share to Dutra and could we see an additional drop in traffic of around 5% for the next few quarters?

**A - Marcelino Seras {BIO 16618338 <GO>}**

It's important for you to understand the behavior of traffic in Ecopistas, light vehicles most of it, and the remainder heavy vehicles about 70%, light vehicles have been like growing to the detriment of Dutra itself. When you see the behavior of the two highways and if you talk about the heavy vehicles, we are discussing with the renting [ph] agencies, due to the contract imbalance that we have due to the fact that one of them is collecting or charging for the suspended axles and the other one not able to charge for the suspended axles, and in terms of empty vehicles, it sure becomes cheaper to travel by Dutra. On the other hand, when you have a loaded truck, it is practically the same kind of expenditure on the part of the driver, the truck driver.

And then the Ecopistas system (inaudible) is shorter than Dutra. So we have to fix it by means of discussions that we are already carrying out with the renting agency regarding this, due to that we have because of the suspended axles, non-collection in the case of Ecopistas.

**Q - Unidentified Participant**

And if you would allow me, I would like to know the opportunity that you see ahead in terms of the amendment and also your investment plans vis-a-vis the infrastructure plan on the part of the federal government this year?

**A - Marcelino Seras {BIO 16618338 <GO>}**

FINAL

The Federal, Municipal and State budgets were rather shaken this year, in some presenting relevant deficit and this could continue to occur in 2016 as well. And this creates on the other hand some good expectations and discussion about contracts with the agencies involved, renting agency and today, we are very much involved in negotiations with the State of Canada, Ecoviver and Ecocataratas, negotiations are also in Sao Paulo, Ecoviver, Ecopistas and Ecosul itself, in all the places, we see opportunities and we could end up getting very good investments regarding the tariff or the concession term or duration.

So the outlook for this year end and for next year is related to the whole range of amendments. But due to the fact that the agencies are -- today have lower volumes or less resources for investment, this represents an opportunity for the concessionary that are already there. Thank you.

## Operator

Victor Mizusaki with Bradesco BBl.

### Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning. I have two questions. The first has to do with 101, just to make it more clear regarding traffic, when we look at heavy vehicles, the volume dropped by more than 15% in the adjustment of the tariff of 101. How much was related to suspended axles? And the second question has to do with cost, Marcelino you mentioned the CBB implementation, zero based project implementation, when will the program be fully implemented and what is your cost reduction expectation coming from the CBB implementation, how much could we consider in our modeling?

### A - Marcelino Seras {BIO 16618338 <GO>}

Victor, this is Marcelino. At 101, we had a 9% adjustment regarding the total tariff, light and heavy vehicles had a 9% increase in the tariff and this corresponds basically to the 15% reduction in the collection of axles, suspended axles, so one thing balances the other and annually this will be checked by the concessionary agency and corrections will be made as needed. In terms of cost, we are about to finish our budget for 2016 and ahead and beyond and we expect the level presented in the last quarter may continue in an annualized manner.

### Q - Victor Mizusaki {BIO 4087162 <GO>}

One last question. Looking at the bridge traffic and now we have the full quarter comparing to the traffic last year, we saw a slight drop. Where does it come from, is it because of the economy as a whole, or is there any effect of the suspended axles issue?

### A - Marcello Guidotti {BIO 16618352 <GO>}

Suspended axles is very small in the characteristic of the vehicles that go. Well, maybe you have 1.5%, 1% but the main thing that happened at the BNDES bridge today has to do with non-concluded investments. Some of them (inaudible) were concluded one or two



months ago and beyond, related to (inaudible) whole series of projects that are closer and closer to the bridge mobility projects related to the Olympics.

So we expect that, when these projects are concluded at least partially traffic recoverage. On the budget, regarding the economic activity as a whole, we track the other models and all of them are showing a very similar situation, eToro [ph] for instance, this is a region of naval [ph] and oil activities. So the governments have to make their own decisions regarding resuming investment just to complete what Marcelino said, this is Marcello, (inaudible) on cost and we have cost under control, very much still in the results EBITDA according to our expectations. ECO101 and Ecoponte have been behaving very well, I would say. Thank you.

## Operator

Leandro Fontanesi from Bradesco BBI

**Q - Leandro Fontanesi** {BIO 20270610 <GO>}

Good morning. Could we go into CapEx a little bit more?

**A - Marcello Guidotti** {BIO 16618352 <GO>}

I believe the total value was more or less stable quarter-on-quarter, dropping slightly 1%, but if you look at the businesses, separately, Ecoporto had an increase and maybe this refers to the exchange rate because of the equipment is imported, but on the highway part there was a drop of about 5% as I can see.

**Q - Leandro Fontanesi** {BIO 20270610 <GO>}

Does this reflect a decrease in the cost of the projects already, or was it because of a postponement of investments to 2016?

**A - Marcelino Seras** {BIO 16618338 <GO>}

Ecoporto, the increase reflected the last tranche of the payment of portainers that happened this quarter, so this was the difference that you saw and with this tranche of investment, they finished and as of the next quarter, we will no longer have these investments, and this also reflects the exchange rate. Because of that, there was a correction in the investment related specifically to this. Regarding the highway, the decrease has to do with the efficiency management and this has been reflected on that and we tap into this moment to negotiate with our suppliers, our contract and this is why we achieved the savings, I would say that these are savings that we have captured.

**Q - Leandro Fontanesi** {BIO 20270610 <GO>}

And on the bridge, in the quarter was about BRL3 million, we do intend to continue that because this is not included in the guidance, the Ecoponte separately?

