

Q1 2020 Earnings Call

Company Participants

- Gustavo Rosa, Investor Relations Executive Manager
- Joao Alberto Fernandez de Abreu, Chief Executive Officer
- Ricardo Lewin, Chief Financial Officer and Investor Relation Officer

Other Participants

- Alex Falcao, Analyst
- Pedro Bruno, Analyst
- Regis Carodoso, Analyst
- Rogerio Araujo, Analyst
- Victor Mizusaki, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time, we would like to welcome, everyone, to Rumo's First Quarter 2020 Results Conference Call, which will be led by Mr. Ricardo Lewin, Chief Financial and Investor Relations Officer, and Mr. Beto Abreu, Rumo's CEO.

We would like to inform you that this event is recorded and all participants will be in a listen-only mode during the conference presentation. After Rumo's remarks, there will be a question-and-answer session for investors and industry analysts hosted by Mr. Gustavo Rosa, Investor Relations Executive Manager, together with Mr. Ricardo Lewin and Mr. Beto Abreu. At that time, further instructions will be given. (Operator Instructions) The audio and slide show of this presentation are available through live webcast at ir.rumolog.com. The slides can also be downloaded from the webcast platform.

Before proceeding, let me mention that forward-looking statements will be made under the safe harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Rumo's 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 a Rumo's and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Beto Abreu. Mr. Beto, you may begin the conference.

Joao Alberto Fernandez de Abreu {BIO 20362451 <GO>}

Good afternoon, everyone, and thank you for joining us at Rumo's first quarter 2020 earnings conference call. This time, I take the opportunity to comment on our actions to manage the crisis caused by the new coronavirus pandemic and also to discuss some strategic points regarding the important milestones, which is the Paulista Network renewal. This contract was signed yesterday.

It's worth noting that the Federal Decree, Number 10.282 of March 2020 categorized general cargo transportation as an essential service. Thus, Rumo's strictly organized to working three major fronts. The first one, internal protocols and contingency actions, social responsibility and institutional actions and third one, financial operations to preserve any sheer liquidity.

We executed several actions and protocols, aiming to ensure the safety of our employees and those related to our business, like clients, supplies, truck drivers, terminal and ports. We also adopted measures such as social distancing and permanent sanitization in facilities, vehicles, instruments, and locomotives. Moreover, employees in the risk group were instructed to adopt specific care and monitoring measures. For administrative employees, we adopted the home office policies. Thus, with safety across all our activities, we have been able to continue operating. We also acted, joining with governmental authorities and promoted social responsibility actions. We identified needs to fight against the pandemic, along with health departments of 28 municipalities in 7 Brazilian states covered by our concessions.

Donation comprised 26 different institutions. We also entered into partnership with MRS, VLI and Comunitas. We donated school meals to children in Santos metropolitan region. Besides that, jointly with Cosan, Rumo made a public commitment not to dismiss any of its personnel. We are finalizing such initiatives and we are very proud of it. We worked extremely with governmental institutions and state and municipalities. And this engagement result in various formal acts such as decree, provisional measures and ordinance to ensure the continuity of our business.

We also adopted measures to preserve the company's financial health. In the first quarter, we raised around BRL850 million to reinforce liquidity and approximately BRL1.5 billion we raised in second quarter to ensure the continuity of our long-term investment. Our cash in May then is around BRL5 billion.

On the next slide, we will discuss the continuity of our main investment during this pandemic. Our operations and ongoing investment at the Rondonopolis terminal remains uninterrupted. I point out that after concluded investments, our terminal, which is currently Latin America's largest road and rail terminal, we will have 50% more capacity with higher level of efficiency and safety.

In the State of Goias and Tocantins, investment at the Central Network continue advancing. The photos on the slide illustrates the ongoing construction of Rio Grande bridge, in the boundary between Sao Paulo and Minas Gerais, and the connection between Central and Paulista Network. We expect this operation to initiate in the first half of 2021.

On the next slide, I would like to talk about the Paulista Network renewal. In continuity to the material fact disclosed on May 27, on the next four slides, I will share with you the strategic relevance and the main numbers of the Paulista renewal. It was a long process, but there is no doubt, this is a great victory for Rumo, for the rail sector and the entire country. This is the first time a rail concessionaire in Brazil received a renewal. This outstanding achievement demand a lot of test from the entire team, who worked very hard during the entire process and jointly with ANTT and TCU defined a solid framework to be a reference in the other renewals. We are immensely proud, and I'm sure that it will reinforce even more Rumo's role in the Brazilian logistics.

On the next slide, I highlight the strategic relevance of the renewal for Rumo. Nearly, 80% of our results derived from the North Operation where we hold two concessions. North Network, that is worth until 2079 and Paulista Network, now extended until 2058. This continuity for two of our main concessions is key for wealth creation of rail for a long-term business.

As a condition to the renewal, Rumo will make investment that will double this net recurrent capacity, bringing even further efficiency and safety to our system. With that, we will be able to sustain long-term volume growth coming from the State of Mato Grosso through the North Network, allow the intricacy of additional volumes via Central Network and enables an increase of cargo in Paulista Network and other rail using this network.

Let's see on the next slide, some points of this extension agreement. For the right of the use of Paulista Network from 2028 to 2058, Rumo will pay a concession fee of approximately BRL2.9 billion. Initially, these amount will be paid in quarterly installments over the next 38 years. Also, if volume achieved are greater than those projected in the ANTT model, an additional concession fee may redefine it.

