

Company Name: Sao Martinho  
 Company Ticker: SMT03 BZ  
 Date: 2020-08-11  
 Event Description: Q1 2021 Earnings Call

Market Cap: 8368.82760149  
 Current PX: 23.6399993896  
 YTD Change(\$): -0.360000610352  
 YTD Change(%): -1.5

Bloomberg Estimates - EPS  
 Current Quarter: 0.35  
 Current Year: 1.378  
 Bloomberg Estimates - Sales  
 Current Quarter: 932  
 Current Year: 3972.5

## Q1 2021 Earnings Call

### Company Participants

- Felipe Vicchiato, Chief Financial Officer and Investor Relations

### Other Participants

- Isabella Simonato, Analyst
- Luiz Carvalho, Analyst
- Lucas Ferreira, Analyst
- Thiago Duarte, Analyst
- Victor Saragiotto, Analyst
- Werner Roger, Analyst
- Fernanda Cunha, Analyst

### Presentation

#### Operator

Good afternoon, ladies and gentlemen, and thank you for waiting. Welcome to Sao Martinho SA's Conference Call to discuss the results of the First Quarter of the 2021 Harvest. Today with us, we have Mr. Felipe Vicchiato, CFO and Investor Relations Officer and Mrs. Aline Reigada, Investor Relations Manager of Sao Martinho. The audio and the slides of this conference are being broadcast simultaneously on the Internet at [www.saomartinho.com.br/investorrelations](http://www.saomartinho.com.br/investorrelations).

We would like to inform you that all participants will be in a listen-only mode during the company's presentation. Afterwards, there will be a Q&A session for investors and analysts when further instructions will be given. (Operator Instructions) We would like to clarify that some information conveyed during this call may constitute projections or forward-looking statements and as such, they are subject to known and unknown risks and uncertainties, which may lead to results that differ materially from those expressed in these forward-looking statements.

Now, we would like to turn the floor over to Mr. Felipe Vicchiato, who will start the presentation.

#### Felipe Vicchiato, Chief Financial Officer and Investor Relations

Thank you very much. Good afternoon. Thank you for participating in our call about the First Quarter of the 2021 Crop Year. Let's go to Page number 3, where we have the agenda that we would like to talk about starting with the operating highlights of the harvest financial highlights, the behavior of our cash cost, our indebtedness, our hedge position for sugar in dollar and finally, we will talk a little bit about the sugar and ethanol markets.

At the end of June, Sao Martinho crushed 10,000 -- 10.8% more than in the same period last year. And besides this increase in the crushed sugarcane, we also had a higher TRS, higher by 6.9%, a 122.7 to 131.2 and the higher volume of sugar processed and the higher TRS made us produce 18.5% more in the periods in TRS between 36.7% higher in sugar, 6% more in ethanol and 15% more in exported cogeneration. And this is the reason why we considered the -- well, the reason why we increased our crushing was the weather condition that was very favorable with no big stoppages and the optimal operating efficiency of the machines, 24/7 working and also the climate and all of the investments that we have been making and -- making and planting. All this is bringing about a considerable

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improvement in TRS. Part of that is because of the weather and also because of the treatment of our crops. All this together producing these results. And as you can see, in this quarter we had a -- more towards sugar mix, in this quarter, almost 60% sugar and 40% ethanol in the 6 units of Sao Paulo. And when we combine the peaks of sugar and ethanol for the whole group, as what is only produces ethanol. We have 47% sugar, 53% ethanol in this quarter and 41% sugar and 59% ethanol in the last one.

And let's suppose the prices are more or less stable, as they are today, we should be continuing with this mix more towards sugar by the end of the crop year. And this is the peak of the TRS mid-August and September. So the yield of sugar and ethanol, so the plants are full. The mills are full and we end up not having a very big flexibility in the mix. However per day, we can place a very big volume of sugar.

Now, let's talk about the financial highlights. Net revenue growing by 35.8% from 754 to BRL1.24 billion year-on-year. And the reason because it was a major shipment -- number of shipments of sugar growing by 92% mainly for exports. And besides, with an average price of 16.9% higher than the same period last year.

