Q3 2012 Earnings Call

Company Participants

- Ivo Marcon Brum, CFO and IR Officer

Other Participants

- Enrico Grimaldi, Analyst
- Pedro Richards, Analyst

Presentation

Operator

Good morning, ladies and gentlemen and thank you for waiting. At this time we would like to welcome everyone to SLC Agricola Third Quarter of 2012 Earnings Conference Call. Today, we have with us 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 Company's presentation. After the Company's remarks are completed there will be a question-and-answer session. At that time, further instructions will be given.(Operator Instructions)

Also today's live webcast both audio and slideshow may be accessed through SLC Agricola website at www.slcagricola.com.br in the Investor Relations section by clicking on the banner webcast 3Q 2012. 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 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 the Company and could cause the results to differ materially from those expressed in such forward-looking statements.

Now I'll turn the conference over to Mr. Ivo Marcon Brum, CFO and Investor Relations Officer. Mr. Brum, you may proceed.

Ivo Marcon Brum {BIO 16639894 <GO>}

Good morning, and thank you for participating in SLC Agricola conference call for the Third Quarter 2012.

To begin, we will move to slide three where we demonstrate evolution of the international price of our commodities. In Third Quarter of 2012 soybean price reached its historical high, reaching $17.8 per bushel, at the peak of the North American summer due to climatic problems. The average yield in the United States decreased 10% compared to initial forecast for the 2012-2013 crop according to USDA. With this crop shortfall, Brazil and Argentina are now planting with a strong incentive to expand the area.

Corn also reached its historical high into Third Quarter 2012, reaching $8.3 per bushel also as a consequence to the climatic problems that affect production caused by draught. The worse climatic condition resulted in significant yield decrease, which according to the USDA should have dropped 26.5% if compared to the initial forecast of 103 million tons. More attractive price and the crop shortfall in United States should increase Brazilian's foreign exports.

Cotton price however presented on average quotation of $0.72 per pound in the Third Quarter 2012 which represents a 32% decrease if compared to the same period of the last year. (inaudible) cotton inventories, price remained relatively stable, thanks to the Chinese government policy of purchasing cotton from Chinese producers and from the international markets.

It is important to highlight that despite the absolute record in (all) inventories, part of this significant growth in (inventories) occurred precisely in the China as the governmental stocks end. As a consequence, they are not available immediately to the market.

However, higher price levels for competing crops such as soybean and corn should constitute a reduction of cotton planted area in the southern hemisphere in the 2012-2013 crop and in the northern hemisphere in the 2013 starting crop.

Next, please move onto slide 4, where we show the figures of 2011-2012 crop performance and estimated yields for 2012-2013 crop. From the operational point of view, we began in 3Q12 soybean planting for the new crop 2012-2013 for which we intend to increase our planted area to 13% till November 8th. We have already planted 75,000 hectares of soybean.

Furthermore, the Third Quarter 2012 we end the harvest of the second crop (inaudible) in corn of 2011-2012 crop year. Yields were set below its projection in cotton by 7% considering first and second crop; in soybean by 5.4%. On the other side, corn performance was 3.7% above initial forecast, also the first and second crop.

These variations occurred due to adverse climatic conditions during the 2011-2012 crop, such as excessive rainfalls in the states of Mato Grosso and Mato Grosso do Sul and droughts in some regions of Western Bahia. For 2012-2013 crop however, the forecast is positive. Once the weather is relatively stable, (inaudible) some isolated regions.

We can now go to slide 5, where we present our awards received by Company during the Third Quarter of 2012. Top Cidadania 2012 award by Human Resource Association for the Company's involvement initiatives towards the community. Globo Rural Magazine Best in Agribusiness Grains, 1st place, and Institucional Investor Magazine into Agribusiness ranking for Latin America, the magazine awarded SLC Agricola in several categories, including best CEO, best CFO, best IR in professional and best IR program. Lide Agribusiness 2012 award (inaudible) to develop agribusiness with sustainability. A Granja do Ano award by A Granja magazine, in the category of soybean and corn.

