

## Q2 2013 Earnings Call

### Company Participants

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

### Other Participants

- Carlo Velassi, Analyst
- Enrico Grimaldi, Analyst
- Giovanna Araujo, Analyst
- Isabella Simonato, 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 Second 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 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's website at [www.slcagricola.com.br](http://www.slcagricola.com.br) in the investor relations section by clicking on the banner, Webcast 2Q13. The following presentation is also available to download on the webcast platform. The following information is available in thousand 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 depending 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

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cause results to differ materially from what's expressed in such forward-looking statements.

Now, I'll turn the conference over to the Mr. Aurelio Pavinato, CEO. Mr. Pavinato, the floor is yours, sir.

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

Good morning, and thank you for participating at SLC Agricola Conference Call for the Second Quarter of 2013. We may now move to slide three where we present the evolution (walk) with the international prices for our main products.

International cotton price has rolled 2.8% on all the Second Quarter '13 compared to the prior quarter and for most of the last few months where it fluctuate in a clearly defined range between \$0.80 and \$0.90 for this part of contract on the (IC) future in US.

One of the main factor supporting prices in 2013 was contraction in (plant) in important producing countries such as the United States and China. In the United States, according to the USDA, despite the lower forecast support ending in various (inaudible) the area contract by 16.8% in the 2013-2014 crop year compared to the previous seasons.

The highest prices of the competing crops such as soy bean and corn, once again, favorite -- the immigration to these commodities of areas previously allocate this to cotton. (inaudible) For our side being future trade on the Chicago Board of Trading, average per bean \$0.66 per bushel in the Second Quarter of 2013, increase slightly from the 3R quarter, but still high comparing to this historical average.

The production starts to fall in the United States in the 2012-2013 crop year, continue to impact the soybean stock market. However, more recently, sales of the balance of the 2012-2013 crop added to the improvement on the '13-'14 crop condition during the month of July, (start) soybean prices to correct on the CBOT, on this transition from all the crop to the new crop in the US, the prices which -- the current level of the \$12 per bushel pricing in a (inaudible) North America crops.

For corn, the transition from old crop to new crop in the US also results on price contraction in both domestic and international market on the Second Quarters of 2013 and all through during July. In the external market, stock price sale 7.8% from the previous quarter.

In Brazil, given the highest supply and especially the expectation of (recart) second crop prices fell more sharply during Second Quarter '13. According to the result index, prices decreased by 20.6% from the PGR quarter and by 0.2% from Second Quarter '12.

Please, let's move into the last part where we saw the update numbers relative to the operational performance of our field in 2012 and 2013 crop year. The Second Quarter of

2013 was marked by the conclusion of the harvesting operation for soybean and corn first crop.

For soybean, we ended the harvest with an average yield of 2006 to 2005 kilograms per hectare, the (loss) in productivity in relation to the previous crop year was basically due to the drought in December and February in the states of (inaudible) which affected the production potential especially in all areas in the first to third year of the planting.

Fourth quarter, the weather conditions were positive at the most of our farms and (inaudible) out of second. The area harvested was 46%. Therefore, our expectation is to surpass at around 4% active yield at 2011-2012 crop year. Both quarter including the second crop are presenting excellent yields in the same levels as we see on the previous crop year giving that, once again, we have adequate rain fall levels at the end of the crop cycle.

We may now move in on the last side. Here, I'd like to highlight that today SLC Agricola has been working on basically four prices of growth for the planted area. First, developing of the land bank, second, list well-developed lands, third, acquisition of the land via SLC LandCo, and fourth, extension of the existing (inaudible) valleys and Mitsui.

On all of this front, we deliver good news during the Second Quarter. Firstly, as mentioned in our earnings release during the Second Quarter '13, our subsidiary, SLC LandCo, concludes two land acquisitions. We see the purchase of its 10,012 hectares on the State of Maranhao and 2,017 hectares in the State of (inaudible).