It is also included in the concession fee and the CapEx plan, amounts referring to the return of unprofitable stretches such as Cajati and Varginha. And recovery of Panorama in Colombia, which could bring additional demand to Rumo. Rumo also assume an investment commitment of approximately BRL6.1 billion over the concession period.

On the next slide, I'll further discuss the mandatory investments. So Rumo committed on investment BRL6.1 billion on which we highlighted. BRL2.1 billion to acquire rolling stocks, BRL2.6 billion to improve the permanent way and BRL1 billion in the urban conflicts. ANTT mandatory investment considered approximately BRL1.7 billion until 2023. The distribution of this investment over time may change due to Rumo priorities. But so far, we do not see the need of changing our guidance to deal with regulatory commitments.

Now, I turn the floor over to Ricardo Lewin, who will search on other financial matters related to the renewal and will finally discuss the first quarter results.

Yeah. Thank you very much.

Ricardo Lewin {BIO 20342706 <GO>}

Thank you, Beto. Good afternoon, everyone, and thank you for joining us.

In the first part 2019, we had approximately BRL1.9 billion in unpaid concession fees of the Paulista Network, booked in our financials. The agreement with ANTT allows us to settle impairment liabilities in BRL468 million that will bring important gains on EBITDA and financial results.

The amount deposited in the court will also be used to be deducted from liabilities balances. Also, a second part of the accounts offset is an estimated amount of BRL148 million, will be confirmed by experts' report should then be deducted from liabilities balance. As a result, Rumo should pay to the federal government approximately BRL1.1 billion, divided into eight annual installments, starting on July 15, 2020, with the first two installments in the amount of BRL50 million per year and the rest in approximate amount of BRL174 million per year.

On the next slide, I would like to demonstrate how the renewal affected this first quarter and will affect the second quarter. Besides the accounts offset, it was also condition to the renewal, the settlement of former regulatory controversies of approximately BRL109 million, which were paid in the first quarter '20 and will impact our EBITDA in BRL64 million and our financial result in BRL39 million, both considered one-offs.

As already said, the final agreement will allow us to recognize in the second quarter 2020, gains arising from the write-off of provisions totaling BRL468 million. We consider both impacts as one-offs. That's why we will adjust our reports for our fair comparison with previous year.

On the next slide, let's now talk about the first quarter 2020 results. Now, discussing our results, I would like to point out that to share comparison we report consolidated adjusted result excluding the impact of Paulista network renewal as already discussed and the cost and expenses related to the Central Network, given that the signature happening in the 31st July 2019. So, this first quarter and the second quarter 2020 results won't be comparable. All other sections of the earning release consider Central Network consolidation and the effects of Paulista Network renewal process, unless otherwise indicated.

On the next slide, let's discuss the operational results. In first quarter of 2020, our volumes fell 7.6% to 12.3 billion RTKs. In the North Operation, volume was impacted by, first, late start of the soybean harvest season compared to the first quarter 2019; second, lower corn carryover inventory in January; third, rainfall on the Santos hills and at the Port

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of Santos in March, 73% above the non-historical average; and fourth, cyber attack we underwent in the second half of March, which hampered the recovery of volume demand.

In the South Operation, the impact was strong, the late start of the soybean harvest season compared to the first quarter 2019; second, lower industrial volume due to COVID-19; third, soybean crop failure in the state of Rio Grande do Sul; and fourth, the cyber attack.

On the next slide, we will discuss our financial performance. Adjusted EBITDA dropped 18.6% to BRL653 million, with a margin of 45.9% impacted by the decent volume and lower yield in the quarter. In the North Operation, yields trended 7%, reflecting, first, lower demand for freights in the market in January and February; second, the pointing volume in the March almost which usually reports higher yield; and finally, the signature of take-or-pay contracts in a moment of lower freight prices.

In the South Operation, yield grew by 3.4%, and the Container operations saw decline of 3.8%. Fixed costs, general and administrative expenses, excluding the Central Network, increased only by 0.7%, less than inflation. Variable costs had a good performance, falling 12% on the back of efficiency gains. Fuel cost dropped 8%, in line with volume and the reduction of unitary consumption by 5.3%, offset higher fuel prices year-over-year. Despite good cost performance, lower operating leverage and lower tariffs decreased margin by 3.2 percentage points.

Now, let's discuss the financial results and net income. This quarter result had a financial expense of BRL531 million, 63% above the first quarter '19. The following factors impacted the results. The first factor is the effect of CDI reduction that positively contributed to results. The second factor are two adverse effects. First effect is the review of the estimates to measure the fair value of financial instruments, which resulted in a non-recurring, non-cash effect of BRL160 million. This review results in lower MTM volatility in the next quarter.

Second effect is the addition of Central Network's financial expenses, referring to the concession fee payment amounting to BRL70 million. We reported an adjusted net loss of BRL136 million versus net income of BRL27 million in the first quarter '19, due to lower EBITDA and the non-recurring impact of the derivative, estimated when reviewed, as already mentioned.

On the next slide, let's discuss our indebtedness. This quarter, as already mentioned by Beto, we carried out relevant funding to preserve the company's liquidity and financial health. And in May, we achieved a comfortable position of BRL5 [ph] billion in cash. Despite the leverage, we reached 2.1 times broad net debt to EBITDA.

