

Company Name: Sao Martinho
 Company Ticker: SMT03 BZ
 Date: 2020-06-30
 Event Description: Y 2020 Earnings Call

Market Cap: 7508.58028809
 Current PX: 21.21
 YTD Change(\$): -2.79
 YTD Change(%): -11.625

Bloomberg Estimates - EPS
 Current Quarter:
 Current Year: 1.15
 Bloomberg Estimates - Sales
 Current Quarter:
 Current Year: 3728

Y 2020 Earnings Call

Company Participants

- Felipe Vicchiato, Chief Financial Officer & Investor Relations Officer

Other Participants

- Luiz Carvalho
- Leandro Fontanesi
- Thiago Callegari L. Duarte
- Christian Audi
- Isabella Simonato
- Lucas Ferreira
- Analyst
- Werner Roger

Presentation

Operator

Good afternoon, ladies and gentlemen, and thank you for standing by. Welcome to Sao Martinho S.A's Fourth Quarter of the '19/'20 Harvest Earnings Conference Call. 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 the presentation are being broadcast simultaneously on the Internet at www.saomartinho.com.br/investorrelations. To inform you that participants will be in listen-only mode during the company presentation. After the company's remarks are over, there will be a question-and-answer session for investors and analysts when further instructions will be given. (Operator Instructions)

We would like to clarify that some information conveyed during this conference may constitute forward-looking statements. And as such, they are subject to known and unknown risks and uncertainties and this could lead the company's results to differ materially from those set forth in such forward-looking statements.

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

Felipe Vicchiato, Chief Financial Officer & Investor Relations Officer

Good afternoon, everybody. Thank you for participating in Sao Martinho's call about the fourth quarter of the '19/'20 crop year and the end of the fiscal period '19/'20.

I would like to start with the agenda for the day. First, we have the financial highlights and then we will talk about the cash cost of the company during this year and the debt and the guidance for production for the '20/'21 crop year, our hedge position for sugar in dollar, and we will end talking about what we think about the sugar and ethanol market.

Let's go to Page number 4 where we have a summary of the financial highlight for the quarter and for the year. Net revenue of the company, the quarter went up by 2% and despite the volume, so the TR equivalent having dropped 15.8%, adjusted EBITDA going up 13.7%, adjusted EBITDA 125% increase and the reason why the volumes dropped

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by 3%, it was because of the pandemic that occurred at the end of February, beginning of March. And during which the sale of ethanol dropped quite steeply, especially in Sao Paulo.

And this is the reason why ethanol prices dropped in the market, basically because of that and Sao Martinho we understand the market, we chose not to sell for a low price and we decided to hold to our inventory of hydrous and anhydrous ethanol from one year to the other. And we should be selling now in the first quarter of this crop year. This is why we have a lower volume with a drop of 22% in ethanol, partially offset by 9% increase in the volume of sugar. And in spite of the drop in the ethanol volume, the average prices of ethanol quarter-on-quarter went up by 15% once January and February, they are strong and they helped the net revenue to grow by 2% although the volume was lower.

Adjusted EBIT has an important role, because in practice, I have a better price in both products sugar and ethanol and less cost. EBITDA margin 50%, EBIT margin higher than 22%, and with that for the year, we were able to get to an EBITDA close to BRL1,857 billion and EBIT -- adjusted EBIT offset BRL192 million growing by 32% year-on-year.

In this quarter, we had two major items that had an impact on our results, and they are non-cash. I think you have all seen this in our financial statement and the first item were BRL30 million in mark-to-market of the biological assets, as if it were an impairment of our biological assets. But the prices in March 30 were very low for sugar and ethanol. And this is the reason why we have this impairment of BRL30 million; and this number we are adjusting for adjusted EBITDA and cash.

We had gains of BRL25 [ph] million of the IFRS 16 in the fourth quarter of 2020. And the effect for the year was a loss of about BRL20 million after the income tax, which is the effect of the adoption of the new IFRS rule that has non-cash effect. The net income for the company before these effect a 110% for the year increase and for the full year for the 12 months of the year we have.

We received precatorios or the preorder credit notes and then cash costs we have 4% increase, BRL158 million to BRL164 million in this quarter. For the 12 months of the year, the volume sold was practically the same in TRS equivalent 0.4% increase only and the result of the fact that we had carried over more ethanol at the end of the crop year as we said and although we have crushed more sugarcane and therefore more products available to sell, there was a stoppage in the sales of ethanol in March. And because of that for the full year, we showed the volume that was practically the same on a year-on-year comparison and this volume will be showed now in the next year in the 2021 harvest and we will have the whole volume of production of the 2021 build plus the carryover inventory that I mentioned.

