

Y 2020 Earnings Call

Company Participants

- Marco Antonio Souza Cauduro, Chief Executive Officer
- Marcus Vinicius Macedo, Investor Relation Director
- Waldo Edwin Perez Leskovar, Chief Financial Officer and Investor Relations Officer

Other Participants

- Analyst
- Andressa Varotto, Analyst
- Fernando Oliveira, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. Thanks for waiting. Welcome to CCR SA Fourth Quarter 2020 Earnings Results Conference Call. All participants will be in a listen-only mode during the company's presentation. Right after the company's remarks, we will hold a Q&A session when further instructions will be given. (Operator Instructions) Before proceeding, we would like to inform you that forward-looking statements made during this conference call relating to CCR's business specs, operational and financial estimates and goals are based on the beliefs and assumptions of the Company's management and on information currently available.

Forward-looking statements do not guarantee future performance. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur. Investors should understand that general economic conditions, sector conditions and other operational factors could also affect the Company's future results and lead to results that differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Marco Antonio Cauduro, CCR's CEO. Mr. Cauduro, you have the floor.

Marco Antonio Souza Cauduro {BIO 15412000 <GO>}

Thank you. Good morning, good afternoon, everyone. Thank you for joining us in our fourth quarter 2020 earnings results conference call. After six months, heading the company, I would like to share the positive perspectives we have for 2021. We concluded a reorganization of our management and we now have a more horizontal structure aiming

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to give more agility to the decision making process that will be key to support our growth agenda. In the final stage of this process, Luiz Thome joined us this week, our new Director that will be in charge of the maturing of our management model, and also in charge of our people's management. I would like to highlight the resilience and execution capacity that our company showed during the COVID-19 pandemic. Our operations continued with the same excellency and operational safety. I would also like to highlight the financial robustness of the company that keeps with its growth agenda consolidating its leadership and competitiveness position to support our growth agenda. We have recently created a new business department that aims to assess the set of projections and the concession agenda in Brazil for the next three years with the CapEx of around BRL140 billion.

Our main focus is on roads, urban mobility and airports. I would like to highlight that the growth of the CCR Group is based on our diligence, our capital discipline that aims to generate value to our shareholders. Therefore throughout this journey, we need to call your attention to the excellent service that we provide always delighting our customers and working with social and environmental responsibility. We are committed to the planet and to society and this is reflected in our long-term plan, where the expected key goals and expected results bringing ESG practices to our decision-making process.

I would also like to express my deep gratitude for our employees, who are working on a daily basis with passion and determination to provide our customers with excellent service and safety. I would also like to thank all the healthcare professionals who are dedicated and working bravely in the midst of those pandemic that has hit us hard. We are still committed to collaborating to healthcare measures and protective measures to minimize the impact of the pandemic. So CCR has joined a major group of companies donating BRL8 million to the Butantan Institute to build the new COVID-19 vaccine plant. We are sensitive towards the situation that the population is living right now, but we expect better days to come in the second half of 2021. Now I'd like to turn the floor over to Waldo, our Financial Director who is going to give you the highlights of the fourth quarter of 2020.

Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Thank you, Marco. Good afternoon, everyone. Joining me today are Marcus Macedo, our IR Director; Flavia Godoy, Douglas Ribeiro, Natalia Fialho and Caique Moraes, also from our IR team. Before I give you the fourth quarter highlights, I want to talk about the year of 2020 in general. This was an uncommon year marked by the consequences of COVID-19 pandemic. The pandemic brought about a series of new and extremely complex challenges, we had to learn how to deal with them with agility and efficiency to manage our business and to offer more safety to our stakeholders in such a difficult moment. Since the beginning of the crisis, CCR has a structured and adopted several measures, in order to go through that moment of uncertainty and to prepare for the recovery time.

