

## Q3 2014 Earnings Call

### Company Participants

- Aurélio Pavinato, Chief Executive Officer
- Ivo Marcon Brum, Chief Financial & Investor Relations Officer

### Other Participants

- Giovana Araújo, Analyst
- Paulo Valaci, Analyst
- Ravi Jain, Analyst

## MANAGEMENT DISCUSSION SECTION

### Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to SLC Agrícola Third Quarter of 2014 Earnings Conference Call. Today we have with us Mr. Aurélio Pavinato, CEO; and Mr. Ivo Marcon Brum, CFO and Investor Relations Officer.

We would like to inform you this event is being recorded, and 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. At that time, further instructions will be given.

Also, today's live webcast, both audio and slide show, may be accessed through SLC Agrícola's website at [www.slccagricola.com.br](http://www.slccagricola.com.br) in the Investor Relations section by clicking the banner, Webcast 3Q14. 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 Agrícola management and on information currently available to the company. They involve risks, uncertainties and assumptions because they are related 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 results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Aurélio Pavinato, CEO. Mr. Pavinato, please go ahead.

## Aurélio Pavinato

Good morning. Thank you for participating to the conference call for disclosure of our Results for the Third Quarter of 2014. Please we may go to slide three where we present the evolution of the international prices of our products for the past few months.

Prices for soybean at the Chicago Board of Trade continue to decrease in a movement that starts at the end of the second quarter of the year. This drop in price is related mainly to the continuation of the higher soybean inventory in the U.S. and globally in the 2014/2015 season. Production in the United States should reach 107 million tons, growing 17% on the previous year.

In Brazil, CONAB estimates an increase of 3.5% in planted area for the new crops, which is our lowest base in comparison to the 6% average increase since 2000 and 2001. For Argentina, the third largest global soybean producer, the USDA estimates increase of only 1% in planted area. The potential impact for growth in production in South America, however, might still be neutralized by prices condition in the region that might occur until the end of the cycle, mainly in the south region of Brazil and Argentina. Also, there is the effect of strong global demand giving the more attractive prices.

Corn represents a similar scenario. In the United States, world's largest corn producer the five lower planted area in 2014/2015, the pickup in yields was confirmed, which elevates production to 368 million tons, 3.9% more than the previous crop. With that, filing the inventories in the U.S. are expect to close at the 50.8 million tons against 30 million tons in the last season.

We see the scenario of high inventories and lower price for both in the external and internal markets. The Brazilian producers should reducing, once again, the ideal plants with corn at the 2014/2015 season. For now, they estimate that corn first crop will present a drop of 7.5% in planted area, especially in south of Brazil.

And for the go to market, as the third quarter (05:04) the downward trend since the end of the second quarter to stabilize around 63 shares per pound, what they are really priced in the high levels of the global inventory and the changes in the Chinese policy towards building inventories. Its current price is below course of action for less competitive countries, which have lower yields. And this is certainly going to translate into more area reduction.

For the U.S., the world's largest (05:45) first estimates also point out to significant drop in area. According to (05:52) consultancy let's get it for cotton should fall 14.1% to 9.5 million acres.

In China, also for the net crop, (06:06) should post on margin reflection given lower profitability in comparison to other crops such as soybean, corn, or the grain and fruits. In

Brazil, (06:18) reduction of 10% in cost above the area for our 2014, 2015 crop year.

We may now move into slide five, where we represent a page where we see our first expansion of the planted area for 2014/2015 crop year. Our estimate is a growth of 5.9% equals to the area to 363,800 hectares. Growing (06:46) mainly from increasing area at the joint ventures relates to Paineira Farm, we see 48,000 (06:53) of hectares of increase and additions in leased area with incremental of 80,000 (07:03) hectares.

At slide six, we had a figures relative to the performance of our field in 2013/2014 crop year and our initial estimate for 2014/2015 crop year. During the third quarter, we finalized and harvested for 2013/2014 crop. And in the case of cotton first crop and corn second crop, we celebrate a record levels of productivity. We said that we see 1,750 kilogram per hectares of the cotton lint and 7,400 kilogram per hectare of corn, 12.3% and 7.9% above the previous crops respectively. These results are a consequence of our continuous investment in technology and efficiency gains.

In relation to the 2014/2015 crops, we expect to record own yields for soy and corn first crop. (08:14) these crops was comprised due to droughts faced in Bahia and Piauí states in 2013/2014.

We may now move to slide seven. It really demonstrates our initial forecast for production costs for the new crops. As we can see, costs should remain stable in comparison to the previous season despite the real depreciation against the dollar and inflation between the periods. Due to excellent negotiation, we were able to secure our inputs and reduction in prices in dollars.

