

## Y 2019 Earnings Call

### Company Participants

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

### Presentation

#### Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to SLC Agricola Fourth Quarter 2019 and 2019 Fiscal Year Earnings Conference Call.

Today, with us, we have Mr.Aurelio Pavinato, CEO; and Mr.Ivo Marcon Brum, CFO and Investor Relations Officer.

We would like to inform you that this event is being recorded, and all participants will be in listen-only mode during the conference presentation. (Operator Instructions)

Also, today's live webcast, both audio and slideshow, may be accessed through the SLC Agricola website at [www.slcaagricola.com.br](http://www.slcaagricola.com.br), in the Investor Relations sections, by clicking in the banner on Webcast 4Q '19. The following presentation is also available to download on the webcast platform.

The following information is available in thousands of Brazilian reais and in IFRS, except when otherwise indicated.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of SLC Agricola's management and on the information currently available to the company. They involve risks, uncertainties and assumptions because they relate to the future events, and therefore, depends on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of the company and could cause results to differ materially from those expressed in such forward-looking statements.

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

#### **Aurelio Pavinato** {BIO 16456795 <GO>}

Good morning, and thank you for participating at SLC Agricola's earnings conference call for the fourth quarter and fiscal year of 2019.

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Let me start on Slide 3, please. In 2019, once again, the results confirm that we are following the strategic initiatives that capture value for our business and are leveraged by our competitive advantages, as you go over our main deliveries, that they are supported by the four pillars of our current strategy.

Let's go now to Slide 4, please. We achieved record high yields in soybean and second-crop corn in the '18, '19 crop year, which further distanced us in relation to the industry average at the national and global levels. In addition, we have obtained increasing gains from the adoption of new technologies that we -- that have allowed us to cut costs.

As you can see on Slide 5, our growth strategy continues to prioritize the cotton and soy seeds since these crops maximize the return per hectare planted and offer differentiated pricing.

With regard to the asset-light business model on Slide 6, you can see the land sales transaction announced to the market in November last year, on the leaseback structure, in which we are able to monetize the significant property price appreciation over recent years.

Lastly, on the issue on the consolidation of certifications on Slide 7. You can see that in 2019, we reached eight units certified by the SGI and has launched certifications effort at two more units. We also had made progress in the number of farms certified by the Better Cotton Initiative.

Let's move on to Slide 8. It's very important to highlight this work we have been making with our teams. We are in a phase of consolidating the use of technologies that we have tested over recent years and believe that the biggest gains are yet to come. We created our training program in digital agriculture and redesigned the cultures and controls. So today, we have a much more granular view of our operations.

With the number of details continuing to grow, our employees are highly engaged and with great satisfaction. We commemorated important recognitions of this efforts. We were named the Brazilian Best Agribusiness Company by the Globo Rural Magazine and favorite among the country's best companies in people management, according to the survey by Valor Carreiras, and we are one of the 150 Best Companies to Work For, according to Voce S.A. Magazine.

Let's go now to Slide 10, which shows the price of our main products in 2019 and early 2020. Cotton prices in the first three quarters of 2019 reflected the risk-averse positioning of agents in the textile chain in response to the uncertainties caused by the U.S.-China trade war, which, among other developments, generates expectations of weaker economic growth. Another factor was the inventory rebuilding trends on the supply side, given the better cotton crops, especially in the United States and India, in the '19 to any crop year.

However, over the fourth quarter of 2019, some of these uncertainties that had negatively affected markets ended up mitigated, especially with the signing of the Phase One of the

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trade agreement, which support the improvement in prices. We took advantages of this (inaudible) in our sales for the current crop year and the next crop year, as we will see later when we talk about our hedge positions.

In the case of grains, the spot price on the Chicago Board of Trade throughout 2019 were adversely affected by the spread of African Swine Fever in China, which reduced global growth in grain demand, but on the other hand was positively affected by the shortfall in the '19, '20 crop year in the United States. The recovery in Chinese imports, due to the recovery of its pig herd and the higher production of other animal proteins, were welcome news for the market in helping to keep the prices stable.