On the next slide, let's talk about market dynamics. Concerning the soybean scenario, there's been significant changes since the beginning of this year. According to Agroconsult, soybean trade, despite the coronavirus, is likely to grow to 160 million tons versus 153 million in 2019. Also, we estimate that China should increase its soybean inventory by 6 million tons. And finally, the Brazilian real devaluation accelerated this

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commodity commercialization in the State of Mato Grosso, which achieved 89% for 2020 and 36% for 2021. Thus, we expect exports to reach approximately 76 million tons, a more positive scenario than initially projected for the second quarter. This trend of higher exports already can be seen in the volume transported May curve [ph], with soybean volume growing 28% versus April 2019.

On the next slide, we will discuss the outlook for corn in the second half of the year. Regarding corn projections, we foresee favorable availability in the second half, as the state of Mato Grosso should record a greater performance than Brazil's average. And also considering that most of exports expected reduction, from 39 million tons to 33 million tons should take place in the first half, as you can see on the graph on the right side of this slide.

Concerning supply, the United States will see greater corn availability due to lower demand for corn ethanol, while Brazil will see a decrease in availability as the planting window was shorter and the climate did not contribute to the productivity in the Southern states. Despite the risk relative to the United States, Brazil has a great competitive advantage, as the strong depreciation of the real prompted the producer of Mato Grosso to anticipate this corn commercialization, which had already reached to 80% in May 2020.

We finished here our presentation on this quarter, which also gave details on the milestone of Paulista Network's with renewal approval.

We remain at your disposal for the Q&A session. Thank you.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session for investors and analysts. (Operator Instructions) Our first question comes from Pedro Bruno, Santander.

Q - Pedro Bruno {BIO 19082978 <GO>}

Hi. Good morning, everyone, and congratulations on the important milestone. I have two questions. The first one regarding Malha Paulista and actually implications going forward. Is it correct to imagine that the process or the regulatory process of approval for the Sorriso project, which is now Lucas project, right, should accelerate going forward given that you no longer have the regulatory discussions of Malha Paulista? And what would be the, let's say, timetable that you have in mind for the regulatory process going forward? That's the first question.

A - Ricardo Lewin {BIO 20342706 <GO>}

Thank you, Pedro Bruno. I think it's best to have Beto answering your question. So Beto, please you may speak. Sorry, Pedro. I will repeat the question for Beto. So Beto, Pedro Bruno is asking about the Lucas project and how do you see the pipeline of this project going forward?

A - Joao Alberto Fernandez de Abreu {BIO 20362451 <GO>}

Can you hear me? Can you hear me?

A - Ricardo Lewin {BIO 20342706 <GO>}

Yes.

A - Joao Alberto Fernandez de Abreu {BIO 20362451 <GO>}

Sorry, Pedro, sorry for that. But just going back to your question, I think -- this is Beto, I think you're completely right. Since the beginning we as a team have decided to put all the focus and to prioritize Malha Paulista, that was the idea. It was a tough process with (Technical Difficulty)

A - Gustavo Rosa {BIO 18811470 <GO>}

I think we missed Beto. So I'll try to answer this one. So after we accomplished Malha Paulista renewal, it's clear to everyone that Lucas do Rio Verde is the most important project for the company. So, we are going to make all the efforts to start this process with the regulator. It's worth mentioning that last year we already applied for the environmental licenses, allowing us to gain some time in this process. Meanwhile, we don't have the regulatory approvals, but there is a huge pressure for this project in the State of Mato Grosso. We are very excited about the profitability that Rumo can have with a project like this. So, we think we have all the means necessary to advance with the project now that we accomplished the Malha Paulista renewal.

What is your second question, Bruno?

A - Ricardo Lewin {BIO 20342706 <GO>}

If I can complete the question for for Pedro Bruno, this is Lewin, remember that we already advanced in the project -- in part of the project in Nova Mutum, where we already bought a piece of land there and we are starting the project for the Nova Mutum terminal. Okay. So, this is already a first step in the development of the terminal. If you can go again to the second question, please?

Q - Pedro Bruno {BIO 19082978 <GO>}

Perfect. Thank you very much. The second question also relates to Malha Paulista in the sense that you announced also two financial impacts from the signature, negative one and a positive one, as you explained with a net positive. Just to make sure, it's actually two-fold question here. Did I understand correctly that the net impact when you imply first quarter results and second quarter results will be a positive of approximately BRL370 million, which is net of the negative BRL100 million and the positive BRL470 million in rough numbers? That's the first part. And if yes -- if that impact is included in the guidance that you provided for 2020 or not? Thank you.

A - Joao Alberto Fernandez de Abreu {BIO 20362451 <GO>}

Pedro, Ricardo Lewin will answer this question. So please, Ricardo?

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A - Ricardo Lewin {BIO 20342706 <GO>}

Hi, Pedro. Let me go through all what we said before, because this is a good question and it should be very clear. One of the conditions imposed by TCU was for the concessionaire to settle all defined spending for the concessionary to settle all define -- all defined spending payment in legal or administrative appeals. Okay. In this regard, in January 2020, so in the first quarter Rumo paid the amount of BRL109 million, of which BRL63 million affected our EBITDA. Okay. And the rest affected the P&L, the bottom line through financial expenses.

