

## Q3 2013 Earnings Call

### Company Participants

- Aurelio Pavinato, CEO
- Ivo Marcon Brum, CFO & IRO

### Other Participants

- Giovana Araujo, Analyst
- Milton Sullivan, Analyst
- Ravi Jain, Analyst
- Rodrigo Mugaburu, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. Thank you for waiting. At this time, I would like to welcome everyone to SLC Agricola Third Quarter 2013 earnings conference call. Today we have with us Mr. Aurelio Pavinato, CEO and Mr. Ivo Marcon Brum, CFO & Investor Relations Officer.

I would like to inform you that this event is being recorded. (Operator Instructions) Also, today's live webcast, both audio and slide show, maybe access through SLC Agricola's website at [www.slccagricola.com.br](http://www.slccagricola.com.br) in the investor relations section by clicking on webcast 3Q13. 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.

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's conference call for the Third 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 rose (49%) on the Third Quarter 2013 compared to the prior quarter, having fluctuated most of the time inside a clearly defined range between \$0.80 and \$0.90 per pound for spot contract on the ICE Futures US.

It is important to mention that this is an adequate price for our Company, considering our productions costs and high yields, which can offer us returns within our historical average.

(Costs) for soybean future trades on Chicago Board of Trade average \$14 per bushel in the Third Quarter 2013, but is still remaining high compared with the historical average, due to the production shortfall in the United States after the 2013/2014 crop year compared with the initial estimate, as well as the (perspective) of the strong demand, especially from China, which is expected to import 69 million tons in 2013/2014 crop year, an increase of 15% over the previous crop year, according to the USDA.

For corn, the price presented contraction in both domestic and international markets on the Third Quarter of 2013. In the external market, the spot price fell 22.4% from the previous quarter; mainly due to forecast of the global production increase at the 2013/2014 crop year reaching 963 million tons, according to the USDA.

Global corn consumption should also continue to grow after the 2013/2014 crop year to reach 934 million tons (sic; see press release "933.4 million"), 8.5% up on the previous season.

After four years of successive reduction in the global corn stocks, the USDA projects a recovery in 2013/2014, with the ending stocks forecast at the 164 million tons and a stock/consumption ratio of 17.4% (sic; see press release, "17.6%").

Still on the corn scenario, we would like to briefly comment about the agreement between the Brazilian and Chinese Governments, to export Brazilian corn to China, news they are very positive for our sector. We think that this will bring a new demand driver for our exports. The Chinese appetite for corn has been increasing and intends to grow more in the future. This will help to shift the surplus of corn that is produced in Brazil.

Please let's move to slide four where we show the updated number, relative to the estimates, operational performance for 2013/2014 crops. On October 22, 2013 the Company disclosed a note to the market informing its initial estimate for the 2013/2014 crops, which showed that the previous planted area guidance has been exceeded by more than 30,000 hectares.

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The expansion of 21% of the planted area compared to the previous crop year was possible mainly thank (you) to a lease agreement at the state of Maranhao for the planting of approximately 23,000 hectares; the joint venture with the multinational Mitsui, to plant approximately 22,000 hectares in the year; the joint venture with Soares Penido Group, to plant approximately 8,700 hectares at the current cost.

The new crop year planting began over the Third Quarter, due to the onset of the rainy season at the Ceara region. In late September, we (inaudible) the planting of the super early and early soybean cycle variety, which enables the second crops of cotton, corn, and sunflower.

By November 12, the Company has already planted an area of 113,000 hectares, representing (61%) of the total area to be planted with this crop and within the schedule defined by the technical team for this crop, considering that out of our total soybean area, 34% is planted in the Middle West region; 29% in the Maranhao state; and 37% between Bahia and Piau states.

For the Middle West region we had already planted 87% of the forecast area. Overall, the crop is showing excellent initial development and weather condition are relatively stable, thus allowing for the planting of 100% of the second crop areas.