We have a summary -- on the next page, we have a summary of the cash cost of sugar and ethanol, and we include the maintenance CapEx. For the intercrop period and also for the planting of sugarcane, and we closed with a BRL108 per ton for sugar year-on-year, growing by 5%, with an average price for sugar of -- (Technical Difficulty) --

The interpreter has lost the sound. Please stand by. Please stand by. There was a small technical problem. We're going to resume the conference.

We apologize there was a problem with the audio of the conference. So, I will go back to the cash cost that I was referring to.

Okay. So the cash cost for sugar went up by 5.8%, basically because of diesel and agricultural products that had an impact and also the cost of ethanol went up 2.7% and we were able to decrease the cost a little bit, because it was less sugar, 10.7% increase going from BRL1.7 per liter to BRL1.9 per liter, so you have the margin of ethanol be 6.2%.

On Page number 6, we have the company's indebtedness. The company's indebtedness shows that BRL2.8 billion with a growth of 20% on a year-on-year comparison. And the main factors for the increase in our debt was the long-term exchange rate variation impacting our dollar-denominated debt as we had an increase of 30% in the exchange rate year-on-year between dividend paid in the last crop year and interest on equity and remuneration for shareholders BRL930 million disbursed. And interest on equity, it was the first year that we paid a considerable volume. And this has an impact on our net debt when we look at the comparison year-on-year as we didn't have a base for comparison to the previous year.

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And the last one was the expansion CapEx. Given the project that we had already announced, it -- last Wednesday, the company's cash flows that BRL1.9 billion in March with maturities and average term of close to four years and only a few maturities in the next month, so this gives us a lot of comfort to go through this crisis that we are living because of the COVID situations.

On the next Slide, on Page number 7, we have the guidance for production for the '20/'21 crop year. As we said yesterday in our material fact, we will be processing 23.2 million tons of sugar growing by 2.5% vis-a-vis the past harvest and average TRS dropping by 1% as the basis of comparison was a very high one, because of the very dry climate. We put here two scenarios for sugar and ethanol between the maximum and the minimum, because we do not have a magic figure for that, so we give you a maximum and a minimum.

So if the company migrate to a maximum of sugar, we will have something close to 1.5 million tons of sugar. If we migrate to the maximum of ethanol, we will have 1.1 billion liters of ethanol produced. Considering the prices of both ethanol and sugar today, given the premium that the sugar has vis-a-vis the ethanol, we Sao Martinho is producing more sugar and less ethanol. And of course, this can change depending on the market condition from today on, but we have to be 20% higher in sugar than ethanol. In the three units that produce sugar and ethanol, we are migrating the whole mix for the production of sugar.

On Page number 8, we have a summary of our hedge position as updated as possible, because the database is yesterday in fact. So for the '20/'21 harvest, we have 96% of our own sugarcane hedge at BRL1,300 per ton going from 30% in March to today, so we took advantage of the prices of dollar and sugar. And for the '21/'22 harvest, the next one, we have already started our hedging and today we have about 260,000 tons with an average price of BRL1,449 per ton. The current price is very close to that.

Some screens are very close to BRL1,500 and we are taking advantage of this moment to know this will hedge and the price in real per ton already has -- already contemplate -- does not contemplate \$10 per ton, which is the cost of increase. So if you compare the average selling price of the company that in last year or in the fourth quarter, we show on Slide number 4 something close to BRL1,209. This BRL1,209 already includes the deduction of approximately \$10 per ton. So in order to compare the hedging explanation, we have to exclude \$10 per ton as you can see on Page 4.

On the next page, we'll talk about the prices of sugar and ethanol, and I will be talking about the prices of ethanol first for reasons that you you are familiar with the prices of ethanol dropped very steeply as of March. Being about BRL1.4 per liter in April and the price of oil dropped quite steeply because of the COVID, some negative screens, but it was close to \$20.

And there is also the issue of demand for ethanol because it dropped also very steeply especially in the state of Sao Paulo, because people are not moving as much as they did and we have already seen a good recovery in prices in June. A little bit to our surprise, because it's already around BRL1.7 per liter and we are more comfortable in terms of our forecast for the harvest. And because a couple of months ago, we didn't have the necessary visibility, so let's see the evolution in the next few months about the ethanol consumption and also the oil prices to see if the prices of ethanol can go back to the average level that we had in the previous harvest. So, this is a question that we cannot answer it yet.