So this was the only effect in the first quarter, and this was not in the guidance, okay, because we didn't know frequently that we will need to pay that. It was an agreement by the end of the negotiations.

Now talking about the effects on the second quarter, there will be a settlement. That will be a result of the account -- accounts offset, and whom we reversed at first, something around BRL470 million accounted to be at liabilities which will bring corresponding gains in EBITDA and in financial results, okay. And -- but this second part that I said just reinforcing will affect the financials on the second quarter 2020. Is that clear for you?

Q - Pedro Bruno {BIO 19082978 <GO>}

Yeah. Now, it's perfectly clear. So net positive impact overall, when you put first quarter and second quarter together. And then the other question was, if that was -- the net impact was included in the guidance, then I understand it is not. Is that right?

A - Ricardo Lewin {BIO 20342706 <GO>}

You are right. It's not. And yes, it's the net impact but affecting in different quarters.

Q - Pedro Bruno {BIO 19082978 <GO>}

Thank you very much. Thank you for both the answers.

A - Ricardo Lewin {BIO 20342706 <GO>}

Thank you, Bruno, and thanks for participating in the call.

Operator

Our next question comes from Alex Falcao, HSBC.

Q - Alex Falcao

Hi. Good afternoon. Can you share with us what's IRR of the Malha Paulista renewal if that's possible? That's question number one. And question number two, it seems like you guys are extremely confident on giving the guidance even with low numbers in first quarter. You comment on the second half of corn. Can you share just April and May, what you have so far? What makes you that confident? If you can share a little bit how volumes

are going; how you guys are seeing the -- at least, second quarter will be awesome?
Thank you.

A - Gustavo Rosa {BIO 18811470 <GO>}

Thank you for your question, Falcao. I will answer the first one, then I think Ricardo Lewin may comment on the second part of your question. So with regards to the IRR of the renewal, you know this is not a typical project like the ones like we have in the toll roads. So actually what we are doing here is ensuring the expansion of this renewal between 2028 and 2058. To accomplish that or to ensure that, we'll have to pay our concession fee of BRL2.9 billion. And on top of that we have committed to invest BRL6 billion.

It's worth to mention that this BRL6 billion, it's something that the company was already willing to invest not to just increase the capacity in Paulista, but mainly because we do have a lot of cargoes in the Northern network, and once we are -- we aim to increase our volumes there, we need to provide the capacity.

So when you think about the IRR, I would argue that you know this investment, they don't matter at all because they are investments that we would be willing to do either way. And of course they pay off based on the returns that we can have on the North Network, which is pretty high. So it's very hard to come up with a number, but I would say that 30 years of this concession that is very strategic in our view works much more than BRL2.89 billion which is the exactly amount that we paid for.

So it seems a pretty accretive, you know, project for the company, and we really believe that we will be able to extract all the value in the long-term from this renewal. Regarding the second part, maybe Ricardo Lewin can clarify for you.

A - Ricardo Lewin {BIO 20342706 <GO>}

Thank you, Marder. Just Falcao, good to have you on the call. So just complementing Gustavo's answer, remember that as said to be in the live by Beto earlier, Malha Paulista is important to have a good operator, is important to have investments and increase efficiency of Paulista because Paulista is the support for the Group in the North and the Central Network. So there is a mix in the IRR. But as Gustavo said, for sure, there is much higher than the BRL2.9 billion debt that we are paying.

You asked about our confidence in the guidance, and about volumes in April and May. Unfortunately, in May, it's not disclosed to the market volumes. So, I will talk a bit about April, okay. You know that we have already disclosed the April volumes to the market and it's very -- it's possible to foresee some trend for the second quarter, okay, for soybean. There was increasing 70% increase in volumes year-over-year and 17% with all the volume of the company. Only soybean, we increased more than 28%.

Unfortunately, we are suffering in other products. Okay. But we are talking about 28% of increase in soybean. That shows that we have expanded our capacity from one year to the others. Okay. We also expect to have a very second -- a very good second half of the

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year with corn, and we expect to have good availability as we talked during the presentation. Okay.

So that being said, the short-term guidance is nothing, okay. It came to foresee during the year, any change or we don't get so confident. We will share with you and the entire market. Okay. Thank you for the question, Falcao.

Q - Alex Falcao

Okay. Okay. Thank you. Can you -- very quick follow-up on this first -- because on the first point, everyone is going to make their own calculations, right. And it's all a matter of -- so the best way to do -- to infer our what they are like is just to take the revenues or the EBITDA from Paulista, whatever that is, that you guys published, you get the BRL3 billion, these are "investments" and see where that lands. Is that a fair assumption to do?

A - Gustavo Rosa {BIO 18811470 <GO>}

Falcao, it's a fair assumption. I think you may have may have to -- you may have to take into account also how much more value can we extract from the Northern Network and also from Central Network by having the control of Paulista. Clearly, there is a synergy between those two concessions with Paulista. So, our understanding is that the value of this renewal is much beyond the financials of Paulista itself. It produced positive effect in Central and in Northern Network as well.

Q - Alex Falcao

Okay. Thank you.

Operator

Your next question comes from Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi. Good afternoon. And congratulations for the renewal of Malha Paulista. I have two questions here. The first one, when we take a look on your press release, you mentioned a little bit about the drop of freight price at Malha Norte, something around 2% to 7%. And one of the reasons is because of the take-or-pay contract. So, I'd like to quantify, I mean, how much of this drop is related to the take-or-pay?

