

Q1 2014 Earnings Call

Company Participants

- Aurélio Pavinato, Chief Executive Officer
- Ivo Marcon Brum, Chief Financial & Investor Relations Officer

Other Participants

- Alexandre P. Falcao, Analyst
- Paulo Valaci, Analyst

MANAGEMENT DISCUSSION SECTION

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to SLC Agrícola First Quarter of 2014 Earnings Conference Call. Today we have with us Mr. Aurélio Pavinato, CEO and Mr. Ivo Marcon Brum, CFO and Investor Relations officer.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the company's presentation. After the company's remarks are completed, there will be a question and answer session. At that time, further instructions will be given.

Also, today's live webcast, both audio and slide show, may be accessed through SLC Agrícola's website at www.slccagricola.com.br in the Investor Relations section by clicking on the banner, Webcast 1Q14. The following presentation is also available to download on the webcast platform. The following information is available in thousands of Brazilian reais and in IFRS, except when otherwise indicated.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of SLC Agrícola 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 results of the company and could cause results to differ materially from those expressed in such forward-looking statements.

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

Aurélio Pavinato

Good morning, and thank you for participating at the conference call for first quarter 2014 results of SLC Agrícola. We may now move on to slide three where we present some highlights of the period (0:02:23) is the current hedge (0:02:24) position for 2014. We started the year with the confirmation of significant increase in planted area of 21.7% against the previous crop year with the conclusion of planting for the second crop of cotton, corn and sunflower.

Besides the increase in planted area, we (0:02:52) better margin for this year, especially in crops of soybean as we can see it through the increase here of R\$85.5 million (0:03:02) in biological assets for soy against last year. On the hedge table on this slide we can verify the good level of average prices in this (0:03:17) achieved by the company through our hedging policy (0:03:22) support to the higher level of margins expected for the year.

The growth in planted area associated to our strong commitment to reduce administrative expenses has (0:03:38) operational efficiency with a reduction of cost per hectare.

We can now move on to slide five where we present the evolution of (0:03:51) prices for our main products in the last 12 months. Soybean prices in the first quarter 2014 increased when compared to the previous quarter and today are trading at around \$14.60 (0:04:07) per bushel (0:04:12) and around \$12.40 per bushel for the middle of 2015.

The main factors supporting soy prices were the cost reduction in South America, especially in Brazil and the strong pace of exports in the US and imports in China. In the US, final stocks for 2013/2014 crop year should be in very low levels. (0:04:43) that the planting of the 2014/2015 crop in the US is late if compared to the historical average (0:04:53) even more uncertainty to the markets.

Corn presents a similar scenario, is increasing (0:05:03) in the quarter both in Chicago and on the Brazilian (0:05:08) due to the crop reduction in South America and to the lower planted area for corn first and second crop in Brazil. The first planting estimated for the US for the 2014/2015 crop, I also point out due to reduction in the cost of corn which should drop 112% (0:05:31) due to the forecasted increase in soybean area.

(0:05:37) for cotton was also positive in the first quarter for this year, showing elevation in international prices, despite the announcement of a change in the Chinese (0:05:51) cotton reserves outside of China have been decreasing. And the North America production at 2013/2014 crop was 25.4% lower than the previous year. With that we have good opportunities to advancing our hedges for this crop and for the next one.

We may now move on to slide seven, where we demonstrate figures relative to the performance of our fields for the 2013/2014 crop compared to the previous year.

According to (0:06:34) release, the Northeast region of Brazil suffered again this year with lack of rainfall, especially in the month of January.

With low moisture levels in the soil, we faced losses in some fields in the region, thus having to revise downwards our yield expected for soy and corn first crop as we can observe in the table. Cotton, however, (0:07:08) harvest will begin towards the end of this (0:07:09) present good performance.

I will now pass it over to the colleague Ivo Brum, CFO and Investor Relation Officer for his comments on the finance results for the period.

Ivo Marcon Brum {BIO 16639894 <GO>}

Thank you and good morning. Please let's move to slide nine. Our net revenue for the first quarter 2014 increased 36.6% against first quarter 2014 - 2013, sorry, mainly due to the seasonal increase in (0:07:42) assets to net revenue (0:07:45) the improvement in margins expected for soybeans in this quarter in comparison to the previous year.