With these acquisitions, SLC LandCo totals 13,692 hectares acquired in the value of 52 millions invest in (inaudible) invested in acquisition of undeveloped land which will be correlated to our agricultural land over the year, over the next years, and add it to our planted area.

On June 17, we announced to be market today as the (Sofala) lease agreement for an area of 19,189 hectares. We (seized) 23,189 hectares of a planting potential including second crop in the States of Maranhao.

During the Second Quarter, we also announced the creation of a joint venture with the Japanese multinational Mitsui and Company Limited with the purpose of developing together the activity of the production and trade agriculture commodities.

The JV in (inaudible) SLC Agricola, you (inaudible) there are 6.1% interest. We launched the activities with operation on our well-developed area locating some of the value by year that is owned by Agricola Cinco. The area we received the name (inaudible) and we'll plant almost 2,000 hectares in the 2013-2014 crop year. Sorry, 22,000 hectares not 2,000. 22,000 hectares in the next year.

We are excited with this launch of this new partnership with Mitsui, and over the next few months, we will begin to design our plan for our joint growth.

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And also, we are developing 10,000 hectares of our land bank to be put into production in the future. Beside it is a strong action toward growth. We are investing even more on the improvement of the efficiency of our production.

On 2013, we will invest around BRL65 million on acquisition of a new machinery and equipment, the big (stay) and the best available on the international markets. In the investing, we started a competency and insight for access. We predict our strategy is not to only increase the planted area but also to increase our every net profitable for plant hectare.

Now, I will pass this over to colleague Ivo Brum, CFO and Investment Relation Officer for his comments on the finance results for the period.

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

Thank you. Good morning. Let's move to slide six where you have a summary of our income statement for the Second Quarter 2013.

Our net revenue increased at 39.9% compared to the Second Quarter 2012 mainly, due to an increase on the part of volume (invoice) this quarter. As always, the positive impact (inaudible) the large assets as a revenue. Gross profit in total was an increase of BRL93 million in comparison to Second Quarter 2012 mainly due to impacts from the (biologic) assets on the revenue and cost.

The operational cash flow measured by the adjusted EBITDA in the Second Quarter 2013 was at BRL38.6 million against BRL62.8 million in the Second Quarter 2012 with a margin of 15.3%. Net profit was of BRL36.7 million in the Second Quarter 2013 against negative BRL49.2 million in the same quarter of the previous year. This variation occurred mainly due to increase on the gross profit and deduction on financial expenses on the quarter.

You may now move to slide seven where you are presented a breakdown of our debt. (Total) gross debt closed into the quarter at BRL911.3 million, an increase of 8% percent of the previous quarter due to the effect of the exchange variation on dollar dominated debt and the (inaudible) of the export credit note on Brazilian reais to cover cash during the renewal of the constitutional funds in the rural fed (lights).

Company's net debt closed at the year at BRL683.1 against BRL542.9 million in the First Quarter 2013. With that, the net debt adjusted EBITDA ratio was 2.4 times against 1.9 times on the previous quarter. Thank and now, you can open for the questions.

## Questions And Answers

### Operator

Thank you, sir. Ladies and gentlemen. we will now begin the question and answer session. (Operator Instruction). The first question we have comes from (Carlo Velassi) of Banco

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Brazil Plural. Please go ahead.

### Q - Carlo Velassi

I'd like to hear, firstly, your views on potential M&A by the company. I understand the topic is a bit delicate but I (inaudible) hearing your strategic vision for M&A going forward. Then the second question is on a totally different topic. We recently found that there was launched soybean (inaudible) which is a new seed for soy. I was wondering if the company already uses this seed and if it should bring any productivity gains or changes for cost per hectare going forward. Those are my two questions. Thank you.

### A - Aurelio Pavinato {BIO 16456795 <GO>}

Regarding these, actually we said these two JVs, (inaudible) with Mitsui and with (inaudible). We consider these two JVs our strategic JVs because we have a potential to increase the size of these JVs. So in our view, and we have this in the field, we decide not to establish new JVs. So we intended to go with these two JVs afterwards established over this semester (or that semester).

