

Y 2020 Earnings Call

Company Participants

- Aurelio Pavinato, Chief Executive Officer
- Ivo Marcon Brum, Chief Financial and Investor Relations Officer

Presentation

Operator

Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to SLC Agricola the Fourth Quarter 2020 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 that 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. (Operator Instructions) Also, today's live webcast, both audio and slideshow may be accessed through SLC Agricola's website at www.slccagricola.com.br in the Investor Relations section by clicking on the banner Webcast 4Q '20. 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 will turn the conference over to Mr. Aurelio Pavinato, CEO. You may proceed.

Aurelio Pavinato {BIO 16456795 <GO>}

Good morning, and thank you for participating in SLC Agricola's earnings conference call for the fourth quarter and fiscal year of 2020. Let's start it with Slide 3, please. 2020 will remain an unforgettable year in which the world was stunned by a pandemic that brought major impacts on our lives. But it also led to many opportunities for reinventing and innovating what we look. At SLC, we are delivering another year of results with many challenges surmounted and entering 2021 even stronger. Our business and employees proved resilient and transformed 2020 into another successful year. I will start by presenting the main deliveries in the four pillars of our current strategy.

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Let's turn to Slide 4, please. For the third straight year, we achieved a new record in our soybean yields, which had wide limit, even further (inaudible), although the average of soybean yields in Brazil and (inaudible). Our quarterly yields was below the national average for the '19/'20 crop year, but as we commence in our own resilient our production costs were more competitive at 3.7% to under the national average, enabling us to believe lower unitary costs. On corn our yield was 34% better than national average.

As you can see on Slide 5, our growth strategy remains focused on cotton and soybean seeds, which we maximize our return per hectare projects and support the differentiation in pricing.

Despite our asset light business model, Slide 6 shows details on the planned business combination with Terra Santo, which was announced in the material fact on November 26 last year. The deal in last year expand our planted area by around 30% widely capturing synergies and economies of scale. We are now in the final divisions phase according to the plan and we are optimistic with the success of the operation.

We can go to Slide 7 now to increase the visibility of our goals and actions on ESG topic. We incorporate into our quarterly earnings release a special session on the topic. In the second quarter, we left the year, we talked about the creating value to the six capitals, our main goals and our governance structure. And in the third quarter last year, we include information on two of our three main action fronts; water and biodiversity, climate change and soil. And now in the third [ph] quarter, we are detailing our work on stakeholder relations front.

Moving on Slide 8, shows some of the awards we received over the year and which consider the success of our strategy and the strength of our team. We were chosen as the best company in Agribusiness in the year 2020 ranking of Institutional Investor magazine. We were elected one of the countries 150 best companies in ranking compiled by Great Place to Work in partnership with the Epoca magazine. Recognized one of the best companies in People Management in the Valor Carreira ranking of the newspaper Valor Economico and the consulting firm Mercer. Winner of the Transparency Trophy 2020 in the 24th ANEFAC FIPECAFI Awards.

Now on Slide 9, I will talk about the innovation. Firstly, it's important to highlight the ongoing digital transformation at our company. We are intensifying our investment in technology and innovation and getting our people ready for the opportunities create by our growing adoption of the new technological solutions. In 2020, we expanded our aspiration innovation based on renewing our business with long-term strategy recreates SLC ventures to explore the opportunities in corporate venture capital and in corporate venture building led by our innovation asset.

Let's go now to our outlook for the market on Slide 11, where I will comment briefly on the price of our main products in 2020, and in this first few months of 2021. In general, we can observe that dollar price for cotton, soybean and corn yield are already at a higher level than in the pre-pandemic periods. The fourth quarter of 2020 was marked by a recovery in cost on prices in the international and Brazilian market. The scenario of downward

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revisions in production forecasts in the United States, where unfavorable weather reduced the country's cotton crop by approximately 20% in relation to initial estimates, was another key catalyst for the structural changes in cotton prices in New York over the last year. The shortfall in US production combined with the expectation in stable global fiber consumption, which points to the global supply-demand balance ending the current cycle with a deficit of approximately 2.90 million bales, according to USDA estimates has been an important factor for sustaining fiber prices.