Sao Martinho chose to anticipate or to bring forward the shipment of sugar for this quarter mainly the one that was already hedged in the past, because we were right in the middle of the pandemic. And we didn't really know what the speed of the recovery of the ethanol market will be and in order to preserve our cash and preserve our cash flow, we decided to accelerate shipments of sugar and we were rather successful with that.

In the case of ethanol, the sales volume in the quarter was practically the same 3% higher than last year, mainly in May and July, when the demand for ethanol started to recover from the worst period after the crisis. But the price of ethanol in the same period was 14% lower year-on-year and the -- because of the lower oil prices and also the low demand when we compare -- when we draw comparison on an year-on-year comparison, the EBITDA of the company growing 41% due to this increase in sales with a margin of 48%, adjusted EBITDA going up 55%, cash income going up 122% quarter-over-quarter and our debt going to 1.47 with the drop.

So in spite of this unprecedented crisis that everybody is going through, the company with the strategy of placing sugar by means of our commercial activities, we were able to bring forward our revenues and preserving cash and sailing this crisis as well as possible.

On the next page, we talk about the cash cost including the maintenance CapEx in the period. Cash cost for sugar dropped 9.6% quarter-on-quarter and with the increase of the average price of sugar, we had a situation of margin of 20.9%. In ethanol, we had an even bigger drop in the cash cost, BRL1.4 per liter to BRL1.3 -- 12.8% drop.

But as I mentioned, we had a loss of margin in ethanol for the reasons I have just referred to and this drop is bigger than the sugar one, because Boa Vista is a 100% ethanol. And the Consecana cost of Boa Vista is totally focused on ethanol and there is no Consecana for sugar. So, when you have the ethanol price dropping more than the sugar price, you have a reduction in the cash cost of ethanol, when you compare to the cost of sugar. Our estimate is that for the next few quarters, this cost will be increasing a little bit going towards the average cost of the last harvest, because we have better prices of ethanol now in this quarter. And also the CapEx used is really higher in the second, the third and the fourth quarters than the first.

So the cost, both for ethanol and sugar, should be very close to the one that we had last year, net of the positive or negative effect of Consecana that we might have.

On the next slide, we talk about our indebtedness. Our debt went up by 2% March to June and this is the reason why our debt went up because of investments in working capital, as you can see on the lower part BRL192 million in working capital and a little bit of expansion CapEx and improvement CapEx that we disbursed. Half of that is in dollars and half in reals and we closed with BRL1.6 billion in cash which practically pays more than two years of debt. So our liquidity situation continues to be very sound and we expect to maintain the average maturity minimum at 3.5 years. When we look at the next few quarters.

On the next page, we talk about the sugar market and our hedge position. On the upper part of the slide, and a light blue line, you can see the price of ethanol, equivalent sugar and in the dark one, there is sugar price itself. You can see very

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clearly that up to February and during the whole crop year, last year, the price of ethanol was higher than the sugar price, but with the effect of the COVID-19, we had a strong decrease in the price of ethanol. And today, it's around 26% premium, the sugar premium compared to the ethanol. When you look at the spot market for instance and the BMF market. So this is the main reason why we are migrating our mix of sugar and supposing that the premium continues most probably in the next crop year, the company will be going more towards sugar.

Our hedge for 2021 was practically closed. We had 95% of our own sugarcane locked at 131.15 [ph]. And for the '21, '22, accelerated a little bit. And on June 30, we had 320,000 tons hedged, 1,424 per ton or 28% of our own sugarcane hedged.

Currently, the price of sugar is quite strong and we see that in the last couple of weeks, we see the prices going up consistently, a result, a little bit of maybe a smaller supply from Thailand and even India and we are taking advantage of this window and accelerating our hedging and mix into next quarter. By the end of September, we should have an even higher number -- higher amount of hedge for '21, '22 getting close to about 15% of our own cane. And this price is equivalent to ethanol and we are talking about an ethanol equivalent net of taxes higher than BRL2,000 per cubic meter. This is very attractive. And when we look at the sugar hedges, we see the relative price of ethanol. If hypothetically, I would hedge 50% if you look at the TRS, we are talking about TRS of about 25%, 26% tops. So this is the reason why we intend to accelerate the hedging of sugar for the next few months. And ending our presentation, before we open for the Q&A, we have the evolution of the ethanol prices in the last few months and looking at the last crop year as well.