We focused on cash preservation anticipating the financing lines, funding and borrowing lines that we were planning for the year and also strict capital allocation measures for the investments made throughout the year with a prioritization process. However, I reinforce that we have kept our contractual obligations in the level of safety in our operations. That has always been a priority for CCR. As a main element, we always had solid cash

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management and financial discipline, which helped us go through the most critical time of this crisis. I would like to highlight the main actions that we took throughout the year to face this uncommon times. We suspended the payments of the financing contracts with BNDES from April to September 2020 and we renewed the benefit for another six months in some of our assets. We adopted MP936 reducing the wages and the workload of the management for three months. Starting in May 2020. We also included the airport additives to reprogram payments of fixed contributions and debt reimbursements. Among other cost and investment management measures. Another important highlight is about CCR's leverage, measured by net debt over EBITDA, in spite of the challenging scenario we kept our robust cash position and leveraging of 2.9 times, a bit higher than the third quarter of 2020, which was 2.7 times. We believe this is a healthy level to maintain the growth of the company and we would like to say that our results were impacted by the effects of the pandemic. Once the results are normalized, we'll see a consequent reduction here. So talking about growth, I would like to highlight the extensive pipeline we have ahead of us for which we're very well positioned.

We have opportunities in all the segments we work in in the several years. For roads only we have a bidding process or re-bidding process of 18 federal roads, up to 2023 plus state programs. These projects account for BRL140 billion investment in Brazil with BNDES. There are several project that may occur in 2021, BR153 in the end of April, BR163, R381 CRT, RodoAnel, Belarusonte [ph] and Dutra. Recently, we have announced to the market the approval of a contract extension, up to the end of February 2022.

In the airport sector, we are forecasting two rounds of bidding. The six and the seven rounds comprising 39 airports. The federal government has published the competition documentation for the next round, and the auction is planned to take place in April 2021 and the seventh round for 2022. For urban mobility, the bidding of the seventh line of CPTM and the intercity train in Campinas, which is in the final stages of the studies for a public hearing phase. We also expect lines eight and nine of CPTM, which had an auction for March 22, but it's been temporarily suspended. We are watching that process from up close. I'd like to conclude saying that in spite of the pandemic still being around, we have overcome many challenges in 2020 and we are facing the situation in a very straightforward and resilient manner and we continue optimistic about the future, especially considering the many opportunities that we see ahead of us, some of which I just mentioned. So these are my main messages before I could talk about the fourth quarter results. So before Marcus give you further details, I'd also like to say that in the fourth quarter of 2020 inspite of the effects of the pandemic affecting our results, the traffic of the roads continued presenting results that show resilience and a small trend of improvement compared to the beginning of the pandemic that can be shown in our numbers as you've seen in the weekly notices that we published.

And the urban mobility and airport indexes have been stable with a few oscillations. And although they represent significant impacts, they were much smaller than what we saw in the beginning of 2020. So we're still optimistic about the recovery of this market. Now I'll turn the floor over to Marcus, who will give you further details about our results.

Marcus Vinicius Macedo {BIO 15022391 <GO>}

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Thank you, Waldo. Good afternoon, everyone. Now I'm going to show you the main numbers, IFRS numbers for the fourth quarter of 2020. We excluded new projects and assets in which there was a change in the Company's stake. So starting with the quarter highlights. Vehicle traffic increased by 4.6% year-over-year excluding ViaSul that was just a drop of 0.1%, so a great improvement compared to the third quarter of 2020. This was the result of a drop of 8.5% in light vehicles year over -- quarter-on-quarter and a growth of 4.7% in the traffic of heavy vehicles year-over-year. At the end of our earnings release, we have a chart showing that although there was an impact caused by the pandemic, we are in a clear recovery trajectory compared to the beginning of the pandemic either in roads or in the other businesses of our company. So adjusted net profits achieved BRL2.6 billion in the fourth quarter of 2020, a drop of 3.6% year-over-year, adjusted EBITDA decreased by 30% with a margin of 41.2%. So same basis adjusted EBITDA with a margin of 4.2% so, a decrease of 15.6 percentage points. Thus EBITDA drop is due to the impacts of the pandemic and also no recurring effects such as the impact of the effect caused by the return of MSVia and balances obtained in the San Jose airport, BH airport and the provision for Metro Bahia, excluding these effects on our profit and EBITDA. We would have a drop of net profit adjusted at the same basis of 9.8% year-over-year, but adjusted -- same basis adjusted EBITDA would have had only an 11.4% drop and not 30% as we reported including non-recurring effects and same basis adjusted EBITDA margin would be only 1.4 percentage points lower year-over-year.

