

Q1 2021 Earnings Call

Company Participants

- Andrea Fernandes, Investor Relation Director
- Marcello Guidotti, Chief Financial, Investor Relations Officer and Human Resources Management

Other Participants

- Analyst
- Andressa Varotto, Banco UBS
- Guillermo Mendez
- Murilo Freiburger
- Victor Mizusaki

Presentation

Operator

Good morning, and welcome to EcoRodovias' First Quarter of 2021 Earnings Conference Call. With us here today are Marcello Guidotti, CFO and IRO; Andrea Fernandes, IR Director; and Executives of the company.

This presentation is being recorded, and all participants will be in a listen-only mode during the presentation. After that, we will begin the question-and-answer session for analysts and investors only when further instructions will be provided. (Operator Instructions) The audio and the slides of this conference call are being broadcast simultaneously at ri.ecorodovias.com.br, where you will find the presentation for download from the webcast platform in the Investor Relations section.

Before proceeding, we would like to clarify that the forward-looking statements that may be made during this conference call relating to EcoRodovias' business prospects, projections and operational and financial targets are based on the management's beliefs and assumptions, as well as on currently available information. They involve risks, uncertainties and assumptions as they refer to future events, and hence, depend on circumstances that may or may not occur.

Investors should understand that General economic conditions, industry conditions and other operating factors may affect the future performance of EcoRodovias and lead to results that differ materially from those expressed in such forward-looking statements.

I will now turn the floor over to Ms. Andrea Fernandes, who will discuss the first quarter of 2021's results. Ms. Andrea, you may proceed.

Andrea Fernandes {BIO 21294199 <GO>}

Good morning. Welcome to Grupo EcoRodovias' conference call today, discussing the earnings of the first quarter of 2021. We thank you all for your interest and participation. The first quarter was marked by some important events, in particular Brazil's National Ground Transportation Agency's authorization of the start of toll collection at Ecovias do Cerrado at the P3, P4 and P5 toll plazas and as of from March '20, the concession is fully operational.

In April, we won the federal concession BR-153, Tocantins, Goiás to operate it for 35 years, in line with the company's growth strategy. The concession agreement and EcoRodovias' guidelines are aligned with the best ESG practices as highlighted in our results release.

In April, the company also made progress in our derisking efforts with the signing of the agreement of Ecovias dos Imigrantes, which established the assumptions that guide the extension of the termination of concession agreement from June 2026 to March 2033, based on traffic projections using the ARTESP and marginal cash flow methodologies. More details are available in the material fact of April 30.

Our ESG agenda continues to advance. We published our first integrated report, our main tool to report environmental, social and governance indicators with the results achieved in material topics, selected after consulting with our key stakeholders. We believe that part of our responsibility to create value involves building relationships with our stakeholders that are based on trust and guided by transparency and accountability.

In the governance aspect, the company obtained the international anti-bribery certification ISO 37001, which attests that the company's ethics program, Integrity System, is capable of preventing addressing and identifying bribery practices.

Still on the topic of ESG. EcoRodovias' stocks included the B3's carbon efficient index for the second consecutive four-month period, an important recognition for companies with transparent practices regarding their carbon emissions. The emissions of the year 2020 were offset, amounting to more than 32,000 tons of CO2. The emissions were offset by acquiring carbon credits from three projects: renewable energy generation from methane gas at a landfill, wind power generation, and the project Reducing Emissions from Forest Degradation in the Amazon region.

In May, Ecovias dos Imigrantes issued BRL600 million in debentures for a period of one year at the cost of CDI plus 1.05% per year.

Moving on to operational performance on Slide 2, we can see the monthly traffic performance and comparable toll traffic until April 30, 2021. When we look at comparable traffic, we see a 9% increase year-on-year, and a reduction of only 3.5% when compared

FINAL

Bloomberg Transcript

FINAL

to 2019. Compared with the fourth quarter, we see on Slide 3 that the variation of consolidated traffic of equivalent paying vehicles posted an increase of 10.2%. Excluding the start of operations at Ecovias do Cerrado, consolidated traffic was up 2.8% in the period, due to the increase in traffic of heavy vehicles, resulting mainly from the increase in soybean exports influenced by the weaker Brazilian real.

On Slide 4, we can see the monthly traffic variation in the first quarter of 2021. This decline in light vehicle traffic in the first quarter of 2021 is due to the social distancing measures adopted by states and cities to combat COVID-19, starting from the second half of March 2020, and to the suspension of the optional extended holiday in 2021 due to the cancellation of Carnival celebrations. There was a fast recovery of comparable heavy vehicle traffic throughout the quarter, as shown in the chart, especially in March with a 16.9% increase due to the increase in exports of agricultural commodities, influenced by the weaker Brazilian real.

