

Y 2015 Earnings Call

Company Participants

- Joao Arthur Souza, Chief Financial Officer, Finance Director
- Nelson Gomes, Chief Executive Officer, Investor Relations Officer
- Phillipe Casale, Investor Relations Manager

Other Participants

- Alexandre Falcao, Analyst
- Juan Tavares, Analyst
- Talia Fernandez, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen. At this time, I would like to welcome everyone to Cosan SA 2015 Results Conference Call. Today with us we have Mr. Nelson Gomes, CEO and Investor Relations Officer; Mr. Joao Arthur Souza, CFO; and Mr. Phillipe Casale, Investor Relations Manager of Cosan SA. We would like to inform you that this event is recorded, and all participants will be in a listen-only mode during the company's presentation.

After Cosan's remarks, there will be a question-and-answer session for industry analysts. At that time, further instructions will be given. (Operator Instructions) The audio and slide show of this presentation are available through live webcast at ir.cosan.com.br. These slides can also be downloaded from the webcast platform.

Before proceeding, let me mention that forward-looking statements will be made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Forward-looking statements are based on the beliefs and assumptions of Cosan's management and on information currently available to the Company. They involve risks, uncertainties and assumptions, because they're related to future events and therefore depend on circumstances that may or may not occur in the future.

Investors should understand that general economic condition, industry condition and other operating factors could also affect the future results of Cosan and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Nelson. Mr. Nelson, you may begin the call.

Nelson Gomes {BIO 7487048 <GO>}

Good afternoon, everyone. Thanks for attending the Fourth Quarter Conference Call of Cosan SA. We'll discuss today all the business we have under the Cosan SA company, which are Raizen Combustiveis Energy business, gas distribution, lubricants and Radar.

We'll go through each one of the business, talking about the fourth quarter results, also year-to-date results, and now at the end of the presentation, we will provide the guidance for 2016 and for the next crop season. Now turning the page to page four, starting with Raizen's fuels business, now talking about volume, Raizen volume on this quarter was more resilient. Then the marketing dropping only 1% even with the economy slow down we faced in Brazil.

In the Otto cycle, Raizen volume in the quarter remained at stable when compared with the previous quarter, also better than the market. These volumes were also stable in the quarter even though we faced lower economic activity in the period partially offset by new B2B customers and higher demand for agriculture segment.

On the aviation, the volumes sold were down 8% on the quarter when compared with the last one impacted mainly by the flight activity reduction in Brazil.

Now, talking about the year of 2015, Raizen presented a growth of 1%, helping [ph] property and network expansion and also some volume maturation outperforming the market. On the Otto cycle, Raizen volumes in the year were up 4%, also supported by higher ethanol volumes that went up 41%.

Diesel volumes went down only 1% in 2015, while the market went down 5%. Volumes sold on the aviation segment in 2015 went down 3% impacted by the main reasons that I mentioned before, the flight activity, reduction in the country.

The service station network ended 2015 with a little under 5,700 units and net 326 stations added in the year. The adjusted EBITDA on the quarter, excluding effects from asset divestments and inventory gains was 771 million, up 23% versus last year, which is mainly due to an efficiency or reflecting the efficiency on the fuel supply and commercialization strategy.

It is important to remind once again that part of our contract model with the retail network is based on a rebate, so in this period, this quarter the rebate reaches R\$39 million according to the numbers on the graphic highlighted in gray.

The adjusted EBITDA for the year reached 2.4 billion, 15% higher than the last year. The rebate represented 161 million for the year 2015. Now turning to page five and talking about the sugar and ethanol business, and again as a reminder we are talking about the third quarter of the crop season here which is the fourth quarter of the calendar year last year.

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Starting with the crushing, since we extended the production until mid-December, the year-to-date crushing volume reached 60 million tons of sugarcane, at higher end of our guidance.

The agriculture productivity remaining at a higher level compared with the last crop year and posted an increase of 15% from 9.3 to 10.7 tons of total recoverable sugar per hectare. Now talking about volume and prices, sugar volumes sold in the fourth quarter 2015 were 3% lower when compared to the same quarter last year and the average price reached 30% increase.

