

Q1 2013 Earnings Call

Company Participants

- Aurelio Pavinato, CEO
- Ivo Marcon Brum, CFO and IR Officer

Other Participants

- Giovana Araujo, Analyst
- Martin Tapia, Analyst
- Ravi Jain, Analyst
- Rodrigo Mugaburu, Analyst

Presentation

Operator

Good morning, ladies and gentlemen. Thank you for waiting. At this time, we would like to welcome everyone to SLC Agricola First Quarter of 2013 Earnings Conference Call. Today, we have with us Mr. Aurelio Pavinato, CEO, and Mr. Ivo Marcon Brum, CFO and Investor Relations Officer.

We would like to inform you this event is being recorded. (Operator Instructions)

Also, today's live Webcast, both audio and slide show, may be accessed through SLC Agricola Website at www.slccagricola.com.br in the Investor Relations section by clicking on the banner Webcast 1Q13. 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 results to differ materially from those expressed in such forward-looking statements.

FINAL

Bloomberg Transcript

Now I'll turn the conference over to Mr. Aurelio Pavinato, CEO. Mr. Pavinato, you may proceed.

Aurelio Pavinato {BIO 16456795 <GO>}

Good morning, and thank you for participating at SLC Agricola conference call for the First Quarter of 2013.

We may now move to slide 3, where we present the evolution of the international prices for our main products. International cotton price increased 12% in the First Quarter 2013 from the prior quarter. In March 2013, prices (inaudible) \$0.19 per pound, a level not seen since March 2012. The recent price increase was driven by the higher consumption during the current crop year, 2012/2013, and by the expected (inaudible) reduction (inaudible) and production in the 2013/2014 crop year for which planting is currently in progress in the north hemisphere.

(inaudible) United States the National Cotton Council of America estimates a reduction of 26.8% (inaudible) from the prior year. If this forecast is confirmed, the cotton in the United States will be the lowest of the last ten years.

Over the First Quarter of 2013, soybean price remained flat compared to the previous quarter and is still high comparing with the historical average. (inaudible) average price of \$14.48 per bushel. This movement was driven mainly by the (inaudible) in the United States and crop losses in Argentina and Brazil in addition to logistic difficulties in Brazil. The evolution of the 2013/2014 soybean crop in the United States will be extremely important for (inaudible) soybean price in 2013 and early 2014, especially during the period when crops reach their critical development stage when the weather moves into the spotlight and generates price volatility.

Due to the cold and rainier spring, corn planting reached only 12% by May 5 according to the USDA compared to 69% in 2012 and 47% in the (average) of the last five years. This delay is raising concern that the corn harvest could be lower than expected. Still, the planting outside the (inaudible) could reduce the total area and leave the crop more vulnerable to losses during the summer, which is corn's most critical period.

Please, let's move to slide 4, where we show updated numbers relative to the operational performance of our fields in 2012/2013. The First Quarter of 2013 was marked by the conclusion of the planting operations for the 2012/2013 crop year and the start of harvesting of soybeans and first-crop corn. The planting of the second-crop cotton and corn, which are planted after the harvest of the super-early soybean cycle varieties, progressed normally across the farms. Due to favorable rainfall received during January and February at the (center west) region, we enjoyed a positive planting window and increased by 2,138 hectares the corn and second-crop cotton area in comparison to the previous forecast, totaling (282,6000) hectares of planted area in the 2012/2013 crop year, higher than our target of 280,000 hectares.

FINAL

Bloomberg Transcript

FINAL

For soybean, the harvest had reached the level of 89% until May 5. We made further adjustments to the expected yield for 2012/2013 due to the drought in Bahia and Piaui farms in the months of December and February. This situation affected the production potential in some areas, especially new areas of first and second year. This also impacts the expected yield for corn, the first crop, bringing an estimated reduction of 12% below the initial estimate. The First Quarter first crop weather conditions is positive so far at most of our farms. Therefore, our expectation is to hit the initial estimated yield of 1,693 kilograms per hectare of cotton lint, 12% above the yield achieved in the previous year.

We would like to also highlight that, during the First Quarter 2013, our SLC LandCo concludes its first land acquisition with the purchase of 1,663 hectares in the state of Bahia. We continue the negotiation process in the other areas aligned with the Company's strategy.

I also take the opportunity to bring you up to date about a point of concern and (inaudible) discussion in the press recently, which was increase of the freight cost. We emphasize that as our Company works its hedging policy, the freight cost increase that occurred early this year did not impact the results of the First Quarter of 2013 since over 60% of our soybean trade was already locked with the trading companies, which the price is locked at the farm gate. Furthermore, freight prices already started to reduce in the past weeks after the peak occurred in February and March, which brings an opportunity to sell the balance of the crop that is still being harvested.