On the lower part of the slide, you can see the prices of sugar and the exchange rate, although the prices of sugar dropped very steeply in April and May, and the movement in dollar is very similar to the movement of the oil and ethanol curves. But the price offset this was going to BRL41, BRL42 now, so the price in real is higher than the one that we saw in January last year. In January, it was something close to BRL0.51 to BRL0.52. And today, it's close to BRL0.63 when we combine sugar with exchange rates just to reinforce the strategy of sugar mix. And taking advantage of this moment and hedging sugar at this level, because it remunerate our sales of sugar once we expect that the cost of production for sugar for the next year. We will not change a lot from the BRL1,000 per ton as I said about last year.

So, these are the initial remarks. So, now, I would like to open for questions. Thank you very much.

Questions And Answers

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Operator

(Question And Answer)

Operator

Thank you very much. Now, we are opening the Q&A session for analysts and investors. (Operator Instructions) Luiz Carvalho, UBS.

Luiz Carvalho

I hope everybody is well. Congratulations for the result. And I have a few questions. Taking advantage of your presence today, could you give us some visibility regarding the capital allocation of the company buyback, dividends, the next project for corn ethanol? How are you going to allocate your funds for the next few months, because your leverage is at a very comfortable level, and as you said you do not have any major debt maturity in the next let's say 24 months? So, this is the first question.

The second question has to do with crushing. How much is already reflected on the results of the company? What do you expect for the next 12 months to 24 months? And just a follow-up. Looking at your guidance, when we look at the TRS per ton, it is slightly lower. I know that you talked about this in detail, but could you explain a little bit more about the reason for that, please?

Felipe Vicchiato, Chief Financial Officer & Investor Relations Officer

Thank you for participating. Thank you very much. We are all very well. And I hope you are well too. Well, let me get your questions. I will start by answering the last one. Our guidance estimate now was slightly impacted by the dry season that we had as of April, May and part of June as well in the Sao Paulo mills and also the Goias mill. Initially when we opened the harvest, we expected to crush 300,000 tons more than we are estimating now.

But given this drought, we had to reassess that with a more conservative guidance. And if we have some surprises along the way, the surprises will be positive and not negative, because we have already seen this bad scenario for the very dry weather that we had. So this is the difference that you are noticing in the sugarcane crushing figures.

Regarding the May also, that was another question that you asked. For this current harvest, basically, the whole use of the seedling that I do not plant and for crushing purposes, this is already happening. So the volume of seedlings that we had in the old methodology. I needed that in order to have conventional planting. However, today, I am already crushing fully, because I'm planting 80% of my area in the technology of Meiosis with PSS.

But when we look at the harvest, during this specific harvest between 20% to -- 15% to 20% of the harvested area, I don't have the exact figure now, but it was an area that was planted in the past with PSS plus Meiosis, and considering that the use of sugarcane planted with PSS and Meiosis is higher than the yield of our sugarcane that has a conventional planting.

The trend is that in the next few years as I harvest more and more areas that were planted of PSS with Meiosis -- (Technical Difficulty) --

The sound has disappeared again, we apologize please stand by. (Technical Difficulty)

Transforming all the sugarcane that I'm harvesting into PSS with Meiosis.

Luiz Carvalho

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There was a problem with the sound and I no longer heard you when you were talking about the yield that in the next few years, the yield should go up and that you are harvesting from an area that was planted with PSS and Meiosis. But then your sound disappeared, so could you resume where you stopped -- where you stopped for in the point that I described?

Felipe Vicchiato, Chief Financial Officer & Investor Relations Officer

Okay. I think we are getting back. Can you hear me? Okay. Going back. As I have today approximately 15% of my area which is PSS plus Meiosis, as I increased the harvested area of PSS with Meiosis, gradually I increase the yield of our sugarcane, so it starts growing gradually.

Today, our plant for instance, 15% to 18% of my whole sugarcane yield, at 80% of that is done with the PSS plus Meiosis technology. So if you envisage seven to eight years -- in seven to eight years, I will have about 80% of the area harvested that will be harvested from PSS and Meiosis. So I will be able to get an average yield that is much better than today, because the sugarcane planted in this technology is more productive and it has more TRS, so this is a rationale.

Luiz Carvalho

And what about your strategy for capital allocation?

Felipe Vicchiato, Chief Financial Officer & Investor Relations Officer

Okay. So, about our capital allocation. At the end of last year, we established a dividend policy and we proposed to pay 40% at least in dividends over the cash income of the company. If we were to apply this, this could get to BRL280 million to BRL300 million if we were to apply this today.

There was a debate about that with the financial community and then the Board of Directors debated that and considering the whole crisis that we are living in Brazil and the rest of the world, the option for this year was to preserve our cash position and not decide about the payment of 40% over our cash income, because the scenario is not clear for the next few months.