We can now move to slide 6, where we present the compares of net revenue and volumes invoiced between Third Quarter 2012 and Third Quarter 2011. Volume invoiced in Third Quarter 2012 increased 17% compared to Third Quarter 2011, notably due to the rise in cotton lint and corn volume invoiced; (partially) offset by a lower soybean volume invoiced, due to our Company's commercialization policy. Our net revenue decreased 2.7% in the Third Quarter 2012 against Third Quarter 2011. Mainly due to a reduction on biologic assets appropriated to the net revenue and variation on FX (inaudible). Excluding the non-cash effect of the biologic assets, the net revenue, you had an increase of 20.6% in revenue in the quarter, reflecting higher volume invoiced of cotton and corn and also higher sales price.

We may now move onto slide 7, where we present a summary of our financial results in the Third Quarter 2012.Gross profit totaled BRL72.9 million, a nominal reduction of BRL53.1 million against Third Quarter 2011, notably due to our mark-to-mark of biologic assets in the quarter due to a lower spot price during the harvest years. Excluding the effect of biologic assets, gross profit in the quarter totaled BRL52.4 million, against BRL75.2 million in the Third Quarter 2011, reflecting a marginal reduction in soybean crop and also lower soybean volume invoiced in the quarter. However, considering that the Company works with a hedging policy, (inaudible) effectively invoiced in the next quarters who have the recognition of the margin with the hedge price with our clients.

Adjusted EBITDA for the quarter was BRL55.5 million, against BRL67.9 million in Third Quarter 2011, just due to our decreased margin in soybean and corn, due to the higher cost and lower yields, both compared with the last few years, specially offset by better margin in the quarter.

Net income for the quarter was negative at BRL303,000 against the positive BRL62.6 million in the Third Quarter 2011. The result was impacted chiefly by the reduction in gross profit and from the net financial revenue.

Net financial revenue showed negative monetary variation of BRL28 million, BRL39 million in the Second Quarter 2012. In the quarter due to an increase in the soybean bag price which is the index was escalated to the land acquisition.

It is always important to highlight that the monetary variation have no immediate cash effect. Once it has refers up to land payments with the last installment in 2017.Moreover, soybean price showed a decreased in the last weeks, which is maintained -- should reverse the negative monetary variation in the Fourth Quarter.

We may now move on to slide 8, where we present the breakdown of our net debt. The Company's gross debt closer to the quarter at BRL835.6 million, up 3.7% reduction if compared to the Second Quarter, mainly due to the condition of constitutional funds, deadlines for each innovational performance to the next quarter.

Furthermore, there was an increase in the cash position of BRL25.6 million due to the capital injection in the SLC LandCo of BRL60.4 million. It is important to highlight that the injection is due a capital gain of BRL7.3 million (inaudible). (inaudible) we found under the shareholders equity as disclosed in the second page of the Press Release. Net debt has been a decrease closing the quarter at BRL674.7 million. Net debt adjusted EBIDTA ratio closed Third Quarter 2012 at two times.

Thank you. And now we would like to open for question-and-answers.

Questions And Answers

Operator

(Operator Instructions) Enrico Grimaldi, BTG Pactual.

Q - Enrico Grimaldi {BIO 17277738 <GO>}

Actually I have two questions if possible. My first question is regarding your hedging strategy for the next year harvest and specifically with regards to cotton. I noticed that you actually increased your volume hedge in the Third Quarter, which ended up reducing your average hedging price for cotton to $0.86 per pound from $0.96 per pound in the Second Quarter, if I am not mistaken. So in the end my question is at what prices are you hedging new cotton volumes now? And does your price strategy for the next year involve a last hedging dependent strategy, more based on the spot price with lower volumes hedged in the case your eventually seeing an improving cotton price as going forward. So that's basically my first question.

A - Ivo Marcon Brum {BIO 16639894 <GO>}

So first of all to the hedge for cotton for 2013. So as you know, nowadays the price of the cotton is around $0.72 per pound, dollar cents per pound, maybe $0.75. So as you lock more hedge with our clients, so the price has reduced because of that and which has leveled the pricing cents per pound, in our view we have a good margin, even though across the margin, it has reduced this year and probably reduce next year. In terms of the another question --

Q - Enrico Grimaldi {BIO 17277738 <GO>}

Sorry my second question you mean?