Gross profit closed the quarter at R\$116.5 million, growth of 61.2% in relation to the first quarter 2013. Operational cash flow as measured by adjusted EBITDA at the first quarter 2014 was of R\$77.9 million with a margin of 30%, however a drop of 6.9% against the same period last year. (0:08:27) improvement in gross profit for cotton and soy was utilized by negative result of FX hedge (0:08:34) under the net revenue, which represented a variation of R\$5.8 million against the first quarter 2013. Net profit finally was of R\$44.1 million against R\$46.4 million at the first quarter of 2013, this margin of 12.6%.

To conclude, you may now jump to slide 10 where we present a breakdown of our net debt. Company's net debt closed first quarter of the year at R\$877.3 million against R\$777.3 million at the end of 2013. Gross debt (0:09:25) of 2.3%. However there was a decrease in the cash position of R\$107.1 million (0:09:36 - 0:09:36).

The net debt to adjusted EBITDA ratio closed the quarter with a slight increase against the fourth quarter 2013 (0:09:50) at 3.8 times. Throughout the year, we expect a reduction in the rate due to the improvement in the EBITDA and stability at the net debt position.

Thank you. Now we would like to open for questions.

Q&A

Operator

The first question comes from Paulo Valaci with Brasil Plural. Please go ahead.

Q - Paulo Valaci {BIO 18268142 <GO>}

FINAL

Good afternoon, gentlemen. Thank you for the opportunity once again. My first question is about soybean sales. We hear a lot about domestic producers holding onto their soybean production in order to get a better basis and price levels toward the end of the year. And my question is basically with so many producers seeking this strategy, does management think that prices – soybean prices could surprise on downside towards the end of this year because of so many producers doing so? That's the first question. And then the second question is about cotton prices. I'd like to hear about what the company expects for cotton prices with the potential destocking in China. And I understand that there is an agricultural reason to not reduce cotton planting so much next year, but I was hoping to hear from you guys how this changes your planting intention for next year. So those are the two questions. Thank you.

A - Aurélio Pavinato

Good morning, Paulo. Paulo, about the soybean prices, the spot price is more than \$14 per bushel today and the (0:12:42) price is out at \$12.40, \$12.50 per bushel. So in our view, the (0:12:51) the future good production in US and in Brazil and in Argentina. So in our view, this will be the minimum price for the future. If we had some (0:13:06) in the US, like it could happen, and the (0:13:10) in Brazil and in Argentina.

Operator

The next question comes from Alexandre Falcao with HSBC. Please go ahead.

Q - Alexandre P. Falcao {BIO 5515455 <GO>}

Hi, good morning everyone. My question is regarding the price of land in Brazil and the perspective going forward. Just wanted to pick your brains on with the BR-163 now signed, at least part of it, and all the infrastructure improvements in (0:14:01) ports where do you guys see the value of land, specifically in Mato Grosso and maybe (0:14:14) first? And second, what is the price that you guys would be willing to sell part of it when some of this upside is already captured? Thank you.

Operator

Again we appear to be having technical difficulties. Please stand by.

Ladies and gentlemen, the speaker line has been reconnected. Gentlemen could you please continue.

A - Aurélio Pavinato

Sorry for this disconnected call. So, I'm going to try to answer again Paulo's question about the soybean price and the cotton price. I think you didn't hear me. So, we believe the soybean price will stay at this level between \$12.50 and \$14 for next year. The spot price is more than \$14 today. The future price is around \$12.40 per bushel.

The production in US, the production in Brazil for the next crop is (0:21:08). If you have any kind of (0:21:13) in the crop – in US crop this year, can be – we can have a higher price than

\$12.4 per bushel. So this is the reason we believe that we're going to have our prices between \$12.5 and \$13 or \$13.5 for next crop season. That is a good - a good price for our business.

In terms of cotton, cotton pricing, we are one year with the price going between \$0.80 and \$0.90, \$0.92. The main reason the spot price is not as high compared to the future price is because no one knows what's going to happen with the inventory in China. We believe that the Chinese are not going to sell all these inventory in a short period of time. So we believe that the cotton price will stay at this level. It can stay between \$0.80 and \$0.90 over the following year. Adding the positive (0:22:20).

Operator

Ladies and gentlemen, I apologize for the delay. I have been instructed to end the call. They were not able to reconnect the speaker line. Any questions you might have, please direct to their IR department and the website once again is www.slcagricola.com.br and you can go to their Investor Relations section of their website. Once again, we apologize that the speaker line has not been able to reconnect, and if you have any questions please direct them to their IR page of their website at www.slcagricola.com.br. Thank you and have a nice day. You may disconnect your lines.

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