

## Q2 2021 Earnings Call

### Company Participants

- Felipe Vicchiato, Chief Financial Officer, Director, Investor Relations

### Other Participants

- Fernanda Cunha
- Isabella Simonato
- Luiz Carvalho
- Rodrigo Reis de Almeida
- Werner Roger

### Presentation

#### Operator

Good afternoon, ladies and gentlemen, and thank you for waiting. Welcome to Sao Martinho S.A. conference call to discuss the results of the second quarter of the 2021 harvest. Today with us, we have Mr.Felipe Vicchiato, CFO and Investor Relations Officer; and Mrs.Aline Reigada, Sao Martinho's Investor Relations Manager. The audio and the slides of this conference are being broadcast simultaneously on the Internet at [www.saomartinho.com.br/ir](http://www.saomartinho.com.br/ir). (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 could lead the company's actual results to 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 {BIO 15228263 <GO>}

Thank you very much. Good afternoon. Thank you for participating in Sao Martinho's call about the second quarter of the 2021 harvest.

Let's go straight to page number 3, where we have the agenda with the topics. I would like to talk about first operational highlights of the crop financial highlights test scores for the production of sugar and ethanol, indebtedness and hedge and finally talk about the sugar market and the ethanol market what we see for the future on page number 4. We have the processed sugarcane up to September we grew 6% the volume of crushed sugarcane from 18.9 to 20.1 million tons.

Also a big increase in the effective TRS from 136 to 143, 5% year-on-year increase and productivity measured in CC8 was slightly lower 1% almost lower than last year. Due to the

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strong dry season that we had and it had an impact on their sugar plantation mainly the year -- the harvest and sugarcane 10% less. The combination of higher TRS which was initially estimated in our guidance at the lower productivity in -- and should drive the guidance for sugar and ethanol for the current harvest be stable that is to say be in line with what we estimated in sugar and ethanol.

So far up to September, the production of sugar grew 39% to 1.3 million tons of sugar, ethanol production dropped 5% from 928 thousand cubic meters to a 178 because of the change in mix more towards sugar. In the mills that produce both sugar and ethanol in Sao Paulo due to the more encouraging prices of sugar 15% to 20% more than ethanol and cogeneration 7% higher than the previous year because I'm processing more sugar cane, I have more bagasse left to produce energy.

Now going to the next slide, we have the financial highlights of the quarter. The average price of sugar went up 9% quarter-on-quarter, a result of the better price mainly in dollar, the effort dollar was better, and the volume of sugar grew 73%, going from 200,000 to 249,000 tons in the second quarter.

In ethanol, we had a slight increase in the average price 4% vis-a-vis the second quarter of last year 11% lower volume because of the change in mix because we produced more sugar in the mix. And cogeneration we had a decrease of 5% in the average price because of the drop of the price of energy in the spot market. The spot price went down very steeply and it slightly contaminated the average price of energy sold and the volume that was exported was in line with the previous quarter.

This increasing the volume of sugar and revenue of sugar was the main catalyst for the growth of 20% -- in revenue 240 EBIT higher than last year and together with the IAA credit that came from corporate sugar in September. We had a gain of BRL 252 million net of taxes and the net or the cash income and the net income of the company had a record of 16 -- because there are BRL 13 million per quarter as cash costs of cash income at BRL 332 million net income due to the good performance of the prices of sugar and of course together, we -- the second parcel. Of the second preparatory and the first one of the second private notes.

Now we would like to turn to our cash costs on the next slide. For the year-to-date amount so that we can give you a better visibility in terms of the fixed costs both sugar and ethanol had to drop in cash costs either -- 7.6% and 5.6% in the case of ethanol. Because we had a higher production of sugar equivalent, dilution of fixed cost with the price of sugar 13. -- % higher -- 13.6% higher. So 17.4% as you can see in the case of ethanol as the second quarter was -- where we had in the previous quarter a lower consumption of ethanol because of the pandemic, the average price of ethanol dropped 5% in the quarter. It was offset by the drop in the cost of ethanol and we were able to avoid a relevant loss in the margin of ethanol.