And the second question, when we take a look on your cash flow, we can see an increase in accounts receivables. And so, I would like to understand if that maybe because of the cyber attack and then in the coming quarters, I would like to see contract receivables going down a bit. Thank you.

A - Gustavo Rosa {BIO 18811470 <GO>}

Thank you for the question, Victor. I will take the first one and maybe Ricardo Lewin can complement and try to answer the second one. So with regards to yields, what happened during this first quarter was that, first of all, we had our late crop of soybean compared to

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last year. And on top of that, we also had lower inventories of corn in January because if you remember last year, there was less carryovers from 2018 to 2019, allowing good volumes on January.

So, this was something that we were already accounting, we were expecting. But with this lower demand in the market, the truck price was slightly lower than we were expecting. So that brought an additional pressure to prices and also delayed a bit the negotiations of additional take-or-pays that right now we have in place for the second quarter. But because of this seasonality issues and because of lower truck prices, especially in January and February, we end up having -- we had lower yields in those months.

When it comes to March, we saw an improvement in the freight prices in the market. But at the same time, we have the operational constraints, preventing us from having more volume. And as you may know, March is a month where we have higher tariffs. So, we didn't take advantage as much on this because we had the operational constraints. Another important thing to think about the yield is the fuel price. So, we saw a lot of volatility in fuel prices and there was significantly reductions throughout the quarter, which also help the truck drivers to afford lower prices in the market. But hopefully and luckily this process is improving. So we are seeing better prices right now in the second market. And it will be always very tough to forecast what could happen with prices, because it will depend a lot on the market condition.

We are, you know, confident about our ability to price. In the long run, remember, we believe that there will be some structural things that will help to boost our competitiveness. One of them is the improvement that we are implementing in Rondonopolis. This will certainly improve the cycle of trucks in our terminals and mainly this will allow them to lower prices, because today they somehow charge a premium to go to Rondonopolis because the terminal operates very close with the cap of capacity. And therefore, it's very likely that we're going to -- that we could have to wait to unload in the next day. So these additional cycle time for trucks cause them to increase a bit their prices.

Another thing is regarding the toll road fees in the BR-163. We expect this BR to be auctioned, and just after this auction, there might be some additional costs with toll roads fee. So we definitely expect our competitiveness to improve. And in that scenario, so far, we can say that we advanced well, in terms of take-or-pay negotiation. We cannot disclose the numbers, but it's safe to say that most part of our volumes in the second quarter were already negotiated with customers. So we are now much more -- we are looking forward to negotiate the volumes of the second half which are also well advance, but we still have some room to sell more transportation. And this is evolving well. So I don't think it's a concern, and luckily we should have good news in the upcoming months.

Regarding your second question. Yes, please...

Q - Victor Mizusaki {BIO 4087162 <GO>}

Just a follow-up here. So based on the scenario that you commented, I mean think about March, makes sense to assume that yield in the second quarter will likely improve quarter-

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over-quarter?

A - Gustavo Rosa {BIO 18811470 <GO>}

I would say that but quarter-over-quarter, I won't say that. But remember, we have, again, a lot of things to take into consideration. One of them is the take-or-pay. So all the take-or-pays that we set during the first quarter, the pricing of those take-or-pays is pretty similar to the prices that we had in the first quarter. Of course, now with higher truck prices in the market, we have the ability to ask for more price in the market. So it will be a blend between take-or-pay agreements negotiated before during the first quarter, which might have lower prices and additional volume with higher pricing based on the market opportunity that right now it's very clear. But remember, other things might happen. So right now, we -- recently, we have a fuel adjustment -- a fuel price adjustment. So if fuel prices goes up, this could be positive to the company because very likely, truck prices will be also higher.

A - Ricardo Lewin {BIO 20342706 <GO>}

Okay. The second part of the question about the accounts receivables and Victor, you are right. A huge part of the these receivables comes from the cyber attack. So, we will much probably fixed that during the year. Okay. Let me just complement one thing, Victor, because probably you are seeing in other companies, we have no problem of non-payment by our clients. Okay.

So, I don't know if you're going to have something to -- related to that. Remember, that's a huge part and it's a 80% of our client side of (inaudible) clients. Okay. That means very good risk and our payment terms is very short, something around maximum 10 days, okay, or on average 10 days. And there was an increase because of the cyber attacks. So your question, the answer, yes, the increase of accounts receivable, huge part was due to the cyber attack. Thank you.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Thank you.

Operator

Our next question comes from Rogerio Araujo, UBS.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Yeah. Hi, guys, Gustavo, Lewin, Beto. Congratulations on the renewal of Malha Paulista and the resilience during this process. I think it's a relief to all of us. So we've been traveling to Brasilia since 2015. Just speak about that, and that's definitely a relief. And I supposed we won't stop going to Brasilia because now we have Lucas do Rio Verde and perhaps Malha Sul renew. So let's see. Congratulations.

So my question is regarding the terms of the concession renewal. So I have five quick points here that I think is going to be very helpful. And the first one is regarding the

concession fee BRL2.9 billion. I assume this is NPV using the 11% regulatory work. So can you confirm that? And if there is going to be something around BRL327 million a year by 2058. So, is that correct? That's the first one of five points. Let me go one by one, and I think it's going to be clear that way. Thank you.