As I mentioned, we see a very strong drop in prices as of March and April, due to the impact of the COVID-19. And there was also the impact of the oil prices and the impact of demand itself, because there was a limitation in terms of the circulation of people in the street. So they couldn't use their vehicles and so 2.2 billion to 1.7 billion of ethanol. And this demand has already recovered now in July, the last data that we have. We bounced back to 2.4 already billion liters of ethanol and we expect this level of ethanol to continue at this level for the next few months and that prices may be more stable without many big oscillations in then a few months.

We do not expect to see the prices like February BRL2.2 per liter and for the reason that we have already mentioned and we do not expect the prices to go up to BRL1,500.

Regarding CBIOs, the company already have the 4 units prices -- priced and so far we have been issuing 458 pre-CBIOs, 458,000 that we expect to have 1 million CBIOS issued for the whole crop year. And for the time being, we have not sowed an CBIOs. We are still in the phase of qualification of the financial asset and the last trades were equivalent to 206,000 CBIOs and this is a very small amount, if you consider the market as a whole.

So, it's not very good as a reference for either price or volume. But just to give you an idea were traded close to BRL20 per CBIOs.

Okay. So these were my initial remarks and now I would like to open for the Q&A session, please.

## Questions And Answers

### Operator

Thank you very much. Now, we will start the Q&A session for investors and analysts. (Operator Instructions) Our first question comes from Isabella Simonato, Bank of America.

### Isabella Simonato, Analyst

Hello, Felipe. Good afternoon, everybody and thank you very much for the call. In relation to the ethanol, you were talking about the prices for the intercrop period. And when we look at supply and demand and we have to calculate the carryover inventory and even with production dropping and with a high inventory, you would have to see a recovery in

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the volume of ethanol on the demand side, a very major one for the next few months.

If this demand does not go up, and let's say the inventories go down. And how are you seeing this period that is to say the intercrop period?

### **Felipe Vicchiato, Chief Financial Officer and Investor Relations**

Hi, Isabella. Thank you for the question. If demand recovers around 2.4 billion liters which was the case in July and supposing that Brazil will go more toward sugar in the mix, I do not see a lot of room for ethanol to go down, or at least much lower than BRL1,700 per cubic meter, which is more or less where it is today, supposing that the oil prices remain at these levels and that we do not see a reduction in the gasoline price at the pump, which is our benchmark for the price of ethanol.

So we are relatively comfortable regarding this. And Sao Martinho, looking at a weaker demand, we chose to sell a reasonable amount of ethanol from the Boa Vista Mill, because they did have demand right in the middle of the pandemic, because the states that usually buy ethanol from Boa Vista, they had some demand in the beginning of the pandemic in April. So, we placed more volume from Boa Vista less than from Sao Paulo, because in Sao Paulo, the region came to a halt much faster than the Goias region. And now we see the opposite occurring. We see Sao Paulo recovering faster than Goias. And the Sao Paulo units have a lot of ethanol to sell.

So I don't see any problem regarding the carryover inventory in spite of the drop in demand. And everybody is migrating to sugar, because the supply is lower.

### **Isabella Simonato, Analyst**

Thank you very much. Very clear.

### **Operator**

Felipe Vicchiato will answer a question from the Internet. There is a question from Luiz Carvalho.

### **Luiz Carvalho, Analyst**

You have a low leverage now and after the crisis, you could maybe go to towards buyback or maybe you could have some green field projects. So what could we expect in this regard? And you accelerate sugarcane now. And could you talk about your strategy? What about your frame of mind regarding ethanol in the intercrop period? And could you give us an update about the corn ethanol project? Do you have any definition?