So, initially, Luiz, considering a normal strategy, let's say, our operations go back to normal and prices go back to normal prices and the demand for ethanol goes up and the prices of oil and ethanol go up to reasonable level, then we will establish this policy and we will be paying 40% minimum.

So, before deciding to make our investment in corn ethanol that you asked, I understand that the dividend payout would continue to be our priority and there should be no change. But in the current scenario, it was very hard for us to decide anything about that because of the very little or no visibility for prices of sugar and ethanol.

Luiz Carvalho

Okay. I understand the dividend part. But how can we consummate that with a project of corn ethanol in terms of your decision-making process, have you postponed it, or what about the buyback at this level of prices? Does it make sense? Does it continue to make sense or not, corn ethanol least?

Felipe Vicchiato, Chief Financial Officer & Investor Relations Officer

We hired a project for the detailing of the corn ethanol project with one of the companies that have a lot of experience. And we spent about BRL8 million in CapEx in order to get a detailed project, a 100% of the projects and all the engineering part.

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And this was ready and delivered to us past month and what we learned about the project was the following: The initial CapEx that we talked about is going to be higher, should we decide to go ahead with the project and why is it going to be higher, because there was an impact of the exchange rate because part of the equipment is imported.

And secondly, because we will have to increase our storage of corn and maybe the storage of ethanol as well, so that we can start and in practice the CapEx for the project. Should we decide to go ahead with it? We'll be higher than the BRL250 million that we mentioned. And besides considering the oil prices and the exchange rate that we have currently, I would say that as soon as the oil goes to about \$45 with an exchange rate close to BRL5.4, BRL5.5. From the revenue viewpoint, it's not going to change a lot, in terms of the annual revenue coming from the sales of corn ethanol.

Nevertheless, we have to be more comfortable with that and see if the oil prices are going to stabilize around this level. Because the payback of the project would be in about six to seven years. So, I need to have a higher visibility of the oil prices in order to be able to make a decision about it. So, all in all, we have to decide whether we are going to go ahead or not by the end of the current year.

I cannot tell you whether it's going to be in October or in December, but we have already started to evaluate this and the investment committee of Sao Martinho has already. Then this is going to go to the executive committee and that's a couple of months or three months and then afterwards, we're going to submit this to the Board of Directors and then we're going to decide whether it is worthwhile to invest right now and what is the best way to finance the project.

Luiz Carvalho

Okay. Thank you very much. And I apologize for the long question.

Operator

Leandro Fontanesi, Bradesco BBI.

Leandro Fontanesi

Good morning. This is -- (Technical Difficulty) -- the price recovery has surprised you. Have you been able to tap into this increase? (Technical Difficulty) When you look at the inventory, how does it compare to the previous year's inventories? That sounded very bad. We're trying to complete --

Felipe Vicchiato, Chief Financial Officer & Investor Relations Officer

We're waiting for the sound to resume. Please stand by. (Technical Difficulty)

Leandro Fontanesi

No, it --. No, we didn't hear your answer to the question, so.

Felipe Vicchiato, Chief Financial Officer & Investor Relations Officer

What I said was the following. As we had an inventory of ethanol from one quarter to the other and considering the low visibility of the ethanol demand for the remainder of the year, our option during this year was to participate in the market and we are not going to carryover a very large volume of ethanol to be sold in the last few months of the year.

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Leandro Fontanesi

Thank you.

Operator

Thiago Duarte from BTG Pactual.

Thiago Callegari L. Duarte

Hello, Felipe. Good afternoon everybody. I hope you are all well. I would like to ask three questions. The first one is a follow-up on the discussion about the corn ethanol. I think your answer was very clear, the decision based on revenue and the oil prices close to BRL45. My doubt has to do with the part when you announced the project, the basis does not necessarily represent the basis of the Goias market, but the regional variations were bigger, I think?

Felipe Vicchiato, Chief Financial Officer & Investor Relations Officer

Well, the level was almost half of what it is today.

Thiago Callegari L. Duarte

Could you talk about the cost of the project, because I understand the revenue part of that?

Felipe Vicchiato, Chief Financial Officer & Investor Relations Officer

The second question, we saw the first trade at the B3. Sao Martinho was one of the first ones to be certified and the market has starting to happen, so to say.

Thiago Callegari L. Duarte

Do you know already the tax side of that? That is to say what comes to the company because of the sale of the CBIO, I believe you will be selling started -- you would start selling and we are following the market data and the demand is recovering in the last few months already vis-a-vis April. And I would like to know if you can share with us at what speed the recovery of demand is happening, because it's not very clear for me if the price has to do with the volume or if there is no correlation? So, these are my questions.