On slide eight, we bring you a table of our hedge position for 2015. We already hedged 70.2% of our soybean already sold (09:10) with hedge price of \$11.83 per bushel, significantly above the current market prices, trading today at around \$10 per bushel. And in relation to cotton, we already hedged 43.4% of our forecast shipping volume for 2015 at this \$0.771 per pound also in higher level comparing to the current market.

Finally, we can address slide nine where we present the summary of our 2014 land appraisal. On September 22, we disclosed to the market that results of the definite land appraisal of our land portfolio for 2014 from Touche by Deloitte. In comparison to 2013, the average hectare appreciation, which excludes the eventual change at the appraisal area was of 17.5% reflecting a continuous movement of land appreciation in Brazil especially in the (10:28) region.

We believe this movement is set to continue even though we might see some softening in the short term due to reduction in commodity prices. But the (10:42) for land appreciation certainly has growing demand and limitation at the supply charges are still very consistent.

I will now turn you over to Ivo Brum, CFO and Investor Relations Officer for his comments of the financial results for the period.

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

Thank you, and good morning. Please, let's move to slide 11. Our net revenue at third quarter 2014 increased at 16.9% against the same period last year, mainly due to the higher volumes of the cotton deposit, partially offset by reduction in biological assets, also relative to cotton growth. It is always important to highlight that calculation for biological assets don't consider hedged prices. And as the product continues to be (11:37) at the fourth quarter 2014 in the beginning of 2015, the difference between the hedged price in the biological assets price will be reorganized.

Operation cash generation measured by adjusted EBITDA at the third quarter 2014 was up BRL 60.5 million with a margin of 20.3%, an increase of 64.9% in relation to the previous year. What reflects the improvement of the margin in 2014? Accumulated EBITDA for the first nine months of the year was up BRL 226.6 million against BRL 159 million on the previous year.

Net profit for the first nine months of the year was BRL 52.9 million against BRL 98.3 million in 2013. Net profit is also affected by biological assets. So on the fourth quarter of the year and in the 2015, we will recognize better results towards the balance of the quarter (12:51).

To conclude, you may now move to the slide 11 (sic) [12] (12:57), where we present the breakdown of our debt. Crop's gross debt closed the quarter at BRL 1.2 billion, an increase of 9% in relation to the second quarter 2014. We increased mainly in the working capital lines and trade financing lines in real. We expect in coming months to receive new loans from Constitutional Funds lines, which will reduce average cost of the debt towards the end of the year. Net debt closed at period at BRL 92 million and ratio with EBITDA was stable at 3.3 times in relation to the previous quarter. Once increase in the net debt was offset by improvement in 12 months EBITDA adjusted.

I think now we can open for questions.

## Q&A

### Operator

Ladies and gentlemen, we will now invite to questions-and-answers session. Our first question is Paulo Valaci from Banco Brasil. Please go ahead.

### Q - Paulo Valaci {BIO 18268142 <GO>}

Hi. Good afternoon, Pavinato and Ivo. My first question is about the distribution of next year's planted area. I noticed that there were some changes in how each farm was used. For instance, we no longer have planting in Pejuçara Farm. There's a reduction, I think, in Planeste. And there was a change between leased and owned area in Paiaguás and Pamplona farms. I was hoping you could explain a little bit of these changes and how it should impact our activity next year?

And then my second question, if I may, is about productivity. If you can comment on what sort of climate scenario is embedded into your current yield guidance, that'll be very helpful. Most specifically, if you could say what sort of rain patterns during the harvesting period you expect for you to be able to deliver that 7.3% increase in soybean yields. And if there were to be a significant increase in rain patterns during the harvesting period, if that could impact your guidance for the productivity for soybeans.

## A - Aurélio Pavinato

Good morning, Paulo. Paulo, about the Paiaguás and Pejuçara Farm, actually we managed Pejuçara with Paiaguás farm for the day to increase the size of the farm and the target is to reduce the administrative costs. (15:58) as we are increasing the size of the other machinery, in our Pejuçara farm is closing. It's actually on the (16:07) the Paiaguás farm. We managed the (16:10) to increase the deficiency. Like we did last year in Maranhão. Last year, we leased 23,000 hectares from (16:25) actually 9,000. We managed due (16:30), and 14,000 we manage to Parnaíba Farm. So we have done that to increase the size of the farm to do more we see the same amount number of employees and to be more efficient.

The second question about the productivity, the productivity, actually every trouble you know, lasted three years were not good years in terms of yield (17:06). Actually, it's not normal in by year to have a drought so strong and so sequentially like we have last three years. So, last three years our yield were affect by these drought by E&P away. As the weather forecast for this year is to be normal in this region, basically this region where we heavily had market risk to lose yields. We can say that we are forecasting 52 bags per hectare. This increase in comparison to this year, we can say that we are conservative.