Now, I will pass it over to the colleague Ivo Brum, CFO and IRO, to comment on the final results for the period.

Ivo Marcon Brum {BIO 16639894 <GO>}

Let's move to slide 5, where you have a summary of our income statement for the First Quarter of 2013. Our net revenue decreased 20.9% compared to the First Quarter 2012, mainly due to a reduction of the cotton volume invoiced this quarter.

Gross profit totaled BRL72.3 million, a reduction of 30.5% in comparison to the First Quarter 2012, chiefly due to the effects from the biological assets on the soybean crop (inaudible). Excluding the effects from biological assets gross profit in the quarter was (inaudible) BRL91.7 million against BRL100.5 million in the First Quarter 2012, mainly due to the variation in the FX hedge results and the reduction of cotton volume and margins, partially offset by an increase in the soybean volume and margins.

Operating cash flow measured by the adjusted EBITDA in the First Quarter 2013 was of BRL83.7 million against BRL92.9 million in the First Quarter 2012 with margin of 33.8%.

Net profit was BRL46.4 million in the First Quarter 2013 against BRL33.2 million on the same quarter of previous year. The variation occurred mainly due to a gain on the monetary variation, reduction in administrative expense, and income tax, partially offset by the reduction in gross profit.

The effective income tax rate was 17.3% in the First Quarter 2013. This rate was impacted due to the positive recognition of the monetary variation once one of the Company's subsidiaries is taxed under the presumed profit methodology. And this variation is not included in the calculation on the tax under the presumed profit methodology.

You may now move to slide 6, where we present the breakdown of our debt. The Company's gross debt closed the quarter at BRL843.8 million, an increase of 4% on 2012 due to a loan received from BNDES, rural credit, and constitutional funds. The Company's net debt closed the quarter at BRL542.9 million against BRL653.6 million in the last quarter. With that, the net debt/adjusted EBITDA ratio was 1.9 times against 2.3 times at the end of 2012.

Thank you. Now we open the call for the questions.

Questions And Answers

Operator

(Operator Instructions) Giovana Araujo, Itau BBA.

Q - Giovana Araujo {BIO 16356713 <GO>}

I have two questions about the next crop; first, on yields. Do you see any upside for yields in 2013/2014 crop deriving, for example, new varieties, technology in general, or a different planting window for soybeans besides the fact that you probably will not face the same adverse weather conditions this year?

A - Aurelio Pavinato {BIO 16456795 <GO>}

For next season, Giovana, we are planting more cotton (inaudible). This year was the first year you can say we put a big area with (inaudible) for next season. So this year, we plant 40% of our area with (inaudible). And for next season, we intend to increase to between 80% and 90% of our area with (inaudible) cotton varieties.

In terms of the soybean, soybean -- we are expecting that China approves to buy intact soybean, the new (inaudible) variety. And so, if China approves to import this kind of soybean, we intend to start this first year planting just new varieties on our area -- you can say between 10,000 and 20,000 hectares, something like 10% of our soybean land. This is the idea in terms of the future of technology.

Q - Giovana Araujo {BIO 16356713 <GO>}

Okay. Great. On costs, what are your feelings about production costs for the next year? Are you expecting lower fertilizers and cheap prices, for example? And if you also could mention your views on labor costs --

A - Aurelio Pavinato {BIO 16456795 <GO>}

FINAL

We are having a reduction on the price of the (inaudible). But on the price (inaudible). Unfortunately, the price, you can say, is almost on the same level of last year. Nitrogen -- the price has reduced over the last weeks. And so nowadays we are able to buy nitrogen cheaper than last year. So we are expecting not a big increase on our costs in reais. We are not expecting a big increase in our costs. So this is the idea that we have nowadays.

In terms of labor, we can say that no big variation. Normally, we are working and we are buying new, big machinery to reduce the number of employees per hectare (inaudible) that we use and to increase the efficiency. So normally, we are expecting a variation of no more than inflation on the labor costs.

Q - Giovana Araujo {BIO 16356713 <GO>}

Okay. Thanks.

Operator

Rodrigo Mugaburu, Morgan Stanley.