### **Felipe Vicchiato, Chief Financial Officer and Investor Relations**

Okay. So the first question. Well, what happens is that we are still in the middle of the crisis. Just to put things into perspective, I have over 12,000 people working at the units and very carefully and with all the necessary precautions and protections, but as this has been authorized from the government by the government. So I have everybody working legally and -- but we have to pay attention. We have to be very careful with our people and supposing, we end the year with the necessary crushing with no big problem. We do have a very low leverage and the idea is to resume the projects that we had and that came to a halt or at least they were hibernating, the first one is the cogeneration project. And we have already made the decision to start our investments in this crop year. So BRL35 million more or less disbursement by the end of March. And BRL150 million in the next crop year, BRL120 million or BRL130 million [ph] in the next. And just to build the plant or to place the boiler into Sao Martinho which is the auction that we won. We came out as

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winners at the end of last year well for cogeneration up to 2025 and if we start the investments now before the end of the crop year, the plant would be ready to co-generate in 2024. And we will be bringing forward one year that is to say, selling our energy in the spot market one year before.

And if I do this only in the next crop year then I will only delivery this in 2025, when the auction happens. And we believe, it is better to start one year before, because if you have any problem, you have one year to solve the problems. So that you may really start your obligation with the auction.

And the second project that we are starting is the corn ethanol at Boa Vista unit and this is the third question by Luiz, but it is in line with the first one. So we are still detailing this. We will have a definition by the end of this year. However, I do not expect any investments or any relevant investments still now.

If it does happen, it will be next year, because the approval would come in November or December. And regarding the dividend payout, we maintain our policy of paying 40% cash dividend. But for the time being, I have nothing new regarding paying the excess of capital reserve that we have, because we have made the decision about 15 days ago during one of our meetings to pay a dividend or a payout close to BRL1 million [ph]. Up to the end of this fiscal year, we will have a better condition or a better opportunity to make a decision about whether we are going to face some extraordinary dividend or not.

And the buyback, there is always a very big debate about that going on. But right in the middle of an unprecedented crisis like this one and everybody fleeing towards liquidity, deciding to make a very aggressive buyback, this would be a very difficult decision. So we had practically no buyback in the last few months. Considering that this crop year will -- this crop will end around October, November and let us say that we have a price level for ethanol as it is now. We can revisit this and talk about buyback. But we do not expect to have any buyback for the next few months or at least until the end of this harvest. Everybody is working very, very strongly with one single objective in mind, which is to deliver a safe crop as fast as possible, because then we could have collective vacations for most of our employees and we can work in shifts and let us hope that this pandemic goes down and decreases gradually.

And now, your third question about accelerating sugar this quarter. We already had a certain volume of sugar hedged with client and with the exchange. And we had two options, either we could carry this sugar over to sell in the third and the fourth quarters and gaining, let's say, 2%, 3% which is the carryover in the screens or we could bring this forward in order to build cash. And we chose to bring this forward -- the sales forward to generate cash.

The marginal gain was only the difference in the screens or between the screens. And so, we chose to build cash and to bring this forward. So let's say, the company makes a maximum of sugar, thus Sao Martinho will have almost 1.5 million tons of sugar to sell. So we sold 450,000 tons approximately. And we have an additional 1 million tons and if I divide this by quarter, 350,000 per quarter, this is a very big volume.

And at some point in time, in the year, we end up competing with the freight cost of the soybean, because you have a lot of soybean coming from the Mato Grosso region and what happens is that freight becomes more expensive at the end of the crop year. So although we have -- this is still very relevant, because we are going towards a more sugar harvest.

I believe I have already answered all the questions. Would you confirm?

## Operator

The next question comes from Lucas Ferreira from JP Morgan.

## Lucas Ferreira, Analyst

Good afternoon, Felipe, everybody. As you have accelerated the harvest, how conservative do you believe your guidance is because of the TRS and the crushing? Or is it still a little bit too early to say anything. When do you intend

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to end your crushing because of weather reasons?

And my second question has to do with hedging. The '22, '23 harvest already have some reasonable price so that you may lock it a little bit later. Is this part of your strategy that it make any sense? Or do you intend to expand your crushing -- increase your crushing?

And the last question. I suppose that in Brazil, this could happen with the lower profitability, the increase in crushing. Are you investing in those? Thinking about this possibility, do you believe that this could happen in Sao Martinho beyond that is to say, the 24 million tons?

