

Q1 2015 Earnings Call

Company Participants

- Marcelo Eduardo Martins, Chief Financial Officer
- Nelson Roseira Gomes Neto, Chief Executive Officer

Other Participants

- Alexandre Falcao, Analyst
- Fernando Ferreira, Analyst
- Juan Tavarez, Analyst
- Rodrigo Mugaburu, Analyst
- Unidentified Participant

Presentation

Operator

Good morning, ladies and gentlemen. At this time, we would like to welcome everyone to Cosan SA First Quarter of 2015 Results Conference Call. Today with us, we have Mr. Nelson Gomes, CEO and Investor Relations Officer of Cosan SA; Mr. Phillipe Casale, Investor Relations of Cosan SA and Mr. Marcelo Martins, CFO and Investors Relations Officer of Cosan Limited and Board Member of Cosan SA.

We would like to inform you that this event is recorded and all participants will be in a listen-only mode during the company's presentation. After Cosan's remarks, there will be a question-and-answer session for industry analysts. At that time, further instructions will be given. (Operator Instructions) The audio and a slideshow of this presentation are available through live webcast at ir.cosan.com.br. 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 Cosan'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 Cosan and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Nelson. You may begin your conference.

Nelson Roseira Gomes Neto {BIO 17954114 <GO>}

Good morning. Welcome to the Cosan SA first quarter results conference call. Turning to the third page, for the first time, we will not discuss the Logistics business here on this conference. Logistics business will be discussed on a separate conference call next week. In this call, we will discuss Raizen, Comgas, Lubricants and Radar.

Now, turning to page four, Cosan SA consolidated pro forma results. It's important to highlight that what we have in the numbers in this presentation is a reflect of 50% of Raizen and 100% of the company is control by Cosan. And starting this quarter, the results of Comgas will be presented adjusted by the regulatory account. Specifically on this quarter, we are excluding the final expenses incurred on the closing of the Rumo and ALL deal.

So we're starting our Cosan SA results, net revenue was increased 6% reaching almost BRL10 billion. Basically all the business increased their net revenue this quarter. On EBITDA, we increased 17%, reaching BRL1 billion, mainly due to the sales strategy in concentrating all the sales of sugar and ethanol in the first quarter of 2015 where we have higher prices. Net income was reduced to BRL43 million, impacted by: first, a reduction of BRL37 million related to the spin-off of Rumo, which was included in the first quarter 2014 and it is not only first quarter 2015 and also a net ForEx losses of BRL156 million.

Now turning to page five, our Fuels Distribution business. The volume sold reaches 6 billion liters on this quarter, 3% higher on the first quarter 2014 and higher than 1% market increase. Special increase or a stronger increase on the volumes of gasoline and ethanol, while diesel and aviation fuels were stable. Net revenue increased 8% reaching 14 billion and it's a result of an increase on volume that I just mentioned, but also an increase on average prices due to one, Petrobras price increase at the end of last year and tax increase on gasoline and diesel early this year. Our EBITDA was increased 13% reaching BRL590 million, driven again by volume and price increases, but also offset by a reduction of our asset sales.

Now turning to page six, our Sugar and Ethanol business. Given the first quarter of 2015 is equivalent of the last quarter of 2014 and 2015 crop season, what we will discuss in here is the entire crop season which ended in March 31st, this year. So net revenue increased by 3% despite of 7% decrease in the crop, reaching BRL9.7 billion. EBITDA also increased 4%, reaching 2.5 billion, again specially driven by the sales strategy at the end of the crop season, focusing on higher prices. CapEx, we have a decrease by 8% if we consider the BRL130 million on the completion of the second-generation ethanol project. If we exclude the project, the decrease on CapEx will be 10%.

Now, turning to page seven on gas distribution business. Including thermal generation, the volume was decreased by 1%. If we exclude thermal generation, the drop -- the biggest drop is in the industrial volume due to the poor performance of industrial activity in Brazil this quarter. That drop was partially offset by the volume sold on the residential and

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commercial segments. Net revenue was increased by 1% due to 2% impact on tariff increase in May and December last year. EBITDA was increased by 6%, reaching BRL299 million. If we were to include the impact of the regulatory account on the EBITDA, this number would be BRL256 million due to the negative impact of BRL43 million on this quarter.

