

## Q3 2017 Earnings Call

### Company Participants

- Daniel Kuratomi, Investor Relations Contact
- Flávia Godoy, Investor Relations

### Other Participants

- Stephen Trent, Analyst
- Victor Mizusaki, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good afternoon, ladies and gentlemen, and thank you for waiting. We would like to welcome everyone to the Third Quarter 2017 Earnings Conference Call of CCR S.A. We'd like to inform you 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.

Before proceeding, let me mention that forward-looking statements about CCR's business prospects and financial and operating goals are based on the beliefs and assumptions of CCR's management and on information currently available to the company. Forward-looking statements are not a guarantee of 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, industry conditions, and other operating factors could also affect the future results of CCR and could cause those results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Daniel Kuratomi, a member of CCR's IR team. Please, Mr. Kuratomi, you may proceed.

### Daniel Kuratomi

Thank you, operator. Good morning, everyone, and thank you for attending our earnings conference call for the third quarter of 2017.

With us here today are Arthur Piotto, our Chief Financial and Investor Relations Officer; Marcus Macedo, Flávia Godoy, and Marcela Dias, members of the IR team. The earnings release is available on the company's website at [www.ccr.com.br/ir](http://www.ccr.com.br/ir).

FINAL

Let us first take a look at some of the macroeconomic indicators we consider important for the performance of our business. We would like to begin by highlighting that the unemployment rate came to 12.6% in August, 80 bps up year-on-year and 20 bps down from July 2017. Real per capita income reached R\$2,105 in August, a 1.9% increase over the same period last year.

IBGE's latest data on industrial production show a year-on-year increase of 4% in August, while year-to-date growth came to 1.5%. According to the latest credit details released by the Central Bank, credit granting in the financial season moved down by 0.1% in August and 2.2% in the last 12 months. Also in August, the corporate purchase volume fell by 1%, while the individual purchase volume increased by 0.7%.

The credit to GDP ratio fell to 47.1% versus 50.4% in August 2016. Also in August, credit to finance vehicles grew 27% year-on-year. It is worth emphasizing that the automotive sector is closely linked to traffic growth and has a huge influence on industrial GDP. The number of licensed vehicles increased by 25% year-on-year in September and 7% in the first nine months versus the same period last year, while vehicle production grew 39% and 27% in the same comparison, according to recent data from ANFAVEA, the Brazilian auto manufacturers association.

Moving on to our operating numbers for the quarter, we highlight the performance of traffic. With the beginning of collection on ViaRio in August 2016, traffic was adjusted for comparison purpose; that is excluding this asset in third Q 2017. As a result, the company's consolidated traffic grew by 4.1%, indicating a recovery. It is worth mentioning that the traffic fell by 2.7% and 0.8% year-on-year in third Q 2017 and second Q 2017. In third Q 2017 versus third Q 2016, commercial vehicle traffic moved up by 5%, while light vehicle grew by 2.5%. In our press release, you'll find more information on traffic trends for each concessionaire.

We now show the key performance figures for third Q 2017; that is considering all businesses, which we do not control or hold shared control, consolidated according to CCR's share in each line. We also adjusted the comparison basis by excluding from calculations STP, which was sold in August 2016; ViaQuatro, in which we increased our stake in April 2017; and businesses that were still not operational throughout third Q 2016: ViaRio and VLT. In addition, we also excluded the one-off effect of the sale of STP in third Q 2016 of R\$1.3 billion on EBITDA and R\$863 million on net income.

In accordance with this criteria, same-basis cash costs grew 2% over third Q 2016, while the IPCA inflation index rose 2.5% in the last 12 months ended in September. As a result, same-basis adjusted EBITDA totaled R\$1.3 billion, 5% higher than in third Q 2016, with an increase in the margin of 70 bps to 64.3%. This increase reflects the company's results with a disciplined cost control.

Same-basis net income totaled R\$433 billion in third Q 2017, 63% more than third Q 2016 impacted mainly by the improved financial results due to a higher cash position and lower average (06:30) interest rate.

The company's pro forma leverage, measured by the net debt-to-EBITDA ratio came to 2.2x in third Q 2017. Excluding the one-off effect of the acquisition of stakes in ViaQuatro and ViaRio in second Q 2017 totaling R\$548 million, this indicator would have come to 2.4x.

Before concluding our comments on the quarter, we would like to mention that on October 16, the payment of interim dividend totaling approximately R\$0.44 per share was approved to be paid as of October 31. Payment will be made to shareholders of record on October 19 and the shares were traded ex-dividends as of October 20.

We end our comments on the quarter results by highlighting that despite the slow recovery of the economic scenario with the focus forecasting a 2017 GDP increase of only 0.7%, net income and same-basis pro forma adjusted EBITDA margins and EBITDA increased in the period, underlying our business's resilience and strength.