## Felipe Vicchiato, Chief Financial Officer and Investor Relations

Hi, Lucas. Thank you very much for the questions. The first question about your -- our guidance. We will probably crush a little bit less than we had estimated, because the weather is very dry as you said. And it's going to have an impact on the sugarcane at the end of the harvest. However, the TRS itself will be -- will more than offset this possible lower crushing that might happen.

So what I can tell you is that the items [ph] is okay. And when you look from the viewpoint of the end products, sugar and ethanol, but if you have a shorter crop, a shorter harvest with more TRS and less sugarcane, it is usually cheaper. Because you spend less diesel because you have less sugarcane. But on the other hand, you carry over a bigger amount of sugar. So you really have some benefit that end up offsetting this.

But all in all, we are very realistic about it and in relation to investments and supposing a more attractive sugar price. In the case of Sao Martinho, all the investments that we could make in order to remove bottlenecks from our plants in order to produce more sugar, they have been done in the '17-'18 or '18-'19 crop year, we made investments in the Sao Martinho plant and also in the Santa Cruz unit.

So today, we have our maximum capacity to make sugar. And so, we do not see -- we have already removed these bottlenecks. And in the whole sector, I think things are more or less similar to that three, four years ago, the companies that had the possibility to make the investments, they did. So I do not see a lot of room to increase the production of sugar in the next year, if you consider the Center-South region of Brazil and increasing crushing.

Well, it has much more to do with the sugarcane itself. We need the sugarcane to increase the -- to increase crushing. So we have that program of the PSS with Meiosis and the use of this technology, as you know in the next year. In principle, it would be very close to 24 million tons, which is our upward limit -- upper limit. And in order to crush more than that, I would need to increase the days in my crop year. And this is possible, but for next year, I do not believe, we can have more than 24 and crush more. Investment that could be made in sugar in Sao Martinho. This would mean the Boa Vista unit, because Boa Vista unit only produces ethanol and we could build the sugar plants and we could make sugar at Boa Vista, but the economics don't really make sense.

First, you have the freight, which is much more expensive from Boa Vista to let's say, well or for exports and also at Boa Vista, up to 2032. When you remove ethanol and you put sugar, the trade-off really doesn't make sense from the economics viewpoint. So I believe that we have already reached our limit in terms of sugar.

We are starting this in '21, '22. We have already accelerated the sales and let's say, prices stay where they are. Should this happen, we could start hedging for the '22, '23 crop year. The only problem with it is that this is a little bit limited that is to say. It would make sense, because liquidity is in 2021 and in '22, '23, the liquidity is not so present. So we are starting (technical difficulty).

## Operator

Thiago Duarte, BTG Pactual.

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## Thiago Duarte, Analyst

Good afternoon, Felipe, Aline everybody. I would like to go back to crushing, about the dry weather and this hyper stress that is coming since the end of the intercrop period. Is this bringing you some degree of concern up to the end of the harvest in October or November? It seems to me that you are not very much concerned, because you have the PSS with Meiosis and you would have more -- you would be leaving more standover sugarcane.

But I would like to know, whether we have reached a point where the yield, agricultural yield is or will be hit?

And the second question. When we see or accelerate your hedge, of course, the prices are very interesting when we talk about reals in itself, it could be a very good reason for you to accelerate your view for the sugar market. That doesn't mean that you believe that the sugar market has already reached a ceiling or almost the decision not to take this market risk for such a long period? I would like to know exactly how you see the sugar market?

And the last question. I think, I asked you during your last call. And I'm going to repeat it. What about taxes? Taxes on the 1 million CBIOs? Do you have any idea? And when do you intend to launch this?

## Felipe Vicchiato, Chief Financial Officer and Investor Relations

Hi, Thiago. Thank you for the questions. The first question was related to the dry season that we're going through. And it is not a concern yet for the next harvest. It has a bigger impact on this current harvest that we will have a slightly lower yield than we estimated at first, for the next harvest. We still have all the summer rainfall that will happen beginning in October, November and goes until March and given the quality of the -- our sugarcane plantation, if we have regular rainfall, these sugarcane goes back and recovers. And we go back to our previous estimates and if everything goes well, we will reach 24 million tons.