It's worth to mention that the average prices impacted by the hedge accounting effect on the net revenue in the fourth quarter 2014, there was no effect on the fourth quarter 2015.

On the ethanol, the volumes sold including trading and resale were 25% higher and the average price increased 21% when compared to the fourth quarter 2014, supported mainly by a higher demand on the ethanol in domestic market as well as higher exports volume.

On energy cogeneration, the volumes increased by 42% due to a higher crushing, but on the other hand, average sales price fell 37% when compared to the same quarter of last year due to the sharp drop in the spot energy prices.

The adjusted EBITDA which excludes the biological assets variation and hedge accounting impact had an increase of 51% reaching 1.1 billion this quarter impacted by the higher ethanol volumes sold and better unit prices of both sugar and ethanol.

The CapEx in this quarter reached almost 350 million, a 34% reduction compared to the fourth quarter of '14. The reduction was mainly due to; one, the optimization of investments in replanting sugarcane fields, two the smaller treating area due to the higher agricultural productivity as we mentioned before and finally the conclusion of some of the expansion projects we had in place.

Talking about now our hedge position at the end of the quarter, we had for this crop season 2015-2016 fixed 100% of the export volume with an average price of 44.2 cents of reals per pound, and for the next crop season, the 2017 at the end of the year, we have approximately 50% of the total volumes to be exported fixed at an average price of 55.4 cents of reals per pound.

Now turning to page six, I'm talking about Comgas starting with the volumes, the positive highlights of the quarter was once again the commercial segment, which increased 3% the volumes sold. The volume sold on the residential segment also increased 2% while the industrial segment remains impacted by the economic slowdown and went down 10% when compared to the same quarter last year.

In the year 2015, the volumes of the commercial segment grew 5% mainly due to the new connections during the year, that's over 1,100 new customers connected, the volumes of

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residential segment ended the year stable when compared to the previous year, reflecting from one side the water crisis that Sao Paulo state is going through, off-set by over 110,000 new customers connected.

The industrial segment was directly impacted by the economic scenario and the year ended with volumes sold 6% lower than '14. Now as presented in the previous quarter, the chart on the right show each segment's relevance on total volumes sold and their contribution margin. The expansion focused are obviously on both commercial and residential segment the ones as you can see with higher unit margin.

Now talking about the normalized EBITDA, normalized by the current account on the quarter was 3% lower than the same quarter last year impacted mainly by the drop on the industrial volume as I mentioned before. Talking about the year of 2015, the EBITDA was up 7% versus previous year due to mainly one, a better sales mix combined with a tariff adjustments and two better expense control.

On the regulatory account, this quarter, Comgas recovered R\$94 million and in the period of 2015 with a balance of R\$117 million in our favor. Now turning to page seven, talking about the other business, starting with lubricants. Lubricants business was also impacted by the lower economic activity, the market went down 9% year-on-year while our volume in Brazil went down 6%.

So we gained market share again the last year. Even with the lower economic activity, the company managed to show higher EBITDA, went up 22% versus last year due to better results from the international operations and better sales mix.

Radar presented an EBITDA of R\$106 million in 2015, lower than last year due to a lower appreciation of our own land portfolio. Now talking about other business, the main components of G&A costs are consulting services and fees as well as payroll expense. There was some extraordinary effect in 2015. On the first Q, as you well remember, we had R\$100 million as an extraordinary expenses related to the deal of Rumo and ALL.

And in this quarter, the fourth quarter of 2015, we had a positive impact of roughly R\$300 million related to a credit on a severance action.

Now turning the page to page eight, we will got over the pro forma Cosan SA consolidated results which includes 50% of both Raizen fuels and sugar ethanol and 100% of our controller business.

Starting on the EBITDA, the pro forma reported EBITDA was 1.8 billion in this quarter, 80% higher than the fourth quarter of 2014. When including all the adjustments that I mentioned before in each one of the business, the pro forma adjusted EBITDA went up 19% and reached R\$1.3 billion.