About the INTACTA, the INTACTA was approved in Brazil, was approved by China last month, so now we can place INTACTA in Brazil. We are discussing, we are evaluating the potential of this variety for each farm, and in dealing with the seed suppliers. And so we have a potential (inaudible) said that they have seeds available in Brazil to attend. It's something like between 5% and 10% off the Brazil area.

So in our view, we could use this amount of the areas on other continent. We discussed this with the technical team and decided how many hectares are going to plant these new varieties. The yield, it increased in potential with INTACTA. We're having many for measurement substance that they're going to increase, you can see a lot.

In our view, the potential increase is not so big. Actually have to have the right variety for the right region, for the right farm. So it's not something that we have all this information on the first year.

So it's something that really is going to help us to increase our yield over the years and to protect our growth as well. So for us, we can say it's a very good technology that comes to the market. We'll increase the competitiveness of the soybean Brazilian in production I'd like to say because this variety has been largely only in Brazil. The first time that Monsanto launched a new technology in Brazil first than in the USA. So for us it's a good news. We are going to use that but the benefits are going to hit you over the years.

### Q - Carlo Velassi

Very clear. Thank you, so much.

### Operator

Next we have Isabella Simonato of Merrill Lynch.

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**Q - Isabella Simonato** {BIO 16693071 <GO>}

My question is regarding fertilizers. We saw last week that potash industry broke up after, Uralkali's BPC. I was wondering what sort of impact in terms of your cost more likely in the next harvesting season would be potash decline to close to \$300 a ton. Thank you.

**A - Aurelio Pavinato** {BIO 16456795 <GO>}

Potash for us represents only 30% of the fertilizer cost. So fertilizer cost for us represents between 22% to 25% of the total production cost. So only potash represents 7% of our production cost.

So to receive this new data, the potash prices can come from \$412, that's nowadays price, to \$300 per hectares per ton or lower than that. I can say that for us, it's a good news. Actually these benefits will come for next year because for this season we got almost our demand. So these benefits will come for next year, crop year.

So normally when the commodity price comes down, normally the inputs, like fertilizer develops some links on relation if the commodity price come down as well. So we can see that you can wait a lower fertilizer price for next season.

**Q - Isabella Simonato** {BIO 16693071 <GO>}

Perfect. Thank you.

**Operator**

The next question we have comes from Giovana Araujo of Itau BBA.

**Q - Giovanna Araujo**

My first question is about your partnerships with Mitsui and (Suar Espinido). What level of general rate of return are you expecting or targeting in those partnerships? This is my first question.

**A - Aurelio Pavinato** {BIO 16456795 <GO>}

Giovana, every new business plan we develop on our company, we had a 5%, at least 12% IRR. So in this case, we hit the level a little higher for, we can say, a better return on the Mitsui project. A little lower return on (inaudible) those (valid) projects, but both of them are higher than 12%.

**Q - Giovanna Araujo**

Okay. And my second question is about corn planting in Central West region in 2013, 2014. In your view, what could be the potential decline in corn planted area for the next season in that region?

**A - Aurelio Pavinato** {BIO 16456795 <GO>}

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I think, Giovanna, actually dependent on corn pricing. After the corn pricing -- the corn we're producing in Central West region is (inaudible) has effect on crop. So normally the farm, the size, it makes its own contribution margin.

So sometimes the next profit is not good or not heavy on net profit computation the fixed cost, but if the contribution margin is positive, the farmers decide to plant. So we might, in our view, to reduce our loss in the planted the area, the price should be very low. I think if the price stay at a level like BRL13-BRL14 per bag in Montegrosso, the producer will go to plant a big area again.

Actually not so big. Normally when the price is low, normally we have to stop the planting window a little earlier because normally the yield of that field that you planted in beginning of the window that begin on February, the yield is very good, much higher.