However, this is not a concern for the next crop. This is a concern for the current harvest because you have higher TRS and lower crushing.

Your second question. Your view for the sugar market. Yes. In fact, but we -- Thiago, you are looking more at the sugar prices in ethanol equivalent and oil equivalent as well. For the next harvest like '21, '22, we look at the screens close to 1,600 per ton, which would be 2.1, 2.2 for ethanol. And in order for this to happen 2.1, 2.2, it would have to go to \$70 per barrel, \$60 per barrel, the oil price depending on the exchange rate that you're using.

So, it is not really -- I do not believe in the sugar market, it has to do with protecting your exposure in TRS, the exposure of ethanol or to the ethanol market. It's very difficult to hedge because there is no liquidity at the BMS. So we are always exposed to the price of the product itself.

But when you look from the risk viewpoint through sugar, I can get into the next harvest with at least 30% of our revenues already hedged and which would give me a margin of more or less close to BRL500 per ton, BRL600 per ton of sugar.

So if we think about 1 million of our own sugarcane, we will be talking about BRL600 million only in cash flow alone. So, we believe that there is room for the sugar market to go up and Brazil doesn't have a lot of room to increase sugar production. I said already, some countries could have relevant drops, such as India and Thailand and others, but we are exposed very much in long run to sugar and dollar. But from the viewpoint of risk and looking at the prices where they are today and in order for us to have a very good hedge of our margin, we tend to accelerate this hedge. So many things can happen and these things are not under our control. So it's very difficult to know, but what we know is that Brazil is not going to increase production. India will probably not increase production, but at this level of prices in reals as we have today, our margin is very relevant. We have 70% of our own sugarcane and our operating leverage is very big.

We have a lot of fixed costs. So we have to hedge a price. And it's really a no-brainer, let's say, what we do in terms of hedging.

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You were asking about the taxes on the CBIOs. No, there is nothing new. And this is still being discussed. And as soon as we have something, we will be announcing this to you.

## Thiago Duarte, Analyst

Thank you.

## Operator

(Operator Instructions) Victor Saragiotto from Credit Suisse.

## Victor Saragiotto, Analyst

Good afternoon, everybody. About taxes, I know it's a little bit too early to say, because there are many proposals for tax reform in the hands of the Congress. But you had a benefit regarding the price of corn and corn generation. How could this impact you or is it too early to say anything about it? Thank you.

## Felipe Vicchiato, Chief Financial Officer and Investor Relations

Hi, Victor. Thank you for the question. As far as I understand, all of the proposals that are in the hands of the Congress, they don't deal directly with the scenes [ph]. So I think, it's a little bit too early for us to have any discussion about it. And even more, so that when proposal go to Congress and they go and they go back, and they come back and besides the land companies you have in cogeneration companies and let's say there is a change in that. So if it does make sense, we can include this or integrate this and have one single taxpayer number. And we would be losing a little bit of tax incentives. But you have to remember that when the projects were -- when the IRR was discussed, the project were based on the legislation at the time that had to do with the price of corn. And let's say, this happens and it impacts Sao Martinho. It would be having a much bigger impact on the other companies, civil construction, for instance. Many companies which had the system of presumed income and I think, this is a little bit more encompassing. I have nothing to tell you right now. But let's say, there is a tax levied.

We will have to study how to adapt to that. But the faster way would be to integrate the company.

## Victor Saragiotto, Analyst

Thank you and congratulations for the results.

## Operator

Werner Roger, Trigono Capital.

## Werner Roger, Analyst

Good afternoon, Aline and Felipe. Congratulations for the result. In a difficult situation, the company really stood out once again. In the relation of the COA project, the automation project, the COA and the cost of fertilizers, et cetera and the logistic cost, I think of diesel and the cost of diesel for the machines and all that.