A - Ivo Marcon Brum {BIO 16639894 <GO>}

For the next year, the price keep stable around the $0.72 per pound to reach to $0.75 but as we have one (inaudible) it was strategically defined to sell (inaudible) customer or clients in the Asia, for example, looking to increase our price because you deliver the product in the -- with the same (inaudible).

So as the price of the cotton is, we have the market for cotton, we have a different level of the price considering the quality of the product. Because of that we can keep the level of the price $0.10 higher than the actual price in the market. So of course the reason the prices (keep) level for the next year with the current price in the market, certainly we reduce the -- you can -- we have the (risk) to reduce our price hedged for the next year.

Q - Enrico Grimaldi {BIO 17277738 <GO>}

And my second question if I may, is regarding some reduction in your agricultural yields in this quarter, and also 5% increase in your production cost per hectare. You actually commented on that in your presentation, and I know it was mostly related to unexpected and unpredictable weather issues right. But I was just wondering if you guys could elaborate a bit more on that. In what regions were specifically affected and how they were affected and if there is any impact from that, that I should be considering also in next year harvest and in your estimated figures for productivity and for yields and for production cost per hectare. That's my second question?

A - Ivo Marcon Brum {BIO 16639894 <GO>}

So in terms of this climatic problems, what's happened there. Investment by year, we have a draught period, long draught period but it's -- basically it's a new issue. The last 40 years we didn't have the same level of the draught year. So you cannot presume that next year we have the same problem. Is it normal; you have some regions in the country problems, but as we have diversification of the region in our portfolio so you have -- (inaudible) level the problem, 5% of the loss in soybean for example. But if you see that the level of the draught in (inaudible) the producer has a big problem. By year, (inaudible) you have the same problem. So in our view that is a part of the game, the climatic issues but you have one strategy that you have 40 farmers out there in different regions so we can mitigate this problem. Because of that you see that even though we have this problem in Brazil, last year, last crop, you have -- our loss is not representative.

Operator

Pedro Richards, Raymond James.

Q - Pedro Richards {BIO 19360889 <GO>}

I have two questions. My first question is regarding the planting process. You mentioned that as of September 30 you had 75,000 hectares of soya planted. So that's roughly 50% of your intended plant area for soybean. I wanted to know if you could give additional guidance or color on planting progress since then. So over the past month and a half for soybean and the rest of the crops. That's my first question.

And my second question is a follow-up question on cost. You had detailed analysis in the Press Release of unitary cost. I wanted to know if you could give any guidance on what should we expect for unitary cost in the current harvest, compared to the most recent one based on the negotiation with suppliers and your budget. Thanks.

A - Ivo Marcon Brum {BIO 16639894 <GO>}

So apart from the planting process, you are very opportunistic in terms of the planting process because it's important we start very well, because we have the second crop that need to plant in January and February. And as you commented, as we planted practically 50% of our soybean area.

So part of this area certainly you have the second crop in the Mato Grosso state, Mato Grosso (inaudible). So in this case we are very comfortable to have a second crop in this area. And most of the unitary cost -- for the guidance in our view is, you have in our release, press release, the unit -- the cost per hectare for each plant there, for each crop, and as well you offer, or you release the productivity for each crop.

So in our view that basically leads to figurative numbers and so you have the guidance. You don't show the guidance, unitary cost per tons or per kilos but as you have the cost per hectare and you have the yields per hectare for each crops, you can figure and have the detail.

Operator

Okay. (Operator Instructions) I'm showing no further questions at this time. This concludes the question-and-answer session. At this time, I would like to turn the floor back to Mr. Brum for any closing remarks.

A - Ivo Marcon Brum {BIO 16639894 <GO>}

We are beginning a new crop year with good perspective, an increase of (13) in planted area and a good going soybean planting. For 2012-2013 crop year, we adjust our mix seeking for the best results per hectare possible, increasing cotton planted area and increasing on the soybean as response to a more attractive price scenario.

We also had a capital injection for variance in our (inaudible) which opens possibilities for new land acquisition soon for development and planting, which should give support to our growth plan. Thank you for participating and have a nice day.

Operator

Thank you. This thus concludes today's presentation. You may disconnect your line at this time, and have a nice day.