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Q1 2019 Earnings Call

Company Participants

- Aurelio Pavinato, Chief Executive Officer
- Ivo Marcon Brum, Chief Financial and Investor Relations Officer

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to SLC AgrIcola First Quarter of 2019 Earnings Conference Call. Today, we'll have first, Mr. Aurelio Pavinato, CEO and Mr. Ivo Marcon Brum, CFO and Investor Relations Officer. We'd like to inform you this event is being recorded and all participants will be in a listen-only mode during the company's presentation. After the conference remarks are completed, there will be a question-and-answer session and at that time, further instructions will be given. (Operator Instructions) Also today's live webcast, both audio and slide show, may be accessed through SLC AgrIcola website at www.slcagrIcola.com.br in the Investor Relations section by clicking on the banner webcast first quarter of 2019. The following presentation is also available to download on the webcast platform. The following information is available in thousand of Brazilian real and IFRS, except when otherwise indicated.

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

Now I will turn the conference over to Mr. Aurelio Pavinato, CEO. Mr. Pavinato, you may proceed.

Aurelio Pavinato {BIO 16456795 <GO>}

Good afternoon, and thank you for participating in our earnings call for the first quarter of 2019.

We can go to slide three, where I will make brief comments on the price outlook for our main products. On cotton, on a global supply-demand scenario for the '18, '19 cycle in which consumption should exceed supply by at least 5 million bales according to the USDA. Cotton prices should find support based on scenarios of continuation of the

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upward trends in the fiber consumption of the service in the last five years. The trade dispute between China and the United States began in 2018, continued in the first quarter of 2019, which created opportunities for Brazilian cotton to expand its share in the Chinese market, leading the country to receive the highest cotton exports in the first quarter of the last five years. According to the USDA, China should reach in 2018-'19 the mark of 8 million bales of import, which will represent the highest volume of the last five years. In the United States, the award-leading cotton exporter the planting intentions report published by the USDA in March pointed to a contraction of 2% in planted area for the next crop year, which could limit lint production and provide support for international prices.

We can now move it on to slide four. Price of soybean, however, having been trading on lower levels as it reflects uncertainties related to the trade war and to the impacts of the African swine fever in China. The supply and demand scenario at the moment points to a comfortable position of the global inventories. However, in the US, for which planting already started for the new season, the USDA is forecasting a reduction in planted area of 5% against the previous year, which could limit the downside of prices individual [ph] term. Given that in United States prices are exceedingly low, there is a possibility that reduction in planted area be higher than currently forecasted.

In the case of corn, for which price are present on slide five, we have been seeing high volatility on recent months. On the global scenario, according to the USDA, for the second straight year, consumption should exceed production. The impacts of the African swine fever on the global animal production chain could create the opportunities for Brazil as well, which could increase local demand for grains, giving a possible advance in meat export to China.

We can now move to slide seven. From an operational performance standpoint, we continue to follow a trend of increases in yields, reaching new records and pursuing our objective of stretching the distance against the national yield average. On this slide, we present the soybean yield that was reached in current crop for which harvest was concluded. Then how it compares to the initial forecast and also to the Brazilian average on this crop. We are also elevating our yield estimates for cotton and corn, on slide eight, which are currently on the flooring phase and presenting excellent potential.

I will now pass the call over to the colleague, Ivo Brum, CFO, who will comment on the financial results.

Ivo Marcon Brum {BIO 16639894 <GO>}

Good afternoon. We can now move to slide 10, where we present the summary of our income statement. In the first quarter 2019, both net revenues and volume invoiced set records for the period, advancing 46% and 56%, respectively. The period highlight was the higher volume of the soybean invoiced, which was 72% higher than the first quarter 2018. The significant increase in the invoiced volume reflect operating efficiency, gains in the planting and harvest operation, both of which were carried out earlier this year, enabling us to anticipate shipment and take advantage of the best period for the grain shipment.

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Adjusted EBITDA was BRL225 million in the first quarter 2019, advancing 50% from the first quarter 2018, which adjusted EBITDA margin of 36%. Growth was mainly driven by the higher volume of the soybean invoiced compared to the year-ago period. Despite the 46% growth in gross income from the crops invoiced in the quarter, consolidated net income was lower than in the first quarter 2018, basically due to the dynamics of the recognition of the Biological Assets. This was especially due to early maturation of soybean crops than in the previous crop year, causing relevant portion of the variation in the fair book value to be recognized in December and also due to the lower price adopted to determine variation in the fair value for the mark-to-market adjustment. Note also that since the mark-to-market adjustment in the late March, the use of soybean was increased, which means that the variation in the fair value of the soybean will be adjusted positively in the next quarter.

You can now go to slide 11. The net debt increased compared to the fourth quarter 2018 from BRL943 million to BRL1.2 billion, corresponding to 1.68 times adjusted EBITDA in the last 12 months. The growth in the net debt adjustments reflected the higher working capital needs, driven by the expansion in the planted area, especially for cotton and the investment in the property, plants and equipment and execution of the stock repurchase program in accordance with launches to the market date April 30. The company is currently issuing Agribusiness Receivables Certificates in accordance with CVM Instruction, a transaction whose purpose is to (inaudible) the debt maturity profile at competitive costs.

On slide 12 and 13, we present a summary of impacts on our figures from the adoption of the IFRS 16. Recently the adoption of the norm [ph], the company now recognizes present value leaving liabilities and corresponding right of use for the whole period of existing leasing contracts (inaudible) as operation lease and not as financial lease. After being mark-to-market, the right of use value adjusted mostly to production costs based on the respective fraction on each agreement. And also, it's taken by the variation in the price of the soybean bag in the Brazilian real, which is impacted on the leasing agreement. And the liability movements occur upon effective payments of the lease as real upon period statement based on the variation in the soybean bag price plus adjustments for the present value. The impact of the adjustment to the present value are recognized as financial income or expenses. It is worth mentioning that the movement in the asset cost of the production does [ph] not bring any impact on the EBITDA once they will still be considered our cost and not depreciation and amortization.

I will now hand it back over to Pavinato, who will make some final comments.

Aurelio Pavinato {BIO 16456795 <GO>}

Thanks, Ivo. We can now move to slide 15. As mentioned on the market outlook, we have at the moment a March and June contracts for the next year. We had crossed such a scenario many times in the past with success due to the resilience that was built in our business. We deeply understand that the risk variables and over the time we have developed measures to mitigate them. Our geographic and crop diversification, rigorous control of costs and consolidation ranking policy provide important competitive advantages.

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Our business today is much stronger to face risk than if you ask five years ago. When there is a reduction in prices follows an adjustment also in production costs in order to maintain a margin for the producers. The best producer capture more margins. Cycles are part of the Agribusiness and we have a conviction that the best competitive measure is the efficiency gap over the average. On this stance, we have been able to stretch our advantage with the uses of technology and acceleration in our innovation initiatives, which is being reflected in our yields.

Thank you. And we'll now open the call for Q&A.

Questions And Answers

Operator

Ladies and gentlemen, we will now initiate the question-and-answer session. (Operator Instructions) Thank you. This concludes today's presentation. You may disconnect your line at this time, and have a nice day.

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