There is a reduction in cost because of the diesel fertilizer, and also the automation project, the COA. And the -- I have another question. Brazil has been -- it's being talked about because of the harvest in the Amazon and we have

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 YTD Change(\$): -0.360000610352  
 YTD Change(%): -1.5

Bloomberg Estimates - EPS  
 Current Quarter: 0.35  
 Current Year: 1.378  
 Bloomberg Estimates - Sales  
 Current Quarter: 932  
 Current Year: 3972.5

mechanized harvest in most places. And what about India and Thailand? Maybe in India, they still burn plants?

## **Felipe Vicchiato, Chief Financial Officer and Investor Relations**

Yes.

## **Werner Roger, Analyst**

And in Thailand, this issue -- would that have an impact on sugar for Thailand and for India? They still use manual harvest and they use women in harvest and working very hard. So for humanitarian reasons, the -- not only because of humanitarian reasons, but what happens in these countries in terms of burning, land, et cetera.

## **Felipe Vicchiato, Chief Financial Officer and Investor Relations**

Thank you for the questions. Let's talk about cost, first. Certainly the cost of diesel will be lower during this harvest. One way or another, we started the harvest in April when the price of bio had already dropped quite extensively and there was a transfer to diesel. So, considering that we will have a harvest from April to November, which means that in a couple of months or three months, we will be ending our harvest and this is the period when we use more diesel.

We estimate that there will be a reduction in the use of diesel of about 5% to 8% overall, depending on the units, depending on the bills.

Now, in terms of fertilizers. The exchange rate had a negative impact and will have a negative impact on the price of fertilizers, if you compare to last year's prices. So considering the increase of about 10% in the price of fertilizers, we were able to anticipate that we brought this forward. And for us, it's going to be less than 10%.

But on a year-on-year comparison in the process of treatment -- crop treatment and planting, we should see an increase in this cost. So the total cash costs when we look at it, it should be similar to the one that we had last year, because the improvement in operating leverage and improvement in efficiency, et cetera will be able to offset the cost of labor and the cost of fertilizers and also crop treatment products. So this is a target that we have here.

I had never thought about the point that you raised in your other question. Most of the production in India, for instance is for domestic consumption and sugar itself. Sugar itself doesn't have a lot of added value. So this issue of social environmental, et cetera, and they export only a little -- a small part of the overall volume that they produce in sugar. So I do not see any movement in this regard, or in this direction neither in India nor in Thailand. Maybe just maybe ethanol itself would have this kind of approach. Maybe the ethanol that we export to the United States. Brazil export volume of ethanol to the United States as well as to Japan. And we already see in some contracts, there are some clauses present regarding a minimum necessary social and environmental protection and measures. And this has to do with child labor and the conditions for labor and also the burning of land. That's more for ethanol than for sugar. And sugar -- the large consumers produce sugar. And there is a low added value. So, so far, we have not seen any big obligations in terms of social and environmental measures.

## **Werner Roger, Analyst**

In relation to logistics, and you talked about the prices from Goias and for export and the diesel prices, what about logistics? Is there any effect? What about Maritime transportation?

## **Felipe Vicchiato, Chief Financial Officer and Investor Relations**

Company Name: Sao Martinho  
 Company Ticker: SMTO3 BZ  
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Well, this affects the buyer. In terms of Brazil being able to ship more quickly. In general, the producers place the product at the port. And then their trading company, it does everything else that is to say from the port to the end customer. And the fiscal [ph] of sugar is very strong in Brazil, because of the cost of sea transportation.

And I forgot to answer your question about the COA or the automation project. This is the second year and it is going very well. We see the results are much better than we had forecast. And this is the first one that will be the same as Santa Cruz and Boa Vista. That seem a little bit more difficult to expect all the benefit, but Sao Martinho is going very well already. I do not have a figure to tell you in terms of savings for this current harvest. We have to wait for the end of the harvest. So that we can really measure this. But just to give you one patent [ph], the availability of machine is because of the automation project, the COA is much better, because you can manage much better. So, you need less than you needed in before the implementation of the operation. This is what we are assessing right now. Maybe in the future, this will be a reality of less investments in harvesting or harvesters, et cetera.