Now turning to page eight, our Lubricants business. The total volumes sold was decreased by 2%, reaching 71 million liters basically due to a lower base oil volume sale, partially offset by a higher volume of finished products sales. Net revenue was increased by 3%, mainly due to an increase in the average price in the first quarter, partially offset by the decrease of the volume in 2%. The EBITDA remained stable and reaches BRL23 million.

Now turning to page nine, Radar. Radar had a reduction on net revenue -- net revenue reaching BRL22 million, basically due to a lower volume of property sales. The EBITDA reaches BRL27 million in this first quarter. And the difference, it's basically the appreciation of our portfolio in 2015 of BRL14 million versus a devaluation of our portfolio in first quarter 2014 of BRL23 million.

Now turning to the next page, talking about our net debt. Our net debt was decreased by 11% specially due to an increase of \$1 [ph] billion in cash, mainly due to the reduction of the working capital of Raizen. All debt denominated in foreign currency are hedged that we reduced our cash flow exposure. There is no significant change in our maturity, debt maturity. Our leverage was reduced from 2.5 to 2.0 times [ph] EBITDA, if we consider only the net banking debt. If we consider other finance liabilities, our leverage will be reduced from 3x EBITDA to 2.8x EBITDA this quarter.

Now turning to the guidance, what we have in here is the guidance for the business that will start from January to December on the calendar year on the first part of the slide. So, we are confirming what we had said last quarter, so there is no changes in the guidance for those business. And on the bottom of the slide, we are now confirming the preliminary guidance that we offered last quarter for Raizen Energia on the crop season, 2015-16. We are also including here, the actual numbers for the last crop season that ended in March 31st.

As you can see, there is some volume increase of the sugarcane crushed, expected for this crop season. Also our volume -- sugar volume and ethanol volume increased, but a substantial reduction of CapEx in this next crop season from 2.3 or 2.2 if we exclude the second generation ethanol process to 1.7 billion, which is the middle to guide.

So with that, I'd like to turn it back to you for the Q&A. Thank you.

Operator

Thank you.

Questions And Answers

Operator

Thank you. We'll now begin the question-and-answer session for investors and analysts. (Operator Instructions) Our first question comes from Alexandre Falcao with HFBC.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Good morning. Thanks for the conference call. Marcelo, I have two questions. First one is on the fuel distribution side, is there any particular reason, because we have a clear benchmark which is Ultrapar. We expected higher margins, basically coming from import levels and from the increase on the price of gasoline? So, if you could elaborate a little bit, why do you guys performed below Ultrapar and what could justify that? Was that a jet fuel or something? So that's the first question.

And the second is regarding cash flow generation. Most of your cash flow generation is basically coming from the reduction on inventories. You saw lot of [ph] your sugar and one this quarter, which is seasonally expected? But I just wanted to get a hype [ph] on how much you guys expected in terms of consistent and recurring cash flow generation going forward in the next two to three-quarter? Thank you.

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

Okay. I'm going to the first one, our EBITDA on the fuels business was BRL593 million, okay? Now, if you add all that -- all the effects of inventory gains, imports and asset sale this quarter, we are talking about something around BRL50 million. So, this is in line with our expectation. And as I said on the Portuguese call, we have almost zero effect on the asset sale this quarter, so around 50 million on imports and inventory gains. And that's again, it's in line with our expectations, given the very low level of inventory that we run at the fuels company. We usually run on a low -- very low level to optimize the capital employment of the business, okay?

Q - Alexandre Falcao {BIO 5515455 <GO>}

50 million is not included in that 550 or it is included, it's subscribed?

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

It is included.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Okay.

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

It is included. 50 million, it's included on that 500 million.

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Q - Alexandre Falcao {BIO 5515455 <GO>}

Okay

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

The second one on cash flow, the operational cash flow was about 2.2 billion. And if you exclude the CapEx and the interest paid on the quarter, the cash generation is about BRL1.2 billion. If you want to get more details, the guys here (inaudible) and Phillipe, they will have all the details for you, if you wish.

Q - Alexandre Falcao {BIO 5515455 <GO>}

That will be amazing. Now, I'll follow up.

Operator

Our next question comes from Fernando Ferreira with Merrill Lynch.

Q - Fernando Ferreira {BIO 2389113 <GO>}

Hi, Nelson. Thanks for the questions. I have two questions. Can you give one -- as an update on the spin-off of the gas division, that will be the first question. And then second, just like to have more details on this, those expenses regarding the deal of Rumo and ALL that were booked under Cosan SA. I wanted to understand why they were both Cosan SA and if there is going to be any sort of reimbursement or those expenses are already paid-off before the spin-off, I just want to understand this. Thank you.