Felipe Vicchiato, Chief Financial Officer & Investor Relations Officer

Thiago, thank you for the questions. I will start by the last one. Yes, it came with the volume. The volume is still a little bit lower, but it came with this volume. In the local market and the foreign market, with a dollar up to 5.8 or 5.5 today and 5.8 a few months ago, there is a demand from import and this happens -- the price of ethanol in the domestic market, we can distribute a lot of ethanol this way.

In relation to the CBIO, we already have the units priced. And there was a transaction at the B3 but the volume was very low. I would say that we have to wait for the mandate to be rather clear, I would say, that the public hearing that will be published in the next few weeks. I believe that the distributor will not come to the market as strongly as it should be. What I mean is that we have to know whether there will be a cut in the mandate.

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And we have to see the demand on the part of the distributor and in our budget. In our budget, we do not have this figure very, very clear and you asked about the tax side of that, but it's not very clear yet. And -- but we would have the PIS, the COFINS and the income tax on the earnings on the proceed.

And your first question had to do with the corn ethanol vis-a-vis the cost. Yeah, it is true that the cost of the corn went out steeply. And when we look at the period that you analyzed, but the underlying assumption is that the Brazilian corn harvest have been growing and more corn being planted in the region where we are and in this scenario with the tax benefits, so we can take a little bit more.

We were able to include the corn ethanol and the benefits of both of these that was granted for the sugarcane ethanol and we were able to include the corn ethanol under the same benefits. So the amount itself is basically the same future revenues up to 2042 and we were successful in the inclusion of the corn ethanol. So if we -- should we decide to build this plant or this mill and the fact that we do have those tax exemptions, which helps to minimize in a specific year such as this one.

And one of the reasons why the cost is going to go up, it's because of the corn itself, we will have to invest more in the storage for the corn itself and we see that the price of corn from month A to month B, it can go up 30%, 40% from one month to the other. So if we are able to store more corn, then we have a bigger guarantee, so to say. If we perpetuate the current price of corn in the project, then the project would be hindered. But if you bring it back to normal, and if you look five to six years and you imagine that there will be a lot of supply in the region, because of the planting of soybean plants, corn in which the corn is a marginal gain after the soybean is harvested then the prize should go down.

Thiago Callegari L. Duarte

Okay.

Operator

Chris Audi from Santander.

Christian Audi

Hello, Felipe and Aline. I had three questions. The first one was about dividends. So the discussion that you had led you to the conclusion that you would not be paying out dividends this year or we do continue to look at the market and look at the outlook for demand and you -- maybe you might change your frame of mind regarding the dividend payouts, depending on what happens so within this year?

And the second question has to do with the domestic market, given the impact of the COVID and the financial pressure that this has on all players in the chain, those who are weaker, financially speaking are suffering like a lot. Does that mean an opportunity for M&A, because you have a good liquidity, you have a low leverage and are you considering possibilities of M&As because of the current situation or doesn't it make sense?

And the other question is the following, June, what have you been seeing globally in the main producers in the world? And how could this impact the prices of sugar for this year? What is going on in the rest of the world and the other producers of sugar?

Felipe Vicchiato, Chief Financial Officer & Investor Relations Officer

Hello Christian, thank you for your questions. In relation to dividends, the discussion was between paying a minimum dividend or closer to minimum and maintaining the remainder of our net income in reserves over a BRL100 million. And the situation of today and let's say it improves until the end of the fiscal year, and let's say the market goes back to

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some level that it achieved in the past, the management and the Board could decide to pay extraordinary dividends or interest on equity or interim dividend. But first we need to have this level of visibility. The money is there, it is in our cash.

Now, regarding M&As. Well, it is true that many companies are facing bigger difficulties because of the COVID situation, but we have to think about our strategy vis-a-vis M&As, the last M&As we're always focusing on increasing our crushing in our own units or in 2012 we bought the biological asset of Sao Carlos, we increase Sao Martinho in 2014, we acquired Santa Cruz, adding Sao Martinho Santa Cruz.

In 2015-2016, we acquired our share that we had sold to Petrobras in 2010. So, we bought it back. So I would say an M&A for a new mill for Sao Martinho to operate this new mill. And with little synergy, it's not very probable. I would say improbable, but I'm saying the probability is very, very small.

It could happen. It would be a very small biological asset. Let's say, we have the possibility of a brownfield. In this case, we could analyze it in depth. But if we consider the increase in yield and the company because of the adoption of PSS and Meiosis, it would be nonsense to have a relevant acquisition of a biological asset today. So the funds to come from cash generation, then we go for dividends or for the corn project if it does make sense.