### **Werner Roger, Analyst**

You talked about Usina. You announced a sale yesterday of a small area of Usina. I think some 20 something hectares. Was it for a company? Was it -- who bought your area?

### **Felipe Vicchiato, Chief Financial Officer and Investor Relations**

If I'm not mistaken, it has to do with mining, because we have some areas that belong to us. And sometimes, we have -- as the value per hectare is very big, we end up ending and this was the reason why we show this.

### **Operator**

Fernanda Cunha, Citibank.

### **Fernanda Cunha, Analyst**

Good afternoon. In order for us to understand for the medium run, what about the capital allocation? During some quarters, we have been talking about the corn ethanol project. I think we started talking about this one year ago. What are the alternatives that you have on the table? Should this project not take off? And given the number of units, do you have any new opportunity of renting or leasing new areas and increasing the crushing capacity?

And in terms of value drivers again, you started to produce yeast. How should we track the evolution of your yeast production? What could we expect as a contribution to your EBITDA in the long run?

And lastly, one question about Renovabio. What about the division of the income from Renovabio between the industry and the plant (inaudible). So these are my questions.

### **Felipe Vicchiato, Chief Financial Officer and Investor Relations**

Hi, Fernanda. When you talk about between the planting and the industry, are you talking about the supplier of the sugarcane? You were talking about Consecana. Because when we evaluated the CBIOS, it is done per farm and at the farm, we have this kind of divisions.

But as this is going to be transferred to Consecana, this is still a discussion that is still going on that is to say, I don't have a lot to tell you about that. But Sao Martinho has much more of their own sugarcane, much more our own sugarcane. What happened is that the figure that I mentioned close to 1 million CBIOS is what would stay with Sao Martinho. And it does not include Consecana.

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About your second question, about yeast, the estimate is that we will have something close to BRL40 million in yeast, and one in Boa Vista -- a large plant in Boa Vista for yeast in a relevant scale. As Boa Vista only has ethanol, so what happens is that they can produce a lot of yeast. And the idea is 80%, 85% EBITDA for the sales of yeast is traded in dollar, it is quoted in dollar and the exchange rate plays in favor of us.

And regarding the corn ethanol, we should be deciding this investment but because of the pandemic and all the consequences, we had to postpone this decision. We postponed this decision and we will be making a decision by the end of this year.

But I do not have another project to allocate our capital. For instance, we know that there are many sugarcane companies that are for sale or they are in judicial recovery and -- but we are not interested, because even if you buy for one single round, the volume of money that you have to invest in order to recover the plantations and then wait for many years until this unit can really generate income. But we are not interested in that, at least as far as the names that we have analyzed are concerned.

So capital allocation, if we do not have that in the corn ethanol project, we do not have any other projects to announce. So this surplus cash will be a dividend payout for the next few years for our shareholders.

## **Fernanda Cunha, Analyst**

Perfect. Thanks.

## **Operator**

Lucas Ferreira, JP Morgan.

## **Lucas Ferreira, Analyst**

Thank you for the follow-up. You believe that China could go back to the market and stronger when they come back or -- and if they come back, do you believe that they will be importing more? It seems that the domestic demand in China is improving. Do you think this could be a trigger for you?

## **Felipe Vicchiato, Chief Financial Officer and Investor Relations**

My commercial team talked about that recently in an internal meeting that we held here. And there were some remarks made about China, going back to the market, buy more and if it does happen due to the size of China and the relevance of China that could be a trigger for a sugar rally for the next few months.

But we cannot say anything really more solid about it or there is a possibility of China buying more sugar. Yes, this is a fact.

## **Lucas Ferreira, Analyst**

Thank you.

## **Operator**

The Q&A session has come to an end and we would like to give the floor back to Mr. Felipe Vicchiato for his closing remarks.

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## Felipe Vicchiato, Chief Financial Officer and Investor Relations

Thank you very much for participating in our call. Aline is reminding me that there are other questions that we received via webcast and we will be answering them myself and my team. We thank you once again and we are available to you if you have any doubts. Thank you very much. See you in the next call.

### Operator

Sao Martinho's conference call has come to an end. We thank you for participating and we wish you a good afternoon. Thank you.

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