We already started through the month of October with planting of corn first crop at Bahia and Goias states. Until November 6, the Company had already planted an area 6.7 thousand (sic; see press release "6,753") hectares, representing 50% of the area to be sown with this crop.

Moving on slide 5, we present the update information relative to the land transformation process in the Company. During the 2012/2013 crop year, we implemented the land clearing and soil correction on 10,000 hectares of undeveloped land at Parceiro and Parnagua farms. Of this total, 4,000 hectares will be planted after the 2013/2014 crop, while the remaining areas will continue in the transformation process.

We plan to begin the process of transformation of another 9,400 hectares on Parnagua and Parceiro farms, to prepare the land for the 2014/2015 crop year.

Currently, the Company has a land bank of approximately (49,000) hectares that will be converted into high performance agricultural land over the coming second years.

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

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

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

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Net revenue in Third Quarter 2013 remained stable compared to the Third Quarter 2012; however, with change in the invoiced volumes by crop. In Third Quarter 2013, we had a higher volume invoiced of soybean, partially offset by (inaudible) quarterly to volume invoiced.

Gross profit posted a decrease of BRL17.1 million in comparison to the Third Quarter 2012, chiefly due to a reduction at the cotton lint volumes on the period and an increase of soybean unitary costs.

The operational cash flow measured by the adjusted EBITDA in the Third Quarter 2013 was of BRL36.7 million against BRL55.4 million in the Third Quarter 2012, with a margin of 17%.

Net profit was up BRL15.2 million in the Third Quarter 2013 against negative BRL0.3 million on the same quarter of the previous year. This variation was mainly due to an improvement of BRL31.4 million on the net financial results, partially offset by a decrease of BRL70.1 million on the gross profit.

We may now move to slide seven where you can see the breakdown of our debt. Company's gross debt closed the quarter at BRL963.7 million, an increase of 6% over the previous quarter. This increase occurred mainly due to the increase in the planted area for the 2013/2014 season investment at the joint ventures with consequent increase in the constitutional funds and (paid) finance lines.

Company's net debt closed the year at BRL753.6 million against BRL683.1 million in the Second Quarter 2013. However, due to appreciation of the Company's lend portfolio, the net debt/NAV ratio decreased to 21.6% against 25.3% on the previous quarter.

To conclude, we would like to highlight that with an expected increase in the quarterly volume invoiced in the Fourth Quarter in relation to the Third Quarter, you should have a good increment in our EBITDA.

Thank you. And now you open the call for questions.

## Questions And Answers

### Operator

(Operator Instructions) (Milton Sullivan), Brasil Plural.

### Q - Milton Sullivan

I have two questions. The first question is about the productivity with leasing versus owned land. I would like to know how are you guys looking at farming productivity versus leasing and owned land.

And the second question is about the cash from Valiance and the SLC LandCo deal. I would like to know, what is your estimate for the time line to receive the cash from Valiance in the deal? Thank you.

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

Good morning, Milton. Milton, the product is on leased area and owned area is almost the same. Actually, we are very selective to lease the lands. We are not leasing bad areas. We lease only good areas for the same level of our owned areas, so we don't have huge differentiation between owned land and leased land.

About the LandCo, land purchase in (Vales), so we are (inaudible), we are (dealing); we have bought the 13,000 hectares of the total project of between 70,000 and 80,000 hectares we have yet to buy.

We are dealing -- we can say that we are not hurrying, because we try to -- we are going to try to choose and to buy the best opportunity. So if you intend to buy 30 you finally buy something that maybe is not the best opportunity. So we are trying to be opportunistic in the market, so we intend to buy another piece of land in a few months. So this is our strategy.

And the timeline, when we closed the deal with (inaudible) we define a timeline cash income. And after that, we agree with them that we-- to put the money when we have the opportunity to buy the land. So now we agree with (inaudible), and when we have a land to buy he will put the money, and so if you need to close a deal we are going to have the money to pay the land. So this is the strategy.