So these results show that the working -- the company is working hard to keep costs and maintain operational efficiency and the business that has majoritarily fixed costs in times of pandemic that impacted several units of our businesses. More details about the non-recurring effect that I just mentioned can be seen in our earnings release. So now, let's talk about total costs. Same basis costs had an increase of 13.2%. This increase is mainly due to the impact of larger depreciation and amortization costs because we are almost near the expiry rate of Novo Nordisk contracts and although there is no cash effect, this impacts the net profit of the quarter.

Also the exchange depreciation had a negative impact on the dollar businesses of the company. The revenue of these businesses was reduced because of the effects of COVID-19. So I'm talking about airport businesses that were hardly hit during the pandemic, and this quarter, we also saw some non-recurring effects on our costs and I want to mention the MSVia return. We have a provision of loss of recovery of BRL105 million considering that those process is already at an advanced stage. If we considered only this effect, the total cash costs of Brazilian companies would have had a 2.9% reduction. So once again, this shows our efforts and disciplines for cost contention. For further details, take a look at our cost section in our earnings release. So same basis net loss was BRL78.2 million in the fourth quarter and a profit of BRL395.4 million last year and reported net loss was BRL74.8 million not same basis and a profit of BRL392.6 year-over-year. This drop shows the effects of the pandemic, as well as the non-recurring effect of MSVia as well as the non-recurring effects of depreciation and amortization, since we're going at or near the end of the contracts of NovaDutra and Novo Nordisk.

If we exclude only the non-recurring effects of MSVia, we would have had 176 million same basis profit and not loss. Now, net profit we had BRL13.6 billion in the fourth quarter of 2020. A reduction of 2.3% and 2% compared to the fourth quarter of '19 and the third

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quarter of 2020. Company's leverage, measured by the net debt over adjusted EBITDA increase compared to last quarter or the third quarter of 2020, 2.9 times in the fourth quarter, which reflects our financial discipline that try to reinforce our financial position to face such a challenging moment that the pandemic has brought upon us, so we are in a comfortable position to continue with our qualified growth strategy and financial discipline.

As we commented previously, as soon as our results are not as hardly hit by the pandemic, this number tends to decrease. I would like to say that once we analyze the results of the company without non-recurring effects and in spite of the impact of the restrictions of the COVID-19 pandemic. The company has been able to achieve solid operating results as we can see in our earnings analysis. We now would like to open for questions and answers.

Questions And Answers

Operator

Ladies and gentlemen, we shall now begin our Q&A session. (Operator Instructions). Our first question is by Mr Enrique Simons [ph] from Credit Suisse.

Q - Analyst

Good afternoon. Thank you for taking our question. So, you asked about whether the leverage -- you said the leverage will help you continue with your growth agenda. So what is the power of this new leverage. Now you also asked about -- you also said, would like to know the timing of your new projects in the pipeline.

A - Marco Antonio Souza Cauduro {BIO 15412000 <GO>}

Okay. Thank you, Enrique, about leverage, we've been reinforcing our cash position. We closed the year at around BRL6 billion in cash. The projects and concessions that we are currently analyzing and we have robust projections as I said in the beginning of the call.

It includes a cash EBITDA. When we look at our balance, which is quite robust. We have a relevant pipeline of new opportunities and we should add to that the leverage that we can include in the new biddings that we may win. So we feel very comfortable. We think this is a competitive differential that CCR has. So that's the first point.

Now, second point. When you look at the leverage, as you know, it's not just a snapshot. You have to look at the profile of debt repayment compared to the cash flow that the company has. So, when we structure our funding and capital structure, we look at that very carefully. So not necessarily when we win a concession and we have a higher leverage in the beginning. I mean, that can be a problem because at the end of the day the structure will be generated to the cash generation not only of that project but of the company. So we think that this is a competitive edge for CCR.

Now about Sao Paulo balances, as we said in the past, we are still very engaged in this process. The conversations continue to be highly constructive. The state administration

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knows that investments in infrastructure are those that will bring economic growth and jobs as quickly as possible. So there is a great advantage there and we believe that we're willing to close this deal and so with the state administration, the conversations have been progressing well. But we don't know when this agreement will be approved because these are negotiations, analysis and conversations that are quite complex and so they are also time consuming, but I can tell you that we are on the right track, I believe.

Q - Analyst

Okay, thank you very much.