A - Ricardo Lewin {BIO 20342706 <GO>}

Hey, Rogerio, it's correct. Sorry, Marder. Let's say, it's correct. It's around December. Okay. There is a small adjustment, because these BRL2.9 billion is December 2017 value, but it's value that Beto said, something a bit more than BRL327 million.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay. Sounds good. So, second point is investment in urban areas around BRL1 billion. So what is the period for which it should be invested? And is this also a NPV based using 11% WACC. That's the second point.

A - Ricardo Lewin {BIO 20342706 <GO>}

This is BRL1.21 billion that will be -- has a long-term, okay. The amount to be invested until 2023 is simply around BRL250 million, okay. The rest is long term. And regard -- it's not 11.04. Marder, could you confirm that the...

A - Gustavo Rosa {BIO 18811470 <GO>}

Yeah. Rogerio, most part of the urban context will be deployed after 2023. So it's -- you know it was discounted in the cash flow by 11.04, but indeed what matters here is, it's been the inflation. So this is the net present value of those investments. How much are we going to pay for them, it depends on pretty much inflation. We don't have to deliver the money to the government. We must accomplish the investments that we commit with. So you have to adjust pretty much those investments to inflation to see how much we are going to expand to accomplish the projects.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay. So not 11% WACC. This is not an NPV based on 11% WACC. This is based on inflation only.

A - Gustavo Rosa {BIO 18811470 <GO>}

It is not. But on the other hand, my point is, of course, if you reduce the conflicts -- urban conflicts, you would end up having a higher concession fee, which is also discounted by 11.04. So in this case, what we must do is to deliver the project. Doesn't matter how much it is going to cost. We have to accomplish the project.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay. Sounds good. So third point is on CapEx. Also, same question, is it an NPV using 11% WACC. And in Valor's newspaper today, there is a breakdown BRL1.7 billion by 2023, the rest by 2058. So, I would like to know also if these includes, what you consider as

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maintenance CapEx currently, which is BRL1.2 billion? Does it -- is it considered as well in that number? And is it an NPV using 11% WACC or not?

A - Ricardo Lewin {BIO 20342706 <GO>}

No, this is not an NPV. This is the total investment that we expect to do in the upcoming years beyond -- going beyond 2023. And once again, it's the same. We have the value of the project. How much we are going to end up spending depends on inflation and the efficiency of the project. And yes, you're right, we have all the CapEx there embedded. So, we have expansion CapEx and also sustaining CapEx. But, of course, there is a concentration, where the expansion CapEx is probably concentrated in the next eight years or 10 years. And meanwhile, the sustaining CapEx is throughout the concession.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay. So -- and also the BRL6 billion, I suppose you already -- you've done a part of that already. So, can you say how much you've done already?

A - Ricardo Lewin {BIO 20342706 <GO>}

Of course, we did a bit. We will not be disclosing by now how much we did, because we have to receive the approval of the regulator. So, they will have to check whether or not the investments that we did fit in their standards. So, they have to accept that investment. So only after that, we can say that the investment is done.

Q - Rogerio Araujo {BIO 17308156 <GO>}

But is this more like 10% or 50% of the BRL6 billion, just for us to have a broad idea in order to get the estimation?

A - Ricardo Lewin {BIO 20342706 <GO>}

Rogerio, it's really hard to say by now. Of course, we don't want to disclose an exactly number without having the endorsement of the regulator. So that's the reason why we will not disclose further information on this.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay. No worries. And then the indemnification fees for the abandoned rail stretches, I think this has to be defined in 18 months, right? You're going to have to pay a fee to the government, to the entity. And I think also you're going to have invest a part also in making those rail lines operational again. So, any idea how this -- how much this will cost?

A - Gustavo Rosa {BIO 18811470 <GO>}

We have two different things here. So first of all, it's regarding the unprofitable stretches, Varginha and Cajati. Those ones, we are agreeing to return that stretches back to the government because it's not profitable and the cities, they pretty much took over the railway. It's not possible to have railways there by this time. It's impossible to license it. So the only thing that we can do is to give it back to the government. It's already embedded

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in the current concession fee a value, an indemnification, to give it back to the government. So, this is already embedded in the current concession fee.

On top of that, we took our commitment with the government to recover Panorama, which is a stretch that's starting in Bauru region and goes all the way to Panorama and close to the south Mato Grosso border. And the other one is Colombia, which passed through Barretos CB. So those areas, we know that we have a lot of some significant demand there, demand for grains, for sugar, sometimes even for fuel. So, we took the commitment to recover those stretches. This will be a long-term plan. It's not for 2023. It goes beyond that. And we have a CapEx of roughly BRL400 million to accomplish this, which is also embedded in the BRL6.1 million.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay. Perfect. Last point. The net BRL1.3 billion of the unpaid concession fees and the credit that you had as labor lawsuits. So, this is going to be paid in two installments of BRL50 million and six of about BRL200 million, right? What is the rate here to be adjusted? Is it inflation? Is it an NPV inflation on the WACC? Okay, inflation.

A - Ricardo Lewin {BIO 20342706 <GO>}

It's all inflation. We have an agreement and from now on what (Multiple Speakers)

A - Gustavo Rosa {BIO 18811470 <GO>}

Ricardo...

A - Ricardo Lewin {BIO 20342706 <GO>}

Go ahead.