In the case of corn, note that in Brazil, spot prices on the B3 reached the record levels, which is explained by the combination of the strong growth in the domestic animal protein industry to fill the production gap created in China due to ASF and by a robust export demand, given the lower supply in the United States due to the crop shortfall. Brazil set the new records for corn exports in 2019, shipping 43 million tons, 88% more than 2018. In 2020, prices once again were affected. This started by fear of the economic impact for the coronavirus and in the past week also by the sharp drop in oil prices. However, our business is showing resilience due to the consistent -- consistency of its results, despite the short-term fluctuations in commodity prices. The business was constructed to be able to withstand this heightened volatility.

I will now pass the call over to my colleague, Ivo Brum, our CFO and IRO, who will comment on our financial results in 2019.

### **Ivo Marcon Brum** {BIO 16639894 <GO>}

Good morning, everyone. Please go to the Slide 12, which presents the highlights from our income statement. Net revenue in 2019 set a new record of BRL2.5 billion, a growth of 20.8% on the prior year, while driven by a combination of factors, including the expansion in the planted area and the higher soybean and corn yields for the 18, 19 crop year as well as the higher sales price for all crops in comparison with 2018.

Adjusted EBITDA, which includes the proceeds from land sale in November came to BRL295.5 million, which -- of which BRL8 million is from land sale. The criteria used to calculate adjusted EBITDA was to exclude the amortization of right-of-use assets, recognized in the production cost, since it only reflects part of our outlays with leasing for the year, with the other portion being reorganized as adjustment to present value in the financial expenses. As a result, the comparison with 2018 is distorted, given that the two periods are governed by different accounting standards. Therefore, from 2019 onwards, it's important to note that adjusted EBITDA will not include amortization of right-of-use assets related to land leases.

Net income in the year was BRL315 million, with net margin of 12.4%. The decline in the net profit comes from 2018, is due to the calculation of variation of the fair value of biological assets for the cotton crop, which reflects the expectation of lower margin for the crop --

cotton crop in '19 -- '18, '19 crop year compared to '17, '18 crop year due to the decline in the yields.

Consolidation -- considering the land sale, the impact on the net income was BRL22.1 million, given that the carrying cost of the area sold was EUR300 -- EUR36 million, and that IFRS 16 account rules for the leaseback operation require an additional adjustment of BRL19.5 million. The calculation reflects retaining profits, which will be recognized along the duration of the contract.

Let's move onto the Slide 13. Note that 2019 marked yet another year for positive free cash flow of BRL213 million, reflecting the strong operational cash generation and the efficient management of our working capital needs, another factor while the proceeds from the land sales of BRL18 million.

To conclude, let's go to Slide 14, which shows our net position. Adjusted net debt ended the year of BRL973.8 million, virtually stable from the end of 2018, since the positive free cash flow of BRL213 million in 2019 was used to pay dividends based on 2018 results of BRL186 million, and to conclude the share purchase program in the first quarter of the year, in which BRL42 million was invested. The net debt, adjusted EBITDA ratio ended the year at a very comfortable level of 1.22 times.

I will now pass the call back over to Pavinato for his comments and outlook.

### **Aurelio Pavinato** {BIO 16456795 <GO>}

Thank you, Ivo. Let's turn to Slide 16. We had already harvested more than half of the -- our soybean from the '19, '20 crop year, and given the excellent results of the payment, we are revising upwards our yield estimate for this crop to 3,840 kilograms per hectare, which is 6.5% higher than the initial estimate. The cotton and corn crops already have been 100% present, and to date, are presenting excellent yield potential.

In addition, as you can see on Slide 17, we have managed to make good progress on selling our production for the crop year, obtaining prices above those of the current market and at levels above those in the previous crop year, considering the amount in Brazilian real.

Looking at this further ahead, we already have begun to form the 2020, '21 crop year, with purchase of inputs for which we have obtained significant price reductions in dollars and the consequent future sales of commodities, in line with our hedging policy. Considering the good potential of the crops, the formation of the cost and the sale prices, we expect to keep the margin at its high levels. Despite the recent volatility in markets, our business outlook remains excellent and benefit from a weaker Brazilian real in relation to the dollar.

Thank you, and now we open for question and answers.

## **Questions And Answers**

## Operator

(Question And Answer)

(Operator Instructions) Thank you. This does conclude today's presentation. You may disconnect your line at this time, and have a nice day.

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