A - Nelson Roseira Gomes Neto {BIO 17954114 <GO>}

Fernando, Marcelo Martins will answer the first one. On the second one, on the Rumo and ALL, let's remind that this operation was pretty long operation that started more than three years ago, and it's a very high complex operation as well that involve the termination of a series of contracts and liabilities that we need to make sure was completed before the final incorporation of the company. We also have on this amount of money, expenses, we've our financial advisors, tax advisors, legal, M&A and most all of them conditional to the final close of the deal. Okay?

Also important to remind that this was expected and we've demonstrated that in the guidance on last quarter. We didn't know when this was going to happen because it was related to the final closing of the deal. But at the end, it's finished, it's done. So there is no more expenses related to this deal to be booked into the future, okay? The reason why it was booked in Cosan, at since the beginning, this -- all these obligations were built when Cosan was the controlling shareholder of Rumo. So that started -- that deal discussion is started with Cosan. So it have to be finished by Cosan.

We were expecting costs related to this merger and because of that, Rumo paid at the beginning of last year, even before Cosan Logistics Company was formed and exceptional dividend of BRL250 million to face this kind of obligations that we were

signing on behalf of Cosan SA. Okay? So that's the reason why we booked that all in Cosan.

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

Yeah, Fernando, it's Marcelo. Just to answer your first question, if you'd recall it, the actual spin-off of the gas distribution business was conditional upon the refinancing of the perp [ph] under acceptable market conditions. So what we know at this point in time is that market conditions are improving, but they are not in our view at this point in time, good enough for us to go on with the refinancing. So, whenever we think that the conditions are acceptable, we will refinance that perp and then we will be in a position to do this spin-off.

Q - Fernando Ferreira {BIO 2389113 <GO>}

Okay. Great. Thank you.

Operator

Our next question comes from Juan Tavaréz with Citibank.

Q - Juan Tavaréz {BIO 15083199 <GO>}

Hi. Thanks. Good morning. And just -- my first question is regarding just the sugarcane crop. You mentioned that you potentially reached the top end of your guidance on the crop on crushing activity. I'm curious if that's because of the conditions that the crop you're seeing are bit better or you would look to buy more third-party canes, kind of fill in the gap there. And then also just to get some insight, if you were to reach the top of your guidance on sugarcane crushing, would you have to accelerate some of your hedges for sugar or you're comfortable with your current position?

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

Juan, the answer to the first question is really poor climate conditions, not because of more sugarcane. Okay? The second one, we are not changing any piece of this strategy of hedging on the sugar business. So we are maintaining -- we are at this point -- at the same level that we were in the same time of last year -- the last crop season. So, there is no changes in our position on the hedge on sugar.

Q - Juan Tavaréz {BIO 15083199 <GO>}

Any thoughts about idling any further capacity or you're going to keep operating at current utilization rates, if you reach the top end of the crop?

A - Nelson Roseira Gomes Neto {BIO 17954114 <GO>}

Our current capacity now is 67 million tons, 68 million tons a year. We are expecting to crush this crop season around -- as the guidance up to 60 million.

Q - Juan Tavaréz {BIO 15083199 <GO>}

But you won't be shutting down any mills?

A - Nelson Roseira Gomes Neto {BIO 17954114 <GO>}

No.

Q - Juan Tavaréz {BIO 15083199 <GO>}

All right. Thank you very much.

Operator

Our next question comes from Rodrigo Mugaburu with Morgan Stanley.

Q - Rodrigo Mugaburu {BIO 20980025 <GO>}

Hi. Thank you very much. I have two questions, maybe the first one for Marcelo. Just wanted to confirm that from the next quarter onwards when we see the Cosan Limited release, we will also see Rumo and ALL consolidated numbers in that? And then the second one, Comgas, when we see the IFRS EBITDA for the quarter was down 25% and then the guidance is that we have it under IFRS also. So I wanted to check that you still confirm the guidance under IFRS after this quarter or if you have a guidance of a normalized EBITDA and what that could be? Thanks.

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

Rodrigo, in terms of the consolidation of Cosan Logística, you're right. It's going to happen next quarter because the deal was actually closed on the 1st of April of 2015. Your second question was about Comgas, right. So Nelson, can you answer you that?