A - Gustavo Rosa {BIO 18811470 <GO>}

Actually, it's not inflation, it's SELIC. Okay.

Q - Rogerio Araujo {BIO 17308156 <GO>}

SELIC. Okay, perfect. Okay, guys. I'm going to go back to the end of the line if no one answer my other questions. Thank you very much.

A - Ricardo Lewin {BIO 20342706 <GO>}

Okay. Thank you, Rogerio.

Operator

Our next question comes from Regis Carodoso, Credit Suisse.

Q - Regis Carodoso

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Hi, guys, good afternoon. Thanks for taking the questions. Two from my side. Lewin, Beto, one of the topics that I've been curious about in the results was the conversion between EBITDA to cash flow, operating cash flow, which seemed particularly weak. You mentioned the cyber attack on the receivables, that's about a BRL100 million increase in receivables, not sure if entirely related to the cyber attack. If you could comment, I mean why did working capital consumed so much cash? Isn't it something reversible that would be very much appreciated.

And then my second question is more on a medium term view, whether you have any concerns about the corn harvest in Brazil this year. And especially because of the competition with the U.S., given the low oil prices affecting ethanol? Thanks.

A - Ricardo Lewin {BIO 20342706 <GO>}

Hi Regis, this is Ricardo. Let me start with the second question talking a bit about corn, okay. It's important to give you an entire overview, and I will talk also about the U.S. But expectation for Mato Grosso, that's our most important market is above the country average. In Mato Grosso, we have already 80% of the corn already commercializes, while in Brazil, you have done less than 60% of commercialize of corn. If we compare with 2019, there'll be significantly less export of corn in the first half of the year, okay, especially because impacted by February because in 2019 we have high inventory that we have solely in January and in June volumes. Because this year, there is no early harvest of corn. So most part of the reduction in export for corn will happen in the first half of the year, okay, what will ensure good volume, starting second half of the year, okay. So this is important to understand all the (inaudible).

And now talking about your question that's US, okay. There -- you're right, there will be higher availability of corn in the US, as I said, due to the lower consumption of corn ethanol. But Brazil, it's a very good position, mainly because of the FX rate. The real is very depreciated. Okay. And this makes our corn, that's already competitive, even more competitive, even more than it is today. Okay.

And moreover, Mato Grosso, it's really well positioned in this competitiveness. Okay. As I said, there is almost 80% commercializing against 58 million in the country. Just to see the level of competitiveness of the Brazilian corn, for 2021, okay, I'm not talking about second half of this year, I am talking about 2021. Mato Grosso has already commercialized 28% of the crop. So not only we expect 2020 being a very strong year, but also 2021, we expect to have a good year.

Talking a bit about the -- your first question, the conversion. You should take first quarter of 2019. We had the same question at that period, okay, at that time. And we had converged to EBITDA. Free cash flow was also weak at that point. So it's recurrent, what happens in our not sector, but in the company and reinforce this year by the -- by this cyber attack. But basically, this is something that happens one way to the other and that involves both recurring fees or even very, very, things that are one-time.

For example, you have expenses on Malha Paulista that we needed to pay. We have suppliers' payments. You had some traditional demand that happened, that increase the

conversion, okay. So it's not something controlled. And like last year, during the year, this conversion we will increase it. We will increase until the end of the year. As I said, too deeper in the previous call, so we -- every year, we reduced the working capital investment during the year. Okay.

Q - Regis Carodoso

Very clear. Maybe just to follow up on the last one to see if I got it correctly. Do you think this working capital investment is something that will be reverted, as in, you will generate cash from working capital from removing working capital? Or is it just that the conversion will be better for the next quarters, but the investments in working capital you needed to make now are permanent?

A - Ricardo Lewin {BIO 20342706 <GO>}

Conversion will be much better. It's not that we reversed it. We have a positive working capital, no. It's a more improvement of conversion, a much better improvement. Okay.

Q - Regis Carodoso

Very clear. Thank you.

Operator

Our next question comes from Rogerio Araujo, UBS.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Hi, guys. Thank you for the follow up. One more for Malha Paulista renewal here. So the TCU, they required in their report two requirements here. One, it was like a return -- a return review cycle for Malha Paulista, consisting of sharing the income in cases -- in the case it's above for future assumptions. So how did this go? Is there already a model, like a tariff model? How will this work? And also they required clear guidelines for -- in that payment, rail operators to use Malha Paulista. So, is this regulation out already? How this evolved since then? Thank you.

A - Joao Alberto Fernandez de Abreu {BIO 20362451 <GO>}

Thank you, Rogerio. I will answer the first one. So you're right. As Beto explain also in the presentation, we'll have a variable concession fee, which may be charged if we overcome the volumes forecasted in the ANTT model. Okay. Those volumes will be splitted in two types.

The first one, it's on cargo performed by Paulista, which arguably has a higher tariff because when we transport for Paulista, in average, we transport for 700 kilometers and very likely we'll charge tariffs around BRL70 per ton, BRL80 per ton. So if we do more volumes of cargo in Paulista, of course, we will have to review the model to see how much more concession fees they would have to charge to rebalance the agreement in 11.04. On the other hand, we have passed through cargoes, which, for instance, includes the volumes that we have in the Northern Network.