**Q - Milton Sullivan**

Thank you very much.

**Operator**

(Operator Instructions) Rodrigo Mugaburu, Morgan Stanley.

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

I have a quick question. Looking at the earnings result, they were kind of affected by the lower margin from the soybean that was invoiced, I guess, that's coming from the northeast, which the yields were quite low, given the drought.

My question is, is still left some soy to be invoiced in the upcoming quarters? Or we are clean from last year's soybean and we should not expect any more of that soybean coming in in the next couple of quarters? Thank you.

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

No, no, Rodrigo. Mostly -- most of our soybean we had to sell after we had sold over the last -- over the northwest, we are selling the final bags we had on our (inaudible) from two

farms and these two farms are farms that the yields was good, so the cost -- unitary cost is not high.

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

Okay. Thanks.

## **Operator**

Ravi Jain, HSBC.

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

I had two questions. First thing is could you just tell us about do you expect any changes from the Chinese policy on buying cotton for the next year, for the next harvest year?

And the second question is on logistic costs in Brazil. Given that there's going to be a huge harvest again in -- soybean harvest next year, do you expect the logistics costs to go up even further? What would you expect as the premium or the discount that we should expect in the next year?

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

The Chinese policy to purchase the cotton, we expect no change you can say in the near future, but not a big change. For this season, they are buying the cotton from farms and they pay, because they are high price, \$1.52 per pound.

Now, probably they are going to change a little bit the price if they are going to sell this cotton to the mills. So if the price they will sell to the mills a little lower compared to the price we have paid for the farmers, so the cost for the mills will be a little lower. And so this is the main change that is going to have in a few months.

Yes. The question is for the future. But we believe that in China 50 million farms produce cotton. So they have to find a way to support these farmers, because it's a social problem they have.

They have a big stock actually of the total -- the total of the 95 million bales of stocks in the world nowadays, 68 million bales is in China. So probably they are not going to sell this cotton too cheaply for the market. So we don't believe we've seen so big change on year-on-year -- on marketing near future.

And when we think about the cotton pricing, we can say that we have a bottom line for the cotton prices when we compare the cost of, or the price of, the synthetic fiber. So the synthetic fiber is between \$0.72/\$0.75 per pound.

Normally when the cotton prices close on the synthetic fiber, the mills prefer to buy cotton rather than the synthetic fiber. So we believe that you can say that we are in the lowest level of the cotton pricing in the market.

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About the logistics, logistics last year we had a severe crisis, because the new truckers -- drivers trucks law and a loss of production, so after that we had accommodating in the market. So now the logistics cost is lower compared to the last year or during the crop -- the harvesting time.

We believe that during the harvesting time of this season, we will have another increase on the prices, which is normal, because the demand -- the production forecast will be big in Brazil. We can say the roads are the same. The railroads are the same. So we are going to have another increase. So we are going to try to avoid to ship the production during the harvesting time; so to ship less than last year, to postpone and to avoid to pay this so big cost -- high cost that it probably will be.

Another point, we had sold more than 50% of our soybean and this soybean we sold on the farms. So the logistics cost now is (inaudible), is fixed. So if the cost -- the logistics cost changes the traders will pay this additional cost.

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

Thanks so much, very helpful.

**Operator**

(Milton Sullivan), Brasil Plural.

**Q - Milton Sullivan**

I would like to ask two more questions. First of all, land (monetization). What do you guys think the biggest trigger for land monetization in SLC is going forward?

And the second question is about the cotton seed prices. We have seen a meaningful increase in the cotton seed prices lately. I would like to know about this Third Quarter increase. Do you think this increase in cotton seed prices is sustainable? Thank you, again for the follow-up.

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

Milton, the land appreciation. We had a big land appreciation last year on our portfolio, driven mainly by new farmers, undeveloped land. We developed land and these new farmers, the appreciation was much higher compared with the average. So we can say more (strategies) or five (strategies) appreciation was land transformation, not specifically appreciation; part was appreciation, part was land transformation.