In the year, the pro forma reported EBITDA was 22% higher than last year reaching 4.6 billion, which is above the guidance we provide to the market, but if we adjust the EBITDA

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with all the effects that we mentioned before, the number is 4.2 billion, up 12% versus last year.

On the CapEx, the quarter was 450 million, which represents a reduction of 22% when compared to the same quarter in 2014. The reason for the decrease is mainly due to the lower CapEx in both Raizen Energia and Comgas.

Looking at the year, the CapEx was 1.9 billion, a 21% drop when compared to the previous year. The free cash flow to the equity in the quarter reached 1.6 billion reflecting mainly the better operational performance on Raizen.

Now turning to page nine, talking about debt and leverage, Cosan's gross debt finished the fourth quarter 10% higher mainly due to a new debt raised mostly in both Raizen Energia, -- Raizen and Comgas. The consolidated debt profile is mostly concentrated in medium long terms and you can see in the graph in the middle of the slide, and the cost equivalent remaining at 93% of CDI which includes all the hedge costs for the dollar denominated debt.

The pro-forma cash and cash equivalents was 5.3 billion by the end of the quarter and the pro-forma debt was 11.5 billion. So the leverage on the quarter reached 2.5 times EBITDA as we expected and as we mentioned on the previous calls with the market.

Now turning to page 10, on the business manage -- now we're going to go through the guidance for 2015, on the business managed on the calendar year for the sixth consecutive year, we delivered the consolidated guidance, even in a very challenging year.

Now, talking about Raizen, let's now turn the page to page 11. Raizen Energia, in addition to disclosing the preliminary guidance for the 2016 and 2017 crop year, we are updating the guidance for 2015 and 2016 once we went through already nine months of the crop year, and we have now much more visibility on the results that we will deliver.

This review is mainly due to; one, better sugar and ethanol prices; two, higher ForEx variation; and three, a stable inter crop prices on ethanol. Now, before presenting the guidance for 2016, please note that the guidance for Raizen is still preliminary both on the Energia, sugar and ethanol and a few distribution business, because the company follows the crop year, as you know, and its budget process is still ongoing.

So we will confirm these numbers on the next Q. Now going through an overall comment on 2016 guidance, this guidance for this year points to an improvement in results when compared to the previous year, compared to 2016. So the year 2016 will still face a very challenging macro-economic scenario, as we know.

However, all the companies remain focused on capturing all the operational efficiencies that certainly will contribute to better results.

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Now with that, I finish the presentation and we are here, myself, Joao Arthur and Phillipe to the Q&A session. Thank you.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session for investors and analysts. (Operator Instructions) Our first question comes from Mr. Alexandre Falcao with HSBC.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Well, thanks for the call. Good morning and good afternoon. Just wanted to go a little bit further on the fuel distribution margin in the guidance for our next year.

It's clear that we're going to see a challenging environment in terms of volumes. So just wanted to know given your midpoint in the range flat EBITDA for this year, is this are you counting in any import opportunities, is this a follow through from the margin that we had in the fourth quarter with lower volumes?

So how do you get to this flat EBITDA in this period? Just wanted to understand how you construct the rationale behind it. Thank you.

A - Nelson Gomes {BIO 7487048 <GO>}

Falcao, if you look at the guidance for the fuels distribution business in 2006 and inspect the midpoint of the guidance, you're going to see a slight increase on the EBITDA numbers, and basically the range of the guidance that we are providing for 2016, it has a potential downside that covers all the instability and the macroeconomic scenario that we are going through in Brazil.

But on the other hand, it provides you with an upside that includes all the other opportunities that may occur during the 2016 year, including the imports including a potential price increase by Petrobras, a potential tax increase, so all the other opportunities that we may have when going through 2016 it's already covered in the high end of the guidance. That said, important to remind, this is a preliminary guidance because the budget process for Raizen as you know is not finished yet. So we will confirm this guidance on the next quarter conference call.