With our normal weather condition, we can reach better if compared with our forecast in case of soybean. In case of corn as a first crop, it has the same situation. As corn as first crop, we are planting by year in Goiás where we have droughts in the last year. So, our time for next season is not yet big change. Only you have to have normal weather condition; we can reach this target.

And the other crop is we are try to have a very good yield we'll likely reach this year in case of corn cotton, and corn as a second crop.

We are - our planting time we are - in Mato Grosso, we are able to plant the all of our crops as we are - what our intention. So we are able to plant our soybean, short-type soybean, and we are going to do the second crop according our budget.

In case of the north which is Bahia, Maranhão, and Piauí, now we are planting with types a little late compared with the normal year. But as we have very good crop to plant, we are going to be able to finish it in the best wind of reaching very good yields. So I can say that today we are not going to lose yields. It should delay on planting.

## Q - Paulo Valaci {BIO 18268142 <GO>}

Okay. Thank you so much, Pavinato.

## A - Aurélio Pavinato

Okay.

## Operator

Our next question is from Giovana Araújo from Itaú BBA (19:41). Please go ahead.

## Q - Giovana Araújo

Hi. Good afternoon. Well, my question is about your leverage. I would like to know if you, Pavinato and Ivo, are comfortable with the current level ratios of the company and what you could do in order to reduce that leverage in 2015. Thank you.

## A - Aurélio Pavinato

We are comfortable, and I'm going to ask Ivo to explain to you.

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

Giovana, to be safe, we have some covenants and some agreement with our Board of Directors. So, they do have a limit in terms of the net debt in the adjusted EBITDA. So, the limit before is four times. We are working to reduce it because we have a lot to it; it's 3.3 times. So, our idea is to reduce for 2.5 is our target internally that we're working with the officers. But they're okay that next year we'll have a low level or reduce a real demands of the company. But the second that you continue to make cash, especially if it calls you reducing the CapEx for the next crop. So, periodically, the middle of the next year, you reduce the leverage of the company. This is our idea nowadays.

## Q - Giovana Araújo

Okay. And looking yields for 2015, the levels that you estimated for 2015, do you see more upside risks or downside risks on the level that you projected, especially for cotton?

## A - Aurélio Pavinato

Giovana, we see - we can tell you, we had forecasted safe numbers in terms of the price because we are well-hedged with 70% of our soybean, so we are exposed only on 30% and so this amount of soybean we're going to start to sell during the second semester when normally we have a better price because of the (22:06) the premium and a goodwill we received on the second semester. So we are - we can say, we have more reasons to have better prices than what the prices on the soybean.

In terms of the cotton, we had forecasted - I can't say a secured price as well because the price today is the same level of the synthetic fiber price. So as we said, we're not having many reductions having the flood to the area because the 90% of the deposits is planted only in (22:43) and they are going to plant in April, May of next year. So probably, they're going to reduce a lot in this area. So we try to be conservative on our numbers when we did our budget for next year. I know, maybe we can have better comparative results forecast.

## Q - Giovana Araújo

Okay. Thank you.

## A - Aurélio Pavinato

Welcome.

## Operator

Our next question is from Ravi Jain from HSBC. Please go ahead.

## Q - Ravi Jain {BIO 16135293 <GO>}

Hi. Good morning. Could you give us some more color on the petro - the government auctions and how much do you expect to sell under these programs next year and at what prices especially cotton? And my second question was do you subscribe to the view that land prices, especially undeveloped land could come down next year presenting some opportunities to buy more land. And if so, do you expect to buy land next year or sell any farms that are fully developed? Just to your plans in the next let's say 12 months to 18 months.

## A - Aurélio Pavinato

(24:08) we hope not to have it set for next year. We have established only when the price is low but we are going to receive the amount of the (24:22) we have this year. We are going to receive the money next year. And we are going to recognize it in our accounts only next year. And actually today was the (24:36) of the cotton and we are going receive next year around BRL 5 million from corn and another more than BRL 20 million from cotton. And this money we're going to receive next year and will be recognized next year.

And next year, I hope (25:00) if the price stay above the minimum price. But the price will be lower than the new prices probably (25:10) again. About the land price, we see that next year will be a good year to negotiate and to buy land because the price of the soybean price will be lower (25:26) the price in Brazil is linked to soybean price. Over the years, we have seen the decrease in land price in Brazil. Normally, it stays stable. And when land and commodity (25:39) price goes up, the price goes up again. But during these not-so-good years and possibly the not-so-efficient farms, normally they have some financial problems and it's such a good - good timing to deal and to have a very good negotiation. So, we intend to finalize our project next year and to buy the land that we have to buy.

## Q - Ravi Jain {BIO 16135293 <GO>}

Thank you. That's very helpful.

## Operator

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

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