Soybean spot prices quoted in -- on the Chicago Board of Trade and the prices paid for the grain based on the Paranagua/CEPEA reference maintained their upward path during the fourth quarter of 2020. In a period marked by the resilience and subsequent increase in prices for the soybean complex in Chicago, the prices for soy and soy meal ended the period from January 2020 to January 2021 with a cumulative gain of over 45%. (inaudible) was imports by China driven by domestic demand in the country has been the main factor of sustaining prices, especially after the best cycle marketed by the US, China trade war and Africa's swine flu, which contributes to this scenario of depressed prices fairly commodity in the international market in 2019.

Soybean spot prices on Chicago Board of Trade were volatile over 2020, after falling in the natural prices based at the strong recovery in both the international and local markets. The period of the sharpest increases in corn prices was the last quarter of the last year. Global demand in the 2021 crop year shows the outstrip supply by 11.8 million tons. The acceleration of the confirm to trend and the persistence of the global (inaudible) supply and demand that should become our significant effect of sustaining future cotton prices in the international market.

I will now pass the call over to my colleague Ivo Brum, our CFO and IRO, will go over our financial results in 2020.

Ivo Marcon Brum {BIO 16639894 <GO>}

Thank you, Pavinato. Good morning, everyone. Let's go to Slide 13, which presents some highlights from our income statement. In 2020, net revenue surpassed for the first time the mark of BRL3 billion, growing by 22%, driving mainly by the combination of higher price invoiced for soybean and corn in the higher volume of cotton invoiced. Adjusted EBITDA also set a new record of BRL960 million, with adjusted EBITDA margin expanding 2.8 percentage points to 31%, with this performance due in large part of the higher price for the soybean and corn invoiced. Note that, because of the adoption of IFRS16, lease costs were excluded from adjusted EBITDA calculation. A total of BRL129 million was paid for lease in 2020 compared to BRL78.9 million in 2019. Net income for the year was BRL510 million, with margin of 16.5%, representing growing of 74% on 2019, considering only the result from agricultural operations.

Let's go now to Slide 14, which shows how 2020 marked another year of positive free cash flow of BRL415 million, supported by the strong generation of the cash from operation and efficient management of working capital needs, the amount was increased by receivables related to the sales of the properties in the total amount of BRL42 million.

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To conclude, the Slide 16, present our debt position. The strong free cash flow enabled a reduction in debt balance sheet of BRL260 million and the payment of dividends and interest on equity in the total amount of BRL179 million over the year. Also you can see adjusted net debt ended 2020 at BRL708 million, decreasing by 27% from end 2019. The company ended the year with a very comfortable net debt with adjusted EBITDA ratio of 0.74 times. Consistent with our strategy pillar of Stewardship in ESG, another important mark to us our first issue of green bonds, in the form of agribusiness receivable notes with a second-party opinion in amount of BRL480 million. The notes are due in 2025 and all proceeds will be used in eligible project approved by included in the digital agriculture, low carbon and soil conservation and green fertilizers programs.

We will now pass the call back over to Pavinato for his comments on the outlook for 2020 and 2021, 2022 crop years.

Aurelio Pavinato {BIO 16456795 <GO>}

Thank you, Ivo. Let's go now to Slide 17. As of the March 8th, 48% of our soybean crop for (inaudible) had been harvested, which had its operation in the State of Mato Grosso already concluded. Based on this we all maintain our yield estimates for this crop year of 3,755 kilograms per hectare, which is 4.1% above the budget yields for the previous crop year. The cost in corn crops are 100% [ph] and presents excellent production potential.

Moreover, as you can see on the Slide 18, we made good progress on selling production for the crop year leasing on the favorable moment for prices, especially considering the weaker Brazilian real. Looking (inaudible) we are ready to begun to plan the 2021, 2022 crop year, including good purchase, where we had 10 [ph] important reduction in dollar price compared to the previous crop year and the consequent forward sales of the commodities in line with our hedging policy. Considering the good potential for the crops, the formation of costs and the sale prices, we expect to maintain margins in high level in 2021 and 2022.

Thank you. And now we are available for answer any questions.

Questions And Answers

Operator

Thank you. Ladies and gentlemen, we will now initiate the question-and-answer session. (Operator Instructions) As there are no questions, we would like to thank you, and this concludes today's presentation. You may disconnect your line at this time and have a nice day.

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