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So those cargoes, we don't have to pay based on the tariffs that we charge from the customers, but instead from the pass-through fees that we charge in Paulista to the Northern Network, which is much lower than the average tariffs that Paulista charged from its customers. So for instance, today, this pass-through fee is around BRL20, BRL25 per ton. So when we try to put those things together, I would say that maybe and hopefully, we'll overcome the volumes of pass-through cargoes in Paulista.

That means we'll have much more revenues in the Northern Network, which is something good. And as a side effect, we might have to pay a bit more in concession fee. But this adjustment in the concession fee will only happen based on the BRL25, which is the pass-through fee. So, we are not as much sensitive to pass through cargoes to change that much, the concession fee.

On the other hand, we think that the volumes forecasted by the regulator for the cargoes, the on-cargoes of Malha Paulista are already pretty high. So it's very difficult to overcome those volumes. It is possible, but it's not likely. So, we don't expect to have any kind of major adjustments in terms of concession fee throughout the concession periods. But again, the business, it should be perceived as something good. Because if we have more volumes, definitely, we have more revenues. And then the methodology to share these revenues, it's only based in the volumes and it depends if we are talking about pass-through volumes or volumes that we are serving the cargoes from Paulista network. There is very complicated (Multiple Speakers)

Q - Rogerio Araujo {BIO 17308156 <GO>}

Yeah, yeah. Sorry to interrupt, you mean share is 50-50 kind of the extra revenue?

A - Joao Alberto Fernandez de Abreu {BIO 20362451 <GO>}

No, no. No, it is not that. It's much more complex than that. They pretty much bring this volume to the model and try to understand what will be the advantage in terms of fixed cost dilution. And then they realize how much more do they have to charge to rebalance. But there is -- there isn't a way to establish. Instead, there is a methodology to reveal the whole thing.

But again, it makes a lot of difference, if we are overcoming the volumes in pass-through cargoes or in cargoes served by Paulista, which have higher tariffs. And for Paulista, we don't see as likely. And when we talk about grains coming from the large, okay, if we have to pay a bit more because we overcome the volumes, it's not a big deal. And it won't be as much because it will be only calculated based on the tariffs, the pass-through tariffs that we paid in the north.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay. (Multiple Speakers)

A - Ricardo Lewin {BIO 20342706 <GO>}

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Yeah, indefinite railway operator. Rogerio, just -- well, at end of the day, nothing changes compared to the current regulation, okay. In practice, the concept that's decided by the regulator, it did contribute, put in place in large distances, okay. The IRO that connects rail operator, it's difficult for them to be able to have like -- to like train drivers, to replace the shift of train drivers after eight hours, to staying overnight, they're -- like overnight that we have already built to help you (inaudible). So, it's difficult for them to have the infrastructure that we as operator have. Okay.

So it's not only acquiring the right-of-way, but need to have acquire all the other services. Okay. Just today, we have a structuring in place like the one we have with Klabin, for example, that they -- the definite railway operation, they buy some assets. Okay. And we make the surface for them.

So, this is exactly what we have in the South. If you go to the South operation, you will see that nice Klabin trends. They will be the investment and we operate for them. And we -- in my opinion, likely in Rumo's opinion, this is even -- this is not a threat for Rumo. On the contrary, this is an opportunity that Rumo has, in case, we are going to reduce the need for CapEx, okay, and we want to guarantee the volumes. So at end of the day, it's even positive for us.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay. Sounds good. Just confirming on the first, on the return review cycle. So you charge about BRL170 per ton from Rondonopolis to Santos. So, can we think that from this BRL170, everything that goes above the expected volume, the official volume, you would have to pass through about BRL25 to the government. So it's like providing a 15% of your charged fees to the government above a certain level, a certain threshold that you have as a future estimate. Is that a good way to think about it?

A - Joao Alberto Fernandez de Abreu {BIO 20362451 <GO>}

No, Rogerio, it's slightly different. You're right about the tariffs that we charge in the North. They are around BRL170 and out of that, we have roughly BRL25 per ton as the pass-through fee. What I mean is we only have to share a piece of this BRL25 per ton, if we overcome the volumes, not to the BRL25 per ton.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay.

A - Joao Alberto Fernandez de Abreu {BIO 20362451 <GO>}

So it's even less.

Q - Rogerio Araujo {BIO 17308156 <GO>}

Okay. Perfect. It's very clear enough. Thanks so much again, and congratulations for this conclusion. Thank you.

Operator

Thank you. This concludes the question-and-answer session for investors and analysts.

Now, I'd like to turn the floor over to Mr. Ricardo Lewin for his final considerations.

A - Ricardo Lewin {BIO 20342706 <GO>}

Well, once more, I would like to thank you, all the investors and sell-side for participating on the call. This is a very important moment, not only for Rumo, but for the entire country. The milestone of the renewal of Paulista is first time in the country that we have anticipated a renewal. And we were able to offset older working for the -- all older renewals in the country. So it's very important for us. We are commemorating at this moment. Very important, as I said. And I would like to reinforce that we are very positive regard to the rest of the year. So, we tend to have a very good second quarter and generally, a very good second half of the year.

So, I'd like to thank you all of you for the support, all the supporters, having always supporting the company during the last five years that we fight for the -- have fought for the renewal and please all of you stay safe. Talk to you in the next quarter. Thank you. Bye-bye.

Operator

That concludes Rumo's first quarter results conference call. Thank you very much and have a nice day.

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