

Q3 2016 Earnings Call

Company Participants

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

MANAGEMENT DISCUSSION SECTION

Operator

Ladies and gentlemen, thank you for holding, and welcome to SLC Agricola's Conference Call. We would like to inform that all participants will be in a listen-only mode during the company's presentation. After the company's remarks are completed, there will be a question-and-answer session, and further instructions will be given.

Now, I would like to turn the floor over to Mr. Aurélio Pavinato and Ivo Brum. Please, Mr. Aurélio, you may proceed.

Aurélio Pavinato

Good morning and thank you for participating in SLC Agricola's earnings conference call for the third quarter of 2016. Please go to slide three where we will begin with comments on the retail price variation in our main products.

Cotton crops had remained at around \$0.70 per pound for the past few months in New York, which represents an increase of around 16% from the situation at the beginning of the year. This new price level reflects the significant drawdown in old stocks over the 2015/2016 and 2016/2017 crop year which has (01:34) of years of increases in old stocks of the commodity. This represents a major change in the cotton market that we had talked about in our conference calls.

China is leading the decline in world cotton stocks. The Chinese government sold 2.5 million tons of its stock between April and September, which is much higher than the March initial estimate. As a result, China's stocks are projected to fall from 12.7 million tons to 10.5 million tons by the end of this crop year.

Meanwhile, world stocks also should register another decline from 21 million tons to 19 million tons by the end of this crop year. According to the USDA, since this crop year registered another contraction in planted area at the global level of 3.4% combined, with a slight recovery in consumption.

For soybean, as you can see on slide four, despite a slight correction in the third quarter, prices remains at around \$10 per bushel, despite three straight years of no shortfall in the

United States production. This is explained by the continued growth in demand reflected here, as you can see on the chart on the right side. This allow us to conclude that the any weather problem during the next 12 months - 10 months or 12 months, weather in South America in 2016/2017 crop year or easing in the United States in 2017/2018 crop year should drive prices higher since they would reduce world stock.

Corn prices in the international market, as you can see on slide five, also reflected a good performance of the U.S. crop and showed a downward trend in recent months in Chicago.

In the Brazilian market, however, as we - as Harry commented, the situation is very different and prices have remained high and significantly above the international market. The shortfall in second crop, corn, in Brazil added to uncertainties on the corn supply in the domestic market, which has supported continue imports of commodities. The situation should normalize only by mid of 2017 with the outputs from Brazil's second crop. Until then, price should remain high and extremely volatile in the domestic market.

Let's go now to slide six, where we will comment on the operation performance in the 2015/2016 crop year. As we had been saying since the start of the year, this crop year was heavily affected by the drought in the (05:10) the entire Cerrado region. The chart provides us a comparison of the losses in the great crop picking Brazil's Northeast of 35%, with the Midwest region which we also registered our losses of 18% with both the figures from CONAB. This crop losses were partially offset by normal production in the country's south. As a result Brazilian grain production fell by 12%. In comparison, our company's production fell by 20% on the average across all crops, considering our exposure in the Northeast and Midwest.

Thank you. And I will now pass this call over to my colleague Ivo Brum, our CFO and IRO, who will comment on our financial performance in the period.

Ivo Marcon Brum {BIO 16639894 <GO>}

Thank you, and good morning, everyone. Let's turn to slide eight.

Net revenue in the nine months of 2016 fell by 7.3% compared to the same period last year. However, excluding the non-cash effects on Biological Assets, revenue grew by 21.5% due to the higher volumes invoiced of cotton and corn and the better prices for all key crops.

Adjusted EBITDA in this nine months was BRL 89.2 million, down 52% year-over-year. The decline in adjusted EBITDA year-to-date is associated with the decline in gross income for the cotton and certain crops, which occurred despite the production shortfall due to the low precipitation as explained earlier.

The nine months (07:23) in reals in this period compared to the net income of BRL 76.3 million in the same period last year. We expected to reverse this net loss in the fourth quarter. Considering the volumes to be invoiced in the projected price, as you can see on the next slide, slide nine (sic) [slide 10] (07:50).

For the fourth quarter, we expect to invoice 56,000 tons of cotton at an average price of BRL 6,100 per ton. For soybean, we estimate a volume of 81,000 tons at a price of BRL 1,250 per ton. And for corn we expect to invoice 110,000 tons at an average price of BRL 600 per ton. Note that this price are much higher than those expected in the year-to-date, mainly because the average exchange rate hedges for the fourth quarter is significantly higher than the rate for the rest of the year.

Let's now go to slide 10 (sic) [slide nine] (08:44), which detail our net debt at the end of the third quarter. Net debt increased 3.9% from the prior quarter to BRL 1.22 billion with the net debt EBITDA ratio now at five times. This ratio however should end the year below four times, especially considering that the recovery in the EBITDA is expected for the fourth quarter.

I will now pass the call back over to Pavinato for his comments on the next crop year.

Aur lio Pavinato

Thank you, Ivo. Let's turn please to slide 12, please. As mentioned in our earnings release, we are highly optimistic on the initial performance of our crops in the new cycle. To date, we've added 6% of our area plants for soybean are already planted, with this figure in Mato Grosso reaching approximately 90% planted and with the crops present excellent development, as you can see from the photos on this slide.

This good progress in our planting operation ensure the planting after the second crops of corn and cotton leaving us comfortable about reaching our target for our planted area. Moreover, as you can see on slide 13, we are making good progress on our soybean and cotton hedging for 2017. And having managed to keep the pricing in dollar stable in the ratio 2016 for soybean to increase hedge prices in dollar for cotton and also to reach a better exchange rate for the next year.

This further supported by the fact that the production cost should be lower than in the 2015/2016 crop year by an average of approximately 3% for the crops as commented in our earnings release. That means we are confident with regard to the crop year that is beginning, and I take this opportunity to reaffirm that we are making our best effort to deliver on our targets.

Thank you. Let's now open the call for questions.

Q&A

Operator

Thank you. The floor is now open for questions. Thank you. SLC Agricola's conference call is finished. Have a nice day.

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