The idea is that these cash costs should increase slightly in the second half because the volume of CapEx proportionally to the first half is proportionally higher, but it will be in line with what we saw in the previous year practically absorbing the whole inflation in the

period including inflation from fertilizers and crop defense products because of the dollar exchange rate.

On page number 7, we have the company indebtedness. In September 2020, we closed BRL 2.8 billion of net debt, practically stable vis-a-vis March 20 at the beginning of the crop. And with the company's cash flow in the half year end the receiving of the proper sugar credit of the IAA, it was a positive impact, but the variation of the exchange rates had a negative contribution at the end of September and part of our debt is in foreign currency and the working capital, which is natural in the cycle.

We had investment of BRL 1,542 million and inventories of the company of finished products at market value amount to around BRL 1.8 billion, and when you have this stability you have BRL 2.8 billion the cash of the company closed at BRL 1.9 billion with the debt of 3.5 years on average term maturity 55% of our debt was in Reals 45% of our debt was in Dollar.

And on the next page we talked about the sugar market and our hedge position for the crop. 2021 crop year we closed practically all the hedges for sugar in dollar with an average price for the remaining volume of about BRL 1432 per ton for the '21, '22 harvest. We had 652,000 at 1540 -- a 100 Reals more or less difference. Vis-a-vis the remaining sugar that we mentioned before and that would be equivalent to 44% of our own sugarcane fixed for the next crop year supposing the same mix of sugar and alcohol.

The prices of sugar had a very steep increase when we look from September on. As you can see on the right combined with the higher dollar \$5.4, \$5.5, we have prices in Real for sugar getting to the maximum prices. Even if you take a bigger window of prices, I would say six, seven years reaching \$0.81 in the shorter screen and the company took advantage of this price and accelerated the harvest, the hedges and we started also the -- for the '22, '23 harvest because the prices are rather encouraging and we started to hedge and lock in the next crop.

On the next slide, we have the ethanol market after the consumption in April, when we saw the steep drop we see recovery BRL 2.5 billion in September of liters 200,000 cubic meters less than the previous month for the previous -- but it was enough for ethanol prices to react and producers were able to have a slightly better remuneration then we had in the first quarter of this year and this is the reason why Sao Martinho sold more in the second quarter.

But second quarter it's about half of the volume of -- ethanol if you take what was estimated in the guidance vis-a-vis what I have already sold and how do you can see that the volume that I'm carrying for the second half is more or less the same. We didn't believe in such a strong recovery of prices going back or bouncing back to the levels that they were last year. And this is the reason why we carried for the second half, but we believe that now it is enough and we had to manage this because in the first quarter we had very short visibility in this regard. Okay, so these were my initial remarks of the results of the second quarter. And now, we would like to open for questions.

## Questions And Answers

### Operator

(Question And Answer)

Thank you very much. Now we would like to start the Q&A session for investors and analysts. (Operator Instructions) (Technical Difficulty) Luiz Carvalho from UBS.

### Q - Luiz Carvalho {BIO 18040760 <GO>}

Good afternoon. I have three questions. The first one has to do with your hedge remarks. How much is already hedged for each one of the crop years and at what level this would give us a very good visibility maybe you could share this with us? The second is the classical question about capital allocation, you -- there is nothing about the ethanol projects could you talk about that in regarding the buyback BRL22, BRL23 on average, would you tell us about your projects regarding private equity M&A et cetera? And the third one about RenovaBio, I think you could reach about 1 million CBIOS, what is your trading strategy? Are you going to hold this back until the end of the crop year? So these are my questions. Thank you.

### A - Felipe Vicchiato {BIO 15228263 <GO>}

Luiz, thank you for the questions. First about you were hedge question. In the 2021 crop year, we have already finished our hedge, so nothing remained to be done. We have 95% of our crop at BRL1,432 per ton for the '21, '22. In the release that you have we show that up to September, we had 652,000 and the most current position is 700,000, only a small difference at BRL1,540, practically the same in terms of reals. This is something close to 50% of our own sugarcane already hedged. And the idea is to continue to do this and the next few months at this level of reals around BRL1,500, BRL1,600 per ton, we will be accelerating this in the next few months and for the '22, '23, we started to look in October, we have 100,000 tons at BRL1,753 per ton, 1-7-5-3 reals per ton more than BRL200 per ton then we hedged in the 2021 crop and more than BRL400 for the current crop.