**A - Marcelino Seras** {BIO 16618338 <GO>}

Ecoponte has contract enhancement for the first year, most of these executive project are ready in the market for price survey and from now on some investments will be made. And the main ones happen only after the second year of concessions, they're very important such as returns, and toll passes and many other let's say micro works and they will start still within this year.

**Q - Leandro Fontanesi** {BIO 20270610 <GO>}

Thank you very much.

**Operator**

Marcio Prado from Goldman Sachs.

**Q - Marcio Prado** {BIO 15398968 <GO>}

Good afternoon everyone. Thank you for the call. Regarding your leverage, could you give us the guidance?

**A - Marcelino Seras** {BIO 16618338 <GO>}

Leverage was stable this quarter, after some quarters going up.

But you still have a stronger cash program ahead, so do you have an estimate of a maximum leverage that you could reach and you have a timeline for that? Why do you believe you will be the maximum leverage before starting again to deleverage?

**Q - Marcio Prado** {BIO 15398968 <GO>}

But you still have a stronger cash program ahead, so do you have an estimate of a maximum leverage that you could reach and you have a timeline for that? Why do you believe you will be the maximum leverage before starting again to deleverage?

**A - Marcelino Seras** {BIO 16618338 <GO>}

The investment cycle of EcoRodovias tend to drop with Ecoponte and ECO101. They are new cycles of investment, but they are very much stretched over time, both Ecoponte and ECO101 and both already generated EBITDA that growing because of the tariff adjustments, increase in traffic and so on and so forth. So I do not foresee any major investments in the future. I would say that the level of indebtedness that we have today should remain stable with a downward trend for the next few quarters.

Of course, maintaining the cost of debt stable and we must not forget that if interest rates continue to go up, inflation continues to go up, of course there will be an impact on the amount of our debt. But in terms of contracts, I don't see any problems. We already have a high level here at Ecoponte, ECO101, once again, the CapEx will be disbursed over the next five to 10 years, already contributing on the other hand very much so to the EBITDA and the other concessionaries already have the CapEx that is meeting the needs and I think this is a snapshot. I cannot give you a guidance because it depends on many variables, but from the operating viewpoint, we have everything under control

**Q - Marcio Prado** {BIO 15398968 <GO>}

Thank you, Guidotti. Could we have a follow-up on that please? In the release you said that you have a major maturity now in the fourth quarter in past will be settled with your own cash. And you mentioned the issue of new instruments, that instrument may be, so maybe you could talk about that? And also a little bit regarding the strategy that you have to rollover debt for 2016. You have other maturities, they are not that big, but they are not so small.

**A - Marcello Guidotti** {BIO 16618352 <GO>}

As you said, that the next ones are not that big. And we have cash generation and our CapEx is not that big. So we are very comfortable with our strategy for 2016. And the issue of the maturity that we will have at the end of this year, is already started [ph] this by means of our cash generation and supplementing this with a credit facility, also improving our tax efficiency and trying to decrease our debt at the Holding company level, but we already have the net tariff funds earmarked for that, so it's no longer a problem and another maturity that we have is the ECO101 that has already been switched over to the other one, to the other loans. So the strategy for 2016 has already been established and I don't see any major problems there. Thank you.

**Operator**

Fernando Abdalla, JP Morgan.

**Q - Fernando Abdalla** {BIO 15381888 <GO>}

Container handling 20,000 in the quarter you had almost or more than 60,000 in the past, how many contracts do you have in your portfolio in container handling and what is the maturity of these contracts, could you talk about the outlook for container handling operations from now on.

**A - Marcelino Seras** {BIO 16618338 <GO>}

This is Marcelino, could you repeat the question because we couldn't hear you very well at the company, Marcelino asks?

**Q - Fernando Abdalla** {BIO 15381888 <GO>}

I would like to have a little bit more color about the Ecoporto vis-a-vis container handling this quarter. Over the last few quarters, we saw a steep reduction in your container handling operations. So what are the contracts that you are still having forth for container handling and I would like to know when they mature and if you have any other contracts and the performance of the company as far as container handling is concerned?

**A - Marcelino Seras** {BIO 16618338 <GO>}

We do not see an improvement in the short run for this next quarter, quite the opposite in fact. The process that we have today at Ecoporto could even be discontinued in this area because of the small amount of cargo that is handles and we are ready to participate in the big that will start at the end of the year and especially in the first quarter of 2016 as

Ecoporto technologically is very well prepared and may be this was the reason this year for this drop because we spent some months or some weeks phasing the equipment and installing the equipment and now we are ready with the port terminal and we are going to be a contender in the bidding processes. So the contract that you have today ends when, December

**Q - Fernando Abdalla** {BIO 15381888 <GO>}

Let's say you are not able to get any other contracts, you could receive zero container handling from now on?

**A - Marcelino Seras** {BIO 16618338 <GO>}

It's never zero because you have general cargo services and support services. So it's never zero. But the new services, the object of the bidding process that usually happened at the beginning or the first quarter of this year, we are ready to participate in the bidding processes.

**Operator**

(Operator Instructions). The Q&A session is now closed. I would like to give the floor back to Ms. Andrea Fernandes for the closing remarks.

**A - Andrea Fernandes** {BIO 21294199 <GO>}

I would like to thank you all for participating in our call and say that the Investor Relations department is available to solve any further doubts that you might have. Thank you very much.

**Operator**

EcoRodovias conference is closed. We thank you for your participation and wish you all a very good afternoon.

*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.*