As for the group's consolidated financial performance, we show on Slide 5 our net revenue excluding construction revenue, which was up 8.9% this quarter. And net revenue of highway concessions increased 6.4% in the period.

Moving on to Slide 6. Adjusted cash costs amounted to BRL247.2 million, an increase of 4.3% below the inflation of 6.1% in the period. Pro-forma EBITDA amounted to BRL575.4 million in the first quarter, 8.5% higher than in the first quarter of 2020, with a margin of 68.8%. The concessions Ecovias dos Imigrantes: Eco101, Ecofonte, Eco135 and the Eco050 presented an increase in EBITDA due to the increase in export of agricultural commodities and the pulp cycle at Eco101's region. The EBITDA of the other concessions suffered an impact of traffic reduction due to the restriction measures adopted to combat COVID-19.

On Slide 7, we present the evolution of net income in the first quarter of 2021. With an 11.9% decrease, net incomes suffered the negative impact of the higher depreciation on account of the updated traffic curve for amortizing intangible assets, the termination of concession agreements at Ecovia Caminho do Mar and Ecocataratas in November 2021, the start of toll collection by Ecovias do Cerrado, and the financial result, due mainly to monetary variation on the concession fee of Eco135 and debentures.

As for investments on Slide 8, CapEx in the first quarter of 2021 reached BRL223 million, with particular notice to the investments in road widening at Eco050 and Eco101.

On Slide 9, we closed the quarter with net debt of BRL6.9 billion, stable vis-a-vis the previous quarter, and the net debt over pro-forma EBITDA indicator was 3.3 times.

Moving on to Slide 10. We closed the quarter with cash balance of approximately BRL1.7 billion, which together with future cash generation, makes us comfortable with the group's financial capacity.

On Slides 11 to 13, we present the main ESG indicators. In order to strengthen EcoRodovias' financial and competitive situation, shareholders signed a dissociation

agreement that included, among other events, capitalization of the company that will enable the search for investment opportunities in the Brazilian highway market. The company is currently studying federal concession BR-116/101 Dutra, the Sao Paulo coast batch [ph] by the state of Sao Paulo's government, and the federal concessions in Parana.

Before we close, we would like to inform that we continue to take preventive and mitigation measures to minimize, as much as possible, the impacts of the pandemic on the safety of our employees, users and service providers, and to the continuity of the company's business.

This concludes our presentation. We would like to move on to the questions-and-answer session. Operator, we are ready for the questions from our analysts and investors. Thank you.

Questions And Answers

Operator

(Question And Answer)

Thank you. We will now begin the question-and-answer session for investors and analysts. (Operator Instructions) Our first question Victor Mizusaki, Bradesco BBI.

Q - Victor Mizusaki {BIO 4087162 <GO>}

Good morning. I have two questions. The first on the result of the first quarter. When we look at the breakdown of highways, you talk about the cost increase in third-party services related to consulting services, I'd like you to talk a little bit more if this is a recurring cost or if the consulting services will generate future efficiency gains and if you can quantify that?

And my second question about some of the projects. If you can talk about the Sao Paulo BR-153, how we can see that for the end of the year?

A - Marcello Guidotti {BIO 16618352 <GO>}

Good morning, Victor. Thank you for the question. About the consulting services, that are the services of Ecocataratas that provides engineering, automation services and other administration services for the concessions. There inter-company costs and the breakdown of the concession stay that's where they are. Their margin adjustments -- but only this costs, you see that the costs are actually increasing. It's an adjustment of displace between the concessions in Ecocataratas about a new opportunity we won 153, we're in the homologation process. And we're looking at the main projects that will come in Dutra and Sao Paulo Coast.

We enter 153 with a financial partner to reduce a little bit of the equity exposure, we're monitoring cash generation and investments. I believe the company has the capacity to enter this new project. Always maintaining a comfortable balance situation. We are now

seeing a material fact the far long possibilities also on the table. So we have means to plan and continue believing in winning projects.

Operator

Thank you. (Operator Instructions) Next question Andressa Varotto, Banco UBS.

Q - Andressa Varotto {BIO 20092249 <GO>}

Good morning, Andrea and Guidotti. One question about the timing of the debate or the offer what you expect for this year? And what do you think? Can help deleverage for 2021-2022?

A - Marcello Guidotti {BIO 16618352 <GO>}

Andressa, hello. Thank you for your question. About the follow-on, we have a material fact on the stages of the controlling shareholders actions. So the company is monitoring it and preparing, but there's no decision made. But we will have this information potentially September this year. About the leverage for 2021-2022 that will depend on all the follow one and the -- and winning our projects eventually. It maintains a stable with the 153 should remain stable and the new projects for 2022 we'll see what's going to come and when and what projects to get to a possible leverage level for level for 2022. In 2021, I would say that except for 153 it should remain stable.