Operator

Next question by Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

I have two questions. The first about MSVia. I would like to know whether you have any idea of the timeline of when this process can be concluded, the MSVia process and since this has been done internally, you have an assessment report. Do you have any idea of how much the indemnization would be in this rebidding process and now about the balances in Sao Paulo, I mean this negotiation with the State administration, can you tell us a bit about the stages of the negotiation. Are you still discussing numbers or are you at a more advanced stage discussing contract clauses? Thank you.

A - Marco Antonio Souza Cauduro {BIO 15412000 <GO>}

Thank you. Now let's start talking about MSVia. This provision was made because there was an accelerated progress in this process in the fourth quarter with a finalization of the PPI, which was published in the Official Journal in January, 2021. So that was the third stage of the process. Now we are under a process of approval of a Presidential decree that is about to be published soon. Once it is published, would have to sign the additive [ph], which is also at an advanced phase and then there is the rebidding which should happen in within 24 months after the signature of the additive, I just mentioned. So this is the process and what I can tell you is that this is moving really fast.

Now about the compensation or indemnization. This is going to be calculated at the time of the rebidding. This indemnification. So for now, we don't know how much we're going to be paid in indemnification but of course we're going to be keeping an eye on that.

Now, your second question I answered about it to Enrique (inaudible) and yes, we are at a final phase of negotiation, so very advanced stage of negotiation, whenever an agreement is achieved. We are going to announce it. And then after that we would need the additives for each one of the concessionaires [ph].

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay, still about MSVia, in order to calculate the amount. Did you conduct report, I mean you conducted an assessment to see how much it's worth and how much investments

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were made. And then you can make a write-off of part of the investment. Is that what the process was like?

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Yes, we are always conducting long term assessments of our assets and when we know there will be a return then the future profile for that asset's operation changes. So we conduct a review, which is what generated the provision of BRL305 million. So it is a complex calculation. We discussed this thoroughly with our auditors, but things like tariff differential, probable fines, low maintenance provisions and other provisions considering predictability of future operations, all that is included in the calculations that is indeed done the way you described.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay, thank you very much.

Operator

(Operator Instructions) Our next question is by Fernando Oliveira from BTG Pactual.

Q - Fernando Oliveira {BIO 15036886 <GO>}

Hello, thank you for taking my question. I would like to talk a bit more about the new investment opportunities that you mentioned in your introduction. Well, you mentioned a few projects, Dutra and other roads. So what do you see in terms of competition for these projects and how competitive do you intend to be? Now I would also like to explore opportunities outside your area, you said that you wanted to go into different sectors. So what are you planning? Do you still keep that plan or you want to focus now on your core business sectors and then maybe leave this expansion for later? Thank you.

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Thank you, Fernando. Now about the competition in the projects we are focused on, that highly depends on the type and magnitude of the project as well as on the capacity of implementing the CapEx because the larger the project, the more complex it is not only in terms of vendors, suppliers and all of that, but in many other aspects as well. So I would say that we're very focused on the projects that we prioritized as essential. We don't see any new entrants, relevant entrants in the market. So I think the competition is the same as usual. And in the most competitive projects, we only have a few players with the capacity and expertise of CCR as well as financial capacity that we have. So this is pretty much what I can say about the competition in general and about investing other sectors outside those that we already operate in. As Marco said in his introduction, we have a new business department that is focused not only in growing in the models or sectors in which we already operate but also considering the attractiveness of different sectors, sanitation is one as the market knows, we analyze the sector, we took part in a bidding process in order to further enhance our knowledge of the sector.

We continue with our study and our analysis until we can be convinced that the risk return profile make sense for us to go into that segment. So we're going to continue focusing on

a pipeline that is currently huge of the sectors we already operate, but will also consider the attractiveness of other sectors such as that of sanitation and if we find the right risk return profile, we might make investments in other sectors indeed.

A - Marco Antonio Souza Cauduro {BIO 15412000 <GO>}

This is Marco speaking, Fernando. Thank you for your question. Now just a comment on what Waldo said. First of all, the Company has a set of skills that were developed throughout the last 20 years, we have a group of people who have been working in this market in these models for over 20 years, even before CCR was founded and we do have a very competitive positioning in roads, urban mobility and we want to become a relevant airport operator. And a very competitive one as well. So, considering our deep competence, our leadership in some sectors and an appropriate risk matrix of the projects that will come and the current models that we already work. We feel like we can price this risks appropriately and as a consequence, we can make use of all the competencies that we have in terms of strategy, finances and others to participate in the main concessions of these 3 models.