Q - Alexandre Falcao {BIO 5515455 <GO>}

But my question is, do you think, it's sort of, maintaining the margins that we're seeing right now, and with lower volumes that more or less the -- because I'm working with the midpoint of the range right, which is a little, as you said, little bit above 2015. So is this the best way to go about it?

A - Nelson Gomes {BIO 7487048 <GO>}

It's about right. Just remind that the fourth quarter unit margins does not reflect the average year unit margins. There is a hike on the margin on the fourth quarter by seasonal effects. So if you make the calculation using the midpoint of the guidance, you're going to see that margin will be around stable.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Okay. Perfect, thank you.

Operator

Our next question comes from Juan Tavares with Citigroup.

Q - Juan Tavares {BIO 21336472 <GO>}

Hi, thank you. Good morning everyone. Just two questions on my side. The first one is regarding your cash flows. As you begin to generate this better cash flows, can you tell us how you plan to prioritize the use of that cash regarding CapEx, leverage, dividend like how do you expect to spend that incremental cash flow?

And second, just to get your overall perception, what's your take on the potential developments in Brazil on fuel prices and overall taxes across the business and products you could use? Thanks.

A - Nelson Gomes {BIO 7487048 <GO>}

Well, starting with the cash generation, the priority for this year 2015, as we shared with the market in the beginning of the year and we follow that up across the calls, it's really to leverage the company that we really achieved by the end of the year with 2.5 times net debt-EBITDA.

So if you look at a longer run, our target is really to go a little further down with the debt leverage to two times EBITDA. So by the end of the year, we expect by the end of the year 2016, we expect to be around 2.3 times EBITDA and continually go into that direction in deleveraging the company.

With that said, with all the cash that we are generating mainly in Raizen and Comgas, we may decide to pay dividends as we did this time, but also we have as you well pointed out, the option of better manage the debt portfolio that we have not only on the operational company's level, but also at the holding company level that are less efficient in terms of tax. With that, just to remind that we don't have any liquidity problems and we don't have any kind of leverage problem.

So it's really a choice of how to better balance the payment of the current debts and to leverage the company even further or to pay dividends to the shareholders.

Q - Juan Tavares {BIO 21336472 <GO>}

Okay, thanks.

Operator

Our next question comes from Talia Fernandez with Credicorp Capital.

Q - Talia Fernandez

Hello everyone. Under your earnings release on page number 14, under the IFRS accounting, you reported a result [ph] for more than R\$1 billion, compared to last -- year-to-year, it's like almost two times the amount you reported on 2014. What's the hike? Like what's the reason the company reported such growth?

A - Nelson Gomes {BIO 7487048 <GO>}

Talia, I'm sure we couldn't get your question. The call is breaking up. Can you please repeat?

Q - Talia Fernandez

Yes, in your earnings release on Page 14 under the IFRS accounting, you reported R\$1.2 billion in EBITDA compared to last year figures, it's almost two times the number you reported in 2014. Where does the growth come from? Hello?

A - Nelson Gomes {BIO 7487048 <GO>}

Yeah. Joao Arthur the Finance Director will take that question.

A - Joao Arthur Souza {BIO 19357380 <GO>}

Talia, we this is just a proprietary [ph] figures for Cosan SA we have a number of one timer events that are listed in the same report and that's basically the reason for the improvement at the Cosan SA level.

A - Phillipe Casale {BIO 20025617 <GO>}

And Talia, this is Phillipe, IR manager of Cosan. And just to give you a better sense here, it's better for you to analyze the pro-forma figures of the company and specifically on the release, you can see each segment statement. So you can see how the business are performing and then you do the consolidated figures which is actually you can see on the same earnings release on page four.

Okay you see segment by segment all the results and the performance of each business and that will give you a better sense and a better analysis of the company's performance.

Q - Talia Fernandez

Okay, thank you.

Operator

(Operator Instructions) Our next question comes from Juan Tavares with Citigroup.