We will now open the question-and-answer session. Operator, please go ahead.

## Q&A

### Operator

Ladies and gentlemen, we will now begin the question-and-answer session. First question, Victor Mizusaki, Bradesco BBI.

#### Q - Victor Mizusaki {BIO 4087162 <GO>}

Hi. Good morning. I have two questions here. The first one, if you can comment about M&A activity in Brazil? I mean, given that you've raised R\$4 billion this year, what's the current situation? And number two, if you can comment a little bit about cost of debt and if you start to see credit spreads fall in Brazil?

#### A - Flávia Godoy

Hi, Victor. This is Flávia. Thank you for your questions. Regarding your first question about the M&A opportunities. As you mentioned, CCR raised the capital in the beginning of the year. We raised the R\$4 billion. So a big portion of this amount, we would like to address in new opportunities.

So, CCR has been pursuing new opportunities, not only secondary opportunities but also primary market opportunities. It's quite difficult for us to give you a timing for that mainly related to M&A opportunities - existing opportunities. But one thing that I can share with you is that the company is quite optimistic with the opportunities in Brazil.

We know that some companies are facing financial problems, so we have seen some assets for sale. I would say that CCR is very well positioned because we have bigger room in our balance sheet that we can afford those opportunities.

FINAL

Our expectation is to try to do an announcement in short term, but it's totally out of our control since it depends on the negotiations and the development of those discussions. But we are on track to try to address an opportunity to announce an acquisition in a short term.

Regarding your second question related to the cost of debt. Yes, we have seen better spreads this year, mainly after, I would say, May, June. If we go back on time, by the end of 2016, CCR got a debt, I would say, that compared to the debt that we got now, the debt that we got in by the end of 2015, the cost was around 120% something to CDI, and now these spreads are much lower.

As you can see in our press release, we raised some debt during the third Q, and we got a better price. So the same debt that we got in 2015, we got a similar one, almost the same one with the price 107% of CDI. So we saw a significantly reduction in the spreads. We can have a better spread going forward as well.

**Q - Victor Mizusaki** {BIO 4087162 <GO>}

Okay. Thank you.

**Operator**

Next question, Stephen Trent, Citibank.

**Q - Stephen Trent** {BIO 5581382 <GO>}

Hi. Good morning, and thanks very much for taking my questions. Just two from me at this point. At the risk of oversimplifying this issue, when you're looking at potential assets in the secondary market, do you have a benchmark, let's say, minimum IRR at which you go after one of these?

And my second question pertains to what you might be seeing in traffic trends were roughly one-third of the way through the fourth quarter. And any color with respect to whether we're seeing somewhat of a continuation of the positive turns that things seem to have taken in 3Q? Thanks.

**A - Flávia Godoy**

Hi, Stephen. This is Flávia. Good afternoon. Well, regarding the secondary market opportunities, as I've said, indeed, CCR has been pursuing some opportunities on existing assets that we can acquire. I would say we have some opportunities since the beginning of this year that we have been analyzing.

One thing that is quite difficult for us is to give you a timing for that. Those discussions can take longer, but the company is quite optimistic. The company is also quite well positioned to handle those opportunities. I mean, we raised the capital and we have a better-balanced position to participate in any new opportunity, not only a primary market sector but also secondary market. I mean, we are working to try to make an

announcement. But, again, it's quite difficult because out of our control. But we have been pursuing some of them.

In terms of traffic, as you probably saw in our release, our traffic grew 4% in the third Q. So, in May, we started to see this inflection point. Although the economy is trying to recover a little bit, we know that the pace can be slow. We haven't seen this positive effect in our data, not only because of the macroeconomic indicators that we have seen a recovery, but also because due to the weaker comparison basis.

So, going forward, as we had a very weak traffic during the 4Q 2016, we expect to have better numbers in the 4Q 2017 only due to the weaker comparison base, excluding the effect of the macroeconomic indicator that we might see better numbers that we saw in the third Q. So the expectation going forward, I would say, there are positive. So we have this scenario of better GDP mainly in 2018 and in 2019.

**Q - Stephen Trent** {BIO 5581382 <GO>}

Okay. That's very helpful color. Thanks, Flávia.

**A - Flávia Godoy**

Thank you.

**Operator**

We now end the Q&A session. I would like to turn the conference over to Mr. Daniel Kuratomi for his closing remarks.

Please, Mr. Kuratomi, you may proceed.

**A - Daniel Kuratomi**

On behalf of CCR, I'd like to thank you for your time and interest. Please do not hesitate to contact us if you have any further questions. Our contact information is available in our press releases and on the Investor Relations website. Thank you.

**Operator**

That does conclude CCR audio conference for today. Thank you very much for your participation. Have a great day.

*This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect,*

*incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.*

FINAL

Bloomberg Transcript