When do you plan the corn is end of February or beginning of March. The yield is lower. So when the price is low the farm decides to stop the window planting a little earlier. So in my view, we have we haven't had some reduction but not so big depending on the price. If the price stay at that BRL10 or BRL11 per bag, likely it is nowadays, maybe we could reduce 20%, 25%. If it go a little less than to BRL13, BRL14, BRL15 per bag, the reduction will not be so big.

## Q - Giovanna Araujo

Okay. Thank you.

## Operator

The next question we have comes from Rodrigo Mugaburu of Morgan Stanley. Please go ahead.

## Q - Rodrigo Mugaburu {BIO 20980025 <GO>}

My question is more strategic on the JVs. Do you think that looking forward, I mean, future JVs can be closed or done without the need of paying any lease agreement? Let's say your partner contributes the land and you contribute operational cost and probably management to increase profitability of the whole deal? How do you see that and do you think that's feasible in the future?

## A - Aurelio Pavinato {BIO 16456795 <GO>}

Rodrigo, normally the landowner intends to receive some kind of leasing from us because he owns the land. In this case of these two JV with them, we are dividing the investment as well. So in this case we have a partner in terms of (advertising) you can say.

So what's the possibility of not paying leasing? If you are going to invest your money reinvest it in the land. So that's another kind of business. I see this possibility. But I don't know if you'll be better for that, I don't think so. I don't think so.

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Specifically, on the case of Mitsui, we established our leasing payment, linked (inaudible) for the profitability. So the normal marketing by yield is 10 bags per hectare. We established 5 bags per hectare as a minimum leasing payment. So we are going to pay more than 5 bags per hectare only when the EBITDA will be higher than the market business plan.

Yes. So this leasing fee is linked with the probability of the plant. So for us to invest 100% of the CapEx and not paying leasing, maybe it's not so good if in this way or that we are doing, doing that the 50% off the CapEx and they invest another 50% of the CapEx. They are capping the land, for the land, and they are receiving a leasing, in this case linked with the profitability as well.

**Q - Rodrigo Mugaburu** {BIO 20980025 <GO>}

Okay. And --

**A - Aurelio Pavinato** {BIO 16456795 <GO>}

Another point, actually in this case of Mitsui, Mitsui and (inaudible), we are managing. We are managing 20,000 hectares. So the 50% of the profitability will come (inaudible) will go to the partners.

We are receiving an additional fee for the management. So we can summarize that this fee is for the management of the part, the 50% that is not ours. So we receive it. We receive the 50% of net profit and the fee.

So in the end, in our view, and the number show us that the profitability of the investment of the capital will be very good for SLC.

**Q - Rodrigo Mugaburu** {BIO 20980025 <GO>}

Okay, understand. Thank you very much, Aurelio.

**Operator**

The next question we have comes from Enrico Grimaldi of BTG Pactual.

**Q - Enrico Grimaldi** {BIO 17277738 <GO>}

Well I show the (light) appraisal for your line for this should be out soon, right? And looking to the recent decrease in commodity in grain prices, what are you guys expecting in terms of land appreciation this year for your land?

I know you probably can't give the guidance on this, but is it fair to assume we might see this iteration from last year's 18% land appreciation in your farms? That will be my question.

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

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Probably we need about 10 to 15 days to have this final appraisal. The appraisers are working and preparing the quotation and to send our documentation to support the appraisal. And in our view, we have some issue with them.

In our view, the appraisal that you have (in your reach) or indicate about 15% in terms of the appreciation. 12% to 15% comes off the later precision for (incomprehensive) to last year. But of course, we need to wait more 15 days to have the final number.

**Q - Enrico Grimaldi** {BIO 17277738 <GO>}

Okay. Thank you.

## Operator

(Operator Instructions). We have no further questions at this time. Thank you, very everyone. This does conclude today's presentation. At this time, you may disconnect your lines. Thank you. And have a great day.

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