And the last question regarding the sugar market. Well, we do not have this level of visibility yet. India will still have a strong sugar production and Brazil this year will come with a strong production of sugar as well. And next year, the scenario should repeat itself based on the prices that we see on the screen. For next year, almost 10% higher than the current crisis. So, it does make sense to imagine that Brazil next year taking into account the prices today should be going toward the more sugar mix.

And this is the reason why Sao Martinho is adopting a strategy of accelerating this and having a reasonable margin. But of course, it depends on the ethanol market and whether the prices go up to \$50 for instance, then it could be more profitable to produce more ethanol than sugar. But today, the base scenario is Brazil producing a maximum of sugar, India as well.

I believe that the major effect of COVID has to do with the prices of sugar in dollars that dropped quite a lot, and Brazil has a relevant production of sugar. The companies that have a very high leverage in U.S. dollars, they are financed by dollars let's say, and this -- or they export a very big volume of their overall production. They have a bigger impact, because the price of sugar went from 14%, 15% to 11% and these companies with a dollar at \$5 or \$6 or \$7, this is not very good.

And when you look at the company's indebtedness and Sao Martinho's indebtedness, you can see that we have only a handful of maturities concentrated, but in each one of the crop years and the idea is that some goes by to migrate the debt to reals, because of the cost of the CDI in Brazil, because it's even lower than it was one year ago so this is the idea.

Christian Audi

And one last follow-up Felipe. Going back to CBIO in your opinion, looking at what is going on, why do you think the process is taking longer than was expected and what is the impact on Sao Martinho looking ahead?

Felipe Vicchiato, Chief Financial Officer & Investor Relations Officer

Christian, this is a very atypical year. The whole sector was very hopeful regarding the program and the program really taking off during this harvest year and we would have a better remuneration for ethanol and this would lead to higher investments and getting into a virtuous circle for the Brazilian market of ethanol. And shock caused by the COVID really shatters everybody, and everybody has to review and in their positions and this is a material event that happened.

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 Company Ticker: SMT03 BZ
 Date: 2020-06-30
 Event Description: Y 2020 Earnings Call

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Bloomberg Estimates - EPS
 Current Quarter:
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What I can say is that next year, should we go back to normal? We should go back to the target that we had before. I would say that in the long run the plan should remain unchanged. And if you decarbonize the matrix from the environmental viewpoint, this is something very relevant. As I said before, this is a atypical year and we know that this review has to be carried out. But I believe that next year or 2022, the latest -- the targets will go back to where they were, so that this sector had and have a remuneration to the capital. In the financial statements, I put the ROIC of the company that was a reasonable year from the viewpoint of results. But so low in our opinion, around 9% for this business is a very low return.

It's very difficult to allocate capital to a business if you have this kind of ROIC and with a very high volatility and you have to have a lot of labor, it's very labor intensive. And if we do not have a consistent Renovabio program for the long run, I do not see this is a very good change for the sector.

Christian Audi

Congratulations for the results. Thank you very much.

Operator

Isabella Simonato, Bank of America.

Isabella Simonato

Hello, Felipe. Good afternoon. My doubt has to do with the ethanol side. And as you said, the recovery in the short run, recovery of prices, you draw everybody's attention. And when we have to project the carryover inventory, it depends on the recovery of the fuel recovery, fuel market recovery and the whole industry carrying over their inventories, and this brings about a certain degree of debt -- of doubt about the recovery of prices vis-a-vis the availability of the products and the price of fuels. So could you talk about the side of the industry and the carryover inventory of this harvest to the next one?

Felipe Vicchiato, Chief Financial Officer & Investor Relations Officer

Isabella, good afternoon, thank you for the question. Well, the good side of the higher production of sugar that is happening is that the production of ethanol is going down. Brazil already has a harvest that is quite similar to last year's and everybody is making sugar now.

Considering this lower production of ethanol and as prices have already recovered, at the end of the year, we should have inventory carryover, which will not be very high, but as you say, it will be very balanced. So even if you consider the fact that the demand for ethanol does not recover, it does not go back to the levels of last year. So we are selling. We are taking advantage of the prices. We are participating in the market every quarter. The idea is not to carry a lot of ethanol, because demand is unpredictable. But on the supply side, you have less supply. And this is one of the factors why we believe that the prices went up very quickly.

Isabella Simonato

Thank you.

Operator

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Lucas Ferreira from JPMorgan.