A - Nelson Roseira Gomes Neto {BIO 17954114 <GO>}

So, as you mentioned, starting this quarter we will start to report our results of Comgas including all the effects of the -- how do you say that, the regulatory account. With that, the guidance, we can provide both guidance. We can provide the guidance with the impact of the regulatory account and without the impact of the regulatory account.

Q - Rodrigo Mugaburu {BIO 20980025 <GO>}

So do you have a normalized guidance because the ones that we have right now, it was under IFRS, right? So I wanted to review (inaudible) a normalized EBITDA guidance.

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

I don't have here in front of me, the exact numbers, but the guys here will give that information to you after the call.

Q - Rodrigo Mugaburu {BIO 20980025 <GO>}

Great. Thank you.

Operator

Our next question comes from Alexandre Falcao with HSBC.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Thanks for the follow-up. Again, other two questions. First one is, can you comment on the recent change in Comgas, the regulatory discussion with the Sao Paulo state government? Just wanted to know what it means, that the walk [ph] or the Cosan capital is going to be redefined? Is this a positive sign, or is this a negative sign? And what are the timeline for that and how are the discussions on the (inaudible) and the minimum value of the concession. That's the first question.

The second question, just want to have a quick follow-up on the margins, just looking at in a recurring basis, your competitor posted something around a BRL100 per cubic meter; you posted recurring BRL90 per cubic meter. Just wanted to know where this difference comes from? Is this ethanol? Is this jet fuel, just pay for that?

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

Falcao, on the first one, on Comgas, of course we hope that the walk will be better than the one that we discussed before. But we cannot guarantee that -- what kind of results will come out of the discussion. And on the margins, again if you look at our EBITDA, the impact of the inventory in the imports was in line of the expectation. If you look at the what you call, recurring margin, the big jump of it is the rebate that we have in this quarter on the amount of BRL40 million, okay? You should have those BRL40 million up.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Okay.

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

To make sure that your recurring calculation is correct.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Okay. That's very, very helpful. And just a quick follow-up on your first answer. Any news regarding the discussion on the VAN [ph]? Is this something that's on the hands of the governor or at least its cabinet should decide if this was something that was going to be changed or not? Do we have any clarity on that? And when can we -- when are we going to have this? Do we have any sort of a hard deadline for them to decide? Thanks.

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

Falcao, there is no deadline, and it's really hard to predict any outcome of the discussion, while the discussion is still going on, it is still taking place. But of course, we -- our angle of the discussion is positive. So we expect that the work [ph] will be calculated on a more recent combinations. So we are expecting a positive outcome. But again, it's hard to predict that, why the discussion is in course.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) Our next question comes from Soledad Kuroni with (inaudible).

Q - Unidentified Participant

Thank you very much for the call. I would like to ask you some questions on Raizen Energia. Could you give us some guidance on the agricultural yields and on the ATRs that you expect for this crop year?

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

Just one second, Soledad. Please.

Q - Unidentified Participant

Yes.

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

Soledad, looking at the numbers here, the ATR for this crop is expected between 130-135 and the PCH, it's between 75 and 80.

Q - Unidentified Participant

Between 75 and 78. Okay.

A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

75 and 80. Eight zero.

Q - Unidentified Participant

75 and 80. Okay. And as regards of the hedge of the sugar price, I would like to know what is the volume that you have a hedge and at what price have you hedged it?

A - Nelson Roseira Gomes Neto {BIO 17954114 <GO>}

We -- the position of our hedge today or this crop, it's equivalent of the position that we have in the last crop. So there is no changes in terms of strategy of the hedging for this crop season. The price for the hedge this year is \$0.165 per pound and a dollar rate of 2.80 [ph].

Q - Unidentified Participant

Okay. And as regards to the CapEx of Raizen Energia, could you tell me what percentage of that CapEx is denominated in US dollars and what percentage in reais?

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A - Marcelo Eduardo Martins {BIO 16440115 <GO>}

The CapEx denominated in dollar, it's almost insignificant. It's really everything in reais, in local currency.

Q - Unidentified Participant

Okay. Okay. Thank you. Thank you very much.

Operator

Thank you. That concludes the question-and-answer session for investors and analysts. I would like to invite Mr. Nelson Gomes to proceed with his closing statements. Please go ahead, sir.

A - Nelson Roseira Gomes Neto {BIO 17954114 <GO>}

Once again, thank you for your participation in the call and we will talk again on the next quarter. Thank you.

Operator

That does conclude the Cosan SA audio conference for today. Thank you very much for your participation and have a good day.

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