Q - Andressa Varotto {BIO 20092249 <GO>}

Thank you.

Operator

Guillermo Mendez, JPMorgan.

Q - Guillermo Mendez

Good morning. Two questions. First about the possible rebalancing of COVID with a discussions at the federal level and the state levels. It's something that we can see on the very short term? And the second question is an update about a possible project with the bridge-tunnel at the center spot, how this discussion is going on with the government?

A - Marcello Guidotti {BIO 16618352 <GO>}

Thank you, Guillermo. About the COVID rebalancing in the federal and state levels we're moving along and with the numbers and the protocols of the letters and beginning discussions. So in all levels the developments are running at the same timing, but it's a discussion that will take place over the next few months, important to have this negotiation and this desire to proceed with the rebalancing, what we need to do is the calculation and the letters, and we'll close the methodology, ANTT is defining the methodology that it's going to use.

But, it's a discussion that starting and going and going well, we don't foresee any surprises, it's as expected. About the project, Ecovias, the bridge between the two margins of the center spot there's no news at this point. We're having discussions with the government for the investment. It's an investment that needs to be used in the level of the federal government, EcoRodovias and Ecovias have been doing their role, improving the projects and working on them, but there's nothing new so far. We're still waiting.

Q - Guillermo Mendez

Thank you.

Operator

Murilo Freiburger, Bank of America.

Q - Murilo Freiburger {BIO 17385357 <GO>}

Good morning. I have two questions. About the results, we see the company in the last quarters has been working strongly on operating costs even though the macro scenario is challenging with the COVID and we look at margin, it's almost stable. And comparable cash costs up 4% I think. So I'd like to know when those today's cost structure, is there any measure, a temporary salary reduction, the basis for comparable and recurring? We can assume that the company is being able to maintain margins at a challenging scenario?

And the second question is a follow-up, I think, Guillermo asked. Some of the assets that the government plans for this year are re-bids of existing assets, both and the competitive bids, and the integration Parana, Ecovias and Eco Parana, Ecocataratas that are your concession. But what's your view, the timeline for this bidding process? If you expect an expansion on the concession terms because it seems to be very short notice for the government should be able to run the bids and work on those assets by the end of this year? Those are the two questions we have on our side.

A - Marcello Guidotti {BIO 16618352 <GO>}

Murilo, good morning. About operating costs and margins, I'd say it's quite normalized in terms of operating costs and what we're trying now internally is to work seriously on the quality of costs and how the resources are being used. And actions to improve processes and innovate, so that constantly over the next few years we can be efficient and maintain our margin.

EcoRodovias proposing the increased efficiency in the next years and looking at the cost of applications and technology solutions, innovation, processes review. It's something that is ongoing. It's continuously happening. So we intend to maintain always within the limit of that operating costs and efficient.

About the re-bids, we follow the governments programs and everything indicates that things are moving along well. There may be some delay in Parana, I agree with you. We're still experiencing the pandemic. So our contracts expire in November 2021. And at this

time, there's no different information on the government of Parana and the federal government will decide how to proceed.

Q - Murilo Freiburger {BIO 17385357 <GO>}

Very clear, Guidotti. Thank you.

Operator

(inaudible) Itau.

Q - Analyst

Good morning. One question. If you can talk quickly about Ecovias do Cerrado, how the assets been performing is regarding your expectation? And what can we expect in terms of margin evolution for this specific asset?

A - Marcello Guidotti {BIO 16618352 <GO>}

Gabriel, will be in positively surprised with the highways. And the main as an Ecovias do Cerrado, it's going well. We're happy. And it's normal that now in the beginning of our work, widening works. This -- that was expected in our business plan. In time, this will bring even more traffic. So, it will depend on the pace of investment and EBITDA, since we already have the road widening work, but it will bring better margins, but traffic has started at a very good level.

Operator

A question from the webcast by Roberto Vigiani[ph], Citi.

Q - Analyst

Hello. Any news for the EcoPorto and Santos. How are the long-term initiatives for operational improvements at EcoPorto?

A - Marcello Guidotti {BIO 16618352 <GO>}

EcoPorto is going well. It's almost at a record, it's an asset that we've been operating for some time, we had many rounds of improvements. It's an assets that is doing very well at this time, it's an atypical moment, but it's performing well. And we'll see it goes until 2023, but Ecovias has been maintaining it operational the best value possible, but it's going well, we're pleased.

Operator

(Operator Instructions) We come close the questions and answer session. At this time, I would like to turn over to Andrea Fernandes for her closing remarks.

A - Andrea Fernandes {BIO 21294199 <GO>}

Thank you all for your participation. My team and myself are available for any future questions or doubts. Thank you. Have a great weekend.

Operator

EcoRodovias conference call is now closed. Thank you very much for your participation and we wish you a very good 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