And when we compare the price of this land or this farm, the new farm we have, the price per hectare is still lower compared to the well-developed farm. So we can say that we have room to increase the prices on these new frontiers and on these new farms.

So in our view we have -- first of all, we have -- I expect it to increase the price of the land in Brazil when we compare with, say, the other players in the world, Argentina and the

USA. Because we have a lot of land availability in Brazil; we had a lack of logistics. So in medium future or long future, we'll not have so much land available and the logistics will improve.

So the land price in Brazil, in my view, will be closer often than the price in these other countries. And this will support, we can say, an increase on the price of the total portfolio in Brazil.

In our case, in our portfolio, we have these land transformation, these new frontiers, that will increase more than the average of the market. So the inclination (inaudible) of the last 10 years, in our view, was higher than the inclination of the (inaudible) view, being in the next 10 years. It's true. But anyway, we have here a big room to increase the land price in Brazil.

About the cotton seeds, cotton seed is -- this year it's a season where Brazil plants a small area, cotton area. So next year, the cotton area will be high compared with this year; not so much higher, but it will be higher, something like 20%. So the -- our share of the cotton seed will be higher.

But cotton seed is linked with the soybean price, because it's a source of meal and a source of oil. So we believe that the cotton seed price will not be so good like this year, like BRL600 per ton, but it will be on a good level, like, BRL400 per ton. So this is our view.

So cotton seed 10 years ago in Brazil was very cheap. We used to sell a ton of cotton seed by BRL50 per ton. Now we are selling by -- this year we sold by almost BRL600 per ton. We believe in the long future that the prices will be a cheaper rate with the soybean price. So BRL300, BRL400, BRL500 per ton will be the normal price.

So for the cotton business, you can say it's a good opportunity to have, as we produced more than 2 tons per hectare of cotton seed. So it's a good income for us, the cotton seed, additional of the cotton lint.

### **Q - Milton Sullivan**

Thank you very much for the follow-up.

### **Operator**

Giovana Araujo, Itau.

### **Q - Giovana Araujo {BIO 16356713 <GO>}**

My question is about land prices. Do you think your land portfolio located in the Central West of Brazil are already priced the potential benefit of the new logistics corridor to the north of Brazil?



And how much do you think those new corridors will be able to export in the near term in Brazil?

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

It's not (precise), Mariana -- Giovana, it's not precise, because the other -- the ports are not running. The port in (inaudible) Para they are building. The port in Vila do Conde, near Santarem, near Belem, they are building. The (inaudible) they are building. So the ports is not running.

So in maybe in one year, in two years, these ports will be ready. The road 163 between Cuiaba and Santarem, they intend to finish it in -- up to the next year, so now we have 400 kilometers of better roads. So these benefits will come to the farmers over the next two years in our view.

And the benefit will be a big one. The forecast is something like \$1 per bushel, so can say it's a big benefit for soybean and for corn. For corn, it's better, because corn price is lower than soybean. So it's a big benefit for the farmers.

How much you will be export by that corridor? We can say a lot. It's hard to figure out the amount, but all this production off the middle and north Mato Grosso, the preference will be to export it by using this new corridor. And Mato Grosso is producing a lot of corn nowadays, so maybe 50% of the Mato Grosso production, because Mato Grosso is producing more than 40 million tons of corn and soybean. So I think something like 60% of this production will go north instead of to come south.

**Q - Giovana Araujo** {BIO 16356713 <GO>}

Do you have an idea what could be or might be this basis between the farm and the ports in the north compared to the basis that you have now from your farms to (Santos)?

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

The base in Mato Grosso is between \$3.50 and \$3.80 per bushel, and for -- come south. So if you reduce that \$1 you will be coming to \$2.50 to \$2.80 per bush, for soybean.

**Q - Giovana Araujo** {BIO 16356713 <GO>}

Okay. Okay. Thank you.

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

Welcome.

**Operator**

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

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