Lucas Ferreira

Good afternoon. My first question has to do with return. You said that the current return is low. And my question has to do with the CapEx. Your maintenance CapEx was something like BRL1 billion. And now in the next -- in the current harvest, you're talking about -- could you explain this increase of 17%? Why did it go up 17%? And what is the trend from now on, if you take into account the PSS, Meiosis project? What will be the driver for return from this project? I know that we have already talked about this in the past: better yield, better TCH. And how could we think about the CapEx line? And how does it contribute to the bottom line of the company?

And the second question has to do with the timeline of the cogeneration project.

Felipe Vicchiato, Chief Financial Officer & Investor Relations Officer

Lucas, thank you for the question. CapEx went 17%, in fact, during this period for two reasons. The first reason was the following. Within the CapEx, we have the planting, we have the treatment, the crop treatment with a very high volume of impact because of crop protection products and fertilizers. And this becomes CapEx and this is activated and then it is depreciated.

In the last couple of years, we had the cost of fertilizers and crop protection products. Crop protection products last year, for instance, had a correlation with the product in China. Well, a couple of years ago and last year, there was an impact of the exchange rate variation.

I don't know exactly how much is one of the factors represent of the 17%. But I would say that it represents, let's say, one-third and the remainder two-third have to do with our strategy to increase our planting. And as I increase my planting, more hectares, a bigger area, then I accelerate the yield curve, and the implementation of the PSS with Meiosis.

So the idea of planting more has to do with the fact that in the medium run or in a few years' time, I don't know whether it will be six or seven years, but let's say, seven years, I will have 80% of my harvested area harvested, harvested was PSS with Meiosis. And what will be the result of that?

It will be about BRL 25 million in sugarcane, that is to say, we'll have more sugarcane than the installed capacity that I have, which is our dream come true. Because then you can extend the harvest if you have a shortfall. You can fill your industrial capacity. So, our target is to get to 25 million in the long run. And I have already said that in the past. But next year, it would be close to 24 million tons already. And the idea is to get to about 25 million tons, which is a very comfortable level. So, the CapEx is more or less that.

There is no other relevant benefit in my operation yet, which is the investment or the benefits coming from the investment of the COA that is to say, the automation project. This year, the COA is running in all units. During the first year, we started to reap the benefit from the middle of the harvest on because there is a curve, it's a learning curve. And we already have relevant benefits in Sao Martinho in terms of the availability of time in the machines.

Just to give you an idea, today, as we speak, the group has already crossed 10 million tons of sugarcane. This is a record. This is a true record, unprecedented record for Sao Martinho. Because with COA, it became much more efficient. So my daily crushing, when I look at my indicators in the units, I get to 10%, 15% more than was initially estimated in our budget, in our estimate. And this is always done based on our past history, but COA, the automation project is helping us quite a lot. However, I do not have the necessary visibility of the figures. In next year or the next few years, we will spend much less in harvesting machines and in equipment in general. And I will be able to improve my TRS for the full year, because we have the peak between May and October. So, this is when we have the best TRS. So, all the CapEx that we have been investing, we will -- we'll be showing the results or the benefits over time.

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And your second question about cogen time schedule. We initially intended to start our investments now in order to take advantage and having the plant operating in D plus 2 or D plus 3 tops. And we saw that the A minus 6 auction, and we have to deliver the energy as of 2025. And if the plant gets ready in '22, '23, I will have two years of prices at the spot market and considering that the GDP of Brazil is going to drop 7% this year, then there will be a recovery, but we don't know how fast it's going to recover. We are assessing when we should invest, because if we invest our CapEx early and we miss or we have two years of very low spot prices, it would be nonsense to bring forward this investment. So giving you the short answer, we will probably start to spend this CapEx as of next year.

And this year, we had to preserve cash, and we really didn't need to invest right now. So, we chose to preserve our cash and start our investments a little bit further on.

Lucas Ferreira

A follow-up of the third part. Considering the effect of the exchange rate and the raw material, the CapEx per hectare, maintenance CapEx should be stable or even go down.

Felipe Vicchiato, Chief Financial Officer & Investor Relations Officer

Yes. Over time, it should go down. But I need to see when I will start to reduce the area. In order to go back to a lower percentage, then the CapEx will go down.

-- (Technical Difficulty) --

The interpreter is not hearing.

Analyst

Could you talk about the resolution regarding the quality of the gasoline that should start in August? What kind of impact do you have of that on ethanol?

Felipe Vicchiato, Chief Financial Officer & Investor Relations Officer

Fernanda, good afternoon. Thank you for the question. We were debating this year. And as far as I understand regarding Petrobras, this will end up increasing the cost of gasoline production. So in order to keep the same margin in Petrobras, they would have to raise the price of gasoline at the pump. On the other hand, the efficiency of this gasoline is better than the current one. I cannot quantify that, but it seemed that it could be a little bit better.