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Q - Juan Tavares {BIO 21336472 <GO>}

Hi, thanks. Just a follow up on the second question I had asked, if you can just give us your sense on the potential developments locally in Brazil on fuel prices and if you foresee any potential tax hikes or tax movements within the different businesses, and maybe if I can follow up with the second question there on -- in the other businesses when you were discussing your slides, you mentioned that you had a R\$300 million gain due to sudden traction, and could you just explain that a bit, because, I'm just surprised that it's a gain, what exactly was the event that took place? Thanks.

A - Nelson Gomes {BIO 7487048 <GO>}

Well, I'll answer the fuel's question and then I'll turn to Joao to get to the second question, alright? What we are planning here what we have as of now in our plans for next year on the fuel prices, it's really a stable prices for both gasoline, ethanol and also diesel. So we are not including in our plans for next year, any fuel price increase from Petrobras.

The same is for any tax increase, we realized that there is a potential there to increase both of them, both prices and tax, but we have not included in our plan, so far. So the guidance that you see for 2016 does not include this potential upside.

A - Joao Arthur Souza {BIO 19357380 <GO>}

Juan, this is Joao Arthur. The company has moved in the past a number of legal actions against the federal government seeking indemnization [ph] from losses we had with price controls that the government placed on sugar and ethanol, I'm talking about the '80s and the '90s.

So this is very long time ago. And one of this actions we had a favored decision to the company, this happened during second part of 2015 and we recognized that. Net of the success fee and the lawyer fees that we paid to our lawyers, we recognized R\$268 million. It's important to notice that this is a non-cash event, we probably going to see the cash only in 2017 or '18.

Q - Juan Tavares {BIO 21336472 <GO>}

Great, thanks, very clear.

Operator

Our next question comes from Alexandre Falcao with HSBC.

Q - Alexandre Falcao {BIO 5515455 <GO>}

Thanks for the follow-up. I just wanted to clarify the derivative gains that you guys had this quarter. I understand this is a cash event, but looking forward on -- you probably renewed your hedge on the perp, I just wanted to know, if we are going to see something like that for as a cash generation or a cash consumption? When is that, when is the next hedge comes through, it's last quarter of 2016, it's a different time frame and -- just wanted to

know if we're going to see, if and when we're going to see some cash effect like that.
Thank you.

A - Joao Arthur Souza {BIO 19357380 <GO>}

Welcome. A 100% of the Cosan debt is hedged, the principal and the interest. The gains we had from the liquidation of certain derivative instruments, we had this in the first quarter, we had this in the fourth quarter and we continue to have 100% of our debt hedged, but it all depends on whether the exchange rate goes -- we'll see if we're going to have again favored or negative gain or loss on this.

So answering your question, I think yes, we are hedged, we could have gained, but it all depends on what happens to the exchange rate.

Q - Alexandre Falcao {BIO 5515455 <GO>}

I'm not concerned -- and that I understand. Just wanted to understand if this is an yearly hedged that you guys just put in November, so it's for next November or if FX goes to five, two months from now, you're going to see this next quarter as an impact of -- again on cash in operation?

A - Joao Arthur Souza {BIO 19357380 <GO>}

We -- for the perpetual, we during 2015, we use the short-term hedge and right now we are hedged again and it goes until the mid of March, but we're going to keep hedging it. There is no -- it's not our intention to not have the perpetual or the other debt un-hedged.

Q - Juan Tavares {BIO 21336472 <GO>}

Okay, that's clear. Thank you.

Operator

This concludes the question-and-answer session for investors and analyst for today. I'd like to invite Mr. Nelson Gomes to proceed with his closing statements. Please go ahead, sir.

A - Nelson Gomes {BIO 7487048 <GO>}

Once again, thank you for attending the Cosan conference call this quarter. Just a friendly reminder that we will have our Cosan Day here in Sao Paulo in March 21, and in New York in March 23. We'll see you all then. Thank you.

Operator

That does conclude Cosan's audio conference for today. Thank you very much for your participation and have a good day.

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