So we are one of the main infrastructure players in the region and therefore, we have the duty of considering new businesses, new models. There are indeed other businesses that need the skills that are very similar to those that we have developed in the last 20 years, but there are businesses that require other skills and competencies that will need to develop to be an operator of excellence and we always want to have relevant and high scale businesses providing public services of excellence.

So the focus of our company for the coming years in terms of capital allocation will be focused on the models in which we already operate and this is a very robust pipeline as you know and it enables us to look at the sectors in which we already operate and have a leadership position.

But at the same time, through our new businesses department, we will assess new models, and new businesses in a very selective manner. Thank you very much.

Q - Fernando Oliveira {BIO 15036886 <GO>}

Thank you all. This was very clear.

Operator

Our next question is by Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

I have 2 further questions, the first one as you already mentioned, EBITDA leverage, EBITDA grew about 3 times. You mentioned a 2 billion investment plan for 2021, EBITDA and cash generation still been impacted by the COVID-19 pandemic and looking ahead, we have RodoNorte and NovaDutra contracts to expire, and you also mentioned your project pipeline. There is a lot to happen. So what is your take on dividends versus growth? And my second question about the investment potential. There is a lot to happen

here in Brazil but in the long term and this is something that you did in the past, what is the outlook for growth abroad outside Brazil? Thank you.

A - Waldo Edwin Perez Leskovar {BIO 21427688 <GO>}

Okay, perfect. So your first question about dividends. As it's always been the case, CCR has been paying dividends twice a year, one around April and the other one around October, November. We are going to keep our dividend policies. Nothing will change there and we're also going to keep the dates and the times, the number of times a year, the dividends will be paid. So we know this is an important point for many of our investors. So we keep on paying them twice a year. Now about growth, we see the financial capacity in our balance sheet. We also see a relevant range of funding sources for those projects and the funding dates in the market are good for these projects. Now about growth growing outside Brazil, while we believe that we have a competitive edge here in Brazil.

And if you look at the opportunities, this is where most of the opportunities are. So what makes sense is to focus on the Brazilian market in the models where we operate, where we already have the skills like Marcos said and the competences we need and if there is an opportunity abroad in a region in which we feel comfortable with the risk return ratio, we might consider it, but that's not our focus right now.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Okay, great. Thank you.

Operator

Our next question is from Andressa Varotto, UBS.

Q - Andressa Varotto {BIO 20092249 <GO>}

Good afternoon. Thank you for taking my question. I have a quick question about the pandemic rebalancing. Are you discussing this with other regulators. Can we expect something to happen in that area in 2021?

A - Marco Antonio Souza Cauduro {BIO 15412000 <GO>}

Thank you for your question, Andressa. So talking about the pandemic. We've been working with some administrations that said that we have the right to get this rebalance. You've probably seen that in airports like Belo Horizonte airport, we have implemented already something there for COVID-19, and our yearly payment at the end of the year. I mean, we did not have to pay because of this rebalance but that's a partial rebalance. And as the pandemic continues, we will have further discussions for around airports. Now for roads in Sao Paulo, we've held many discussions. We have a consultant who is doing the math to see what the amount is, but we're still facing the pandemic so we have to wait for this to finish. And in -- on federal roads, our initial calculation has already been submitted and we are waiting for ANTT's positioning or response, but we will have this rebalance for all models and for the airports this has already happened at least partially.

Q - Andressa Varotto {BIO 20092249 <GO>}

Okay, thank you.

Operator

There being no further questions. We are now closing the Q&A session and I would like to turn the floor over to the Company managers for their final remarks.

A - Marco Antonio Souza Cauduro {BIO 15412000 <GO>}

Thank you all very much for your participation, it's always a great opportunity for our company to be able to report our results and hear your feedback. So I'd like to close the session saying once again that we understand the moment we're going through. This is the worst moment of the pandemic and I would like to emphasize that we continue implementing and keeping all the safety regulations with our employees who continue working relentlessly in all of our models and we want to keep them protected and continue providing our clients with high-level service. So, I hope we can see each other again in our next earnings conference call in a more positive moment for our society. Thank you very much for joining us and have a great afternoon.

Operator

This closes CCR's earnings conference call. Thank you all for joining and have a great afternoon.

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