Ultimately, I believe that the higher price of gasoline at the pump would even have a positive impact on ethanol in the media run. But we have to see exactly what will be Petrobras price policy if they are going to transfer this additional cost and how efficient cars will be with the use of this new gasoline. But as far as ethanol is concerned, I think that it's going to deposit at least the first moment.

Analyst

Thank you very much.

Operator

Werner Roger, Trigono Capital.

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Werner Roger

Good afternoon. Felipe, congratulations for the results. Sao Martinho once again being the highlight of the market. First, regarding the tax and the legal side. There are, I think, BRL217 million in judicial deposits, and what's your expectation? And is there any news about the IAA?

And the second question has to do with the sugar market. Thailand dropped, their currency dropped as well.

Felipe Vicchiato, Chief Financial Officer & Investor Relations Officer

(Technical Difficulty) The interpreter apologizes, but the sound is totally distorted.

Werner Roger

In Brazil, many companies are resorting to bankruptcy protection -- (Technical Difficulty) -- because of the lack of capacity to invest, very bad prices and very bad harvest. In Brazil, these companies also do not have this capacity. And the market seems to be very negative in terms of sugar as if the demand would be determined. It's more on the supply side. In Brazil, keep the current levels if you consider the situation of the market, the market is very pessimistic.

Felipe Vicchiato, Chief Financial Officer & Investor Relations Officer

(Technical Difficulty) -- Interpreter apologizes, but the sound is totally distorted.

Thank you for the questions. The first one has to do with the judicial deposit. We have to collect the piece of fees our TRS, when we receive the precatórios or the preorder credit note, the precatórios and we are opening a discussion now at the judicial level to check if the IAA can be taxed. It's very difficult to give you a timeline, but we believe that at least five years, this discussion will be going on so this asset will -- (Technical Difficulty) --

This year, we have the second parcel of the second precatórios, and the first one to be deposited by the end of this year. And so far, this has not been deposited yet at Copersucar, so it's still pending. But the obligation on the part of the government is to have this deposit made by the end of this year.

Regarding the sugar market, you are correct in some of your points, the point that you raised. India is a big question mark because of the lockdown, that is to say, how much the production of sugar will be in India, because it's really a black box, and it's very difficult to understand. On our side, we believe that there is a reasonable price of sugar of around 1,500 in order to guarantee a good margin with hedging, but there could be a positive surprise from the viewpoint of better production and higher prices.

And also, I believe that it's not very probable to have a very big difference in these two countries right now. But in Brazil, in spite of all the companies that are facing a lot of financial difficulties, a lot of dollar-denominated debt. I have been at Sao Martinho for 14 years, and it's very difficult to see sugar and ethanol producers in Brazil really shutting down, because usually what happens is that everybody does that rollover and the creditors are not able to take the mills and this -- for instance, was crushing sugarcane, and they have been facing problems for a long, long time.

So, in Brazil, I would rather not risk an answer here. But time is against these mills; because for a long time, many of them have been facing big difficulties, no investment in sugarcane field and production yield going down very steeply. And the harvesting cost does not really make it worthwhile to have the sugarcane harvested and sometimes the yield is 40 and then the harvest cost is 40. So, there are mills in the region that have no money to buy tires for their equipment. And they all of a sudden are renting trucks, and they rent harvesting machines. And it is really a sign of despair. And it's very short-lived, because it's not going to work in the long run or in the medium run, because they will not have the necessary money to bear this cost.

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But sugarcane, as you know, very well, is a perennial plant. Even if you do not have the right fertilization, et cetera, you may have some weed growing around it, but the sugarcane does not die. That is to say, it's very long-lived. But some companies will certainly shut down, not all the mills are integrated.

(Technical Difficulty)

The interpreter apologizes, but the sound is distorted.

Mainly, Sao Paulo. I'm not saying Goias or Mato Grosso, I would say that this is more regarding Sao Paulo. In soybean, we already see a beginning of this change, not in a very relevant area. But we already see this migration that you referred to, mainly in the north of Sao Paulo state. Thank you for the questions.

Operator

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

Felipe Vicchiato, Chief Financial Officer & Investor Relations Officer

Thank you very much for participating in our call. This was a very challenging year for the company in terms of operations. And with this whole crisis going on, but our operations are running very well. And as I mentioned before, we had a record crushing this month. And of course, all the employees that are working in the field, they have all the necessary conditions, all the necessary protections, all the IPEs. And in the first half of August, we will be coming back to you. And thank you very much for participating in this call.

Operator

Sao Martinho conference call has come to an end. Thank you for participating, and have a very good afternoon.

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