Q - Rodrigo Mugaburu {BIO 20980025 <GO>}

Can you talk a little bit more detail on the acquisition on LandCo -- in which region within Bahia the farm is located. Is it close to any of the other farms that you have? And also, looking forward, the other farms that you -- the pipeline of LandCo is going to be focused more on Mato Grosso in the center west, or are you seeing more in the northeast of Brazil? Thanks.

A - Aurelio Pavinato {BIO 16456795 <GO>}

Okay. We bought this first small area for LandCo. This area is one area close to one of our farms, (inaudible). So it's a piece of land that we are going to add onto (inaudible) farm. The opportunity to buy land -- we have opportunity in the northeast region and midwest region as well. So we are focused to buy land in both regions for LandCo. As we said in the conference of the last quarter, we postponed the decision to buy land for them because the price of the land was, you can say, too high because the link of soybean prices. As we estimate, nowadays, we can pay -- it is better to negotiate the price of the land. So we just started to buy. We bought this small area, and we intend -- you can say that we are going to buy more areas over the next months.

Q - Rodrigo Mugaburu {BIO 20980025 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) Ravi Jain, HSBC.

Q - Ravi Jain {BIO 16135293 <GO>}

Bloomberg Transcript

My question is basically on -- given the reduction in fertilizer prices, as you discussed, what is the breakeven price of soybean, you think, in the next harvest year for the average Brazilian producer?

And the second question I had -- what is, in your opinion, the trend of land prices in Brazil, given the lower commodity prices? Thank you.

A - Aurelio Pavinato {BIO 16456795 <GO>}

The breakeven cost of the soybean in Brazil nowadays is between -- you can say between \$10 and \$12 per bushel, all the farms, because the days -- the freight to ship the soybeans to the (port) -- the cost nowadays is, you can say, between \$2 and \$4 per bushel. These days, the costs up on the farm. Sorry. I said that wrong. The costs on the farm is around \$7 and \$10, and the costs on the port, FOB, goes between \$10 and \$12. This is the number that we have. When we talk with the other producers, we can say they have -- (inaudible) in Brazil. You can say that is (inaudible) nowadays, mainly due to the high freight costs and days to ship the soybean from the farm to the port.

Could you repeat your second question?

Q - Ravi Jain {BIO 16135293 <GO>}

My second question was -- given lower commodity prices, what effect do you think that will have on the land price appreciation in the next 9 to 12 months?

A - Aurelio Pavinato {BIO 16456795 <GO>}

Actually, the land price in Brazil is linked to the soybean prices. But the correlation is not (inaudible). Over the years, if the price of soybeans is higher, the land price will be high as well. So during the second harvest of last year, the soybean price increased a lot. It increased from BRL40 to BRL70. The land price increased not so much like the soybean price.

Now we can say that we are going to have more stable land prices during a period of time. It depends how much will be the price. If the soybean price stays at this level, you can say, between \$13 and \$14 per bushel, the land price will continue going up, not in so high (inaudible) over the last year because the last year the land price increased 16%. It's not normal to increase 16% during one year. The average of the last ten years in Brazil -- the land appreciation was 9%. So we are expecting for the future something like that. You can say more between 7% and 9% and not 12% or 16% for the year. This is our view in terms of land price. So this, I think, is (inaudible).

Q - Ravi Jain {BIO 16135293 <GO>}

Thank you, so much. Very helpful.

Operator

Martin Tapia, Raymond James

Q - Martin Tapia {BIO 19204832 <GO>}

My first question is on biological assets. Could you, please, explain the main difference -- ?
Could you, please, explain the reasons that we saw in the different biological assets?

Secondly, can you explain briefly your CapEx plan?

And thirdly, could you, please, repeat in which area is close to the acquisition in LandCo, please?

A - Aurelio Pavinato {BIO 16456795 <GO>}

Martin, we have just this quarter a reduction on our biological assets because this loss of soybean yield we've had in Bahia and Piaui, where we had the big drought.

In terms of our CapEx for this year, it is in line with our target. Our target is to expand on CapEx 50% of our EBITDA. So this is our target, and we working on that.

Okay. The land we acquired for LandCo is 1,600 hectares. It was in the state of Bahia, in the north of Bahia, the (inaudible) region, north in Bahia, near our (inaudible) farm.

Q - Martin Tapia {BIO 19204832 <GO>}

Perfect. Thank you very much.

A - Aurelio Pavinato {BIO 16456795 <GO>}

I answered all your questions?

Q - Martin Tapia {BIO 19204832 <GO>}

Yes, you did. Sorry if you didn't understand one of my questions.

Operator

We have no further questions, so that concludes today's presentation. Thank you for attending. You may disconnect your line. And have a nice 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