Just to give an idea, taking the balance of the 2021 of BRL1,300 per ton are looking ahead for two years BRL1,753. What we're saying that in sugar only at this price different I can have an additional BRL400 million only in cash generation. So this is quite a relevant amount and this is the reason why we started to look in also for the '22, '23 crop year.

In terms of our capital allocation, CapEx for this crop investments will be made in March, April, BRL1,470 is the amount, almost BRL7 billion divided by (inaudible) in agro-industrial CapEx for operational efficiency and BRL200 million of CapEx for the industrial part, agricultural part many projects in the company one of them to produce more sugar next year and improve extraction and vis-a-vis being able to extract more ethanol per volume of sugarcane crushed and others with an IRR of 20%, 25%. So this is the CapEx that we should have this year and sliding part of that towards next year.

And besides, we announced with our balance sheet that interest on equity BRL120 million that will be paid on December 10. Some share buyback in this quarter, not so much. And what we expect that depending on the price of the share and those who confirming what will be the yield in the next crop. Then we will continue to be open to the possibility of buying back shares. And if you look in two years BRL400 were more in the price of sugar. So it has to make sense for us. This is what I mean.

And regarding RenovaBio, your other question, let me get the data here. The total CBIO for the 2021 is something around 1.067 million CBIOs, 641,000 structured. And now between October and November, we showed something close to 100,000 CBIOs, that is to say, 10% of what we have as a total of a possible sale for the 2021 crop year, the CBIO market. So far we issued -- well, the total of the market 13.5 million CBIOs for the total market and sold 7.5%. So the market is just starting. And the buyers are coming on board slowly, and we are tracking the market thinking about selling CBIOs at the current prices at close to BRL70, BRL50, BRL60. The idea is that we will be selling the total CBIOs that we will be issuing this year.

## Operator

Rodrigo Almeida, Santander.

## Q - Rodrigo Reis de Almeida {BIO 20698362 <GO>}

Good afternoon. Congratulations. Could you talk about the project that you mentioned? Could you give us an idea of this BRL200 million that you expect for this year, how you intend to finance the project maybe with debt because you are quite deleveraged and maybe you could give us a color about your average payback for these projects? So these are my questions. Thank you.

## A - Felipe Vicchiato {BIO 15228263 <GO>}

Rodrigo of the BRL200 million in the project, I would say that BRL130 million for this crop and the remainder in the next one. Most of the projects are approved with the best return, which is when we are leveraged and we look at many different lines with the (inaudible) et cetera. So the credit line with the best terms and that helps me improve our rate of return, then this is the one we choose. So each one of the project has its specific details, some project can finance more via (inaudible) and others less, but we always use debt in order to improve our return. Regarding the payback, we gave an idea about our IRR. I don't have details about that to give you for each one of the project. Maybe later on, we can talk about that, but it has to do with around 15%, 20%.

## Operator

Isabella Simonato, Bank of America.

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

Good afternoon, Felipe, thank you for the call. I have two questions. The first one is about the prices that you realized for sugar because we ended up dropping vis-a-vis the first

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quarter of the crop. And this draws the attention because I understand that you captured more than was hedged because of seasonality reasons. So maybe you could give us some color about the reason why the average price was lower and much lower than the hedge? And the second question going back to capital allocation and the return to shareholders. As you said, Felipe, what you have already hedged for the next crop will give you about BRL400 million more in cash, which is quite relevant and you have an open buyback. And do you believe it would be -- it would make sense for you to be more aggressive in this regard now?

**A - Felipe Vicchiato** {BIO 15228263 <GO>}

Isabella, what do you mean by more aggressive? Are you talking about M&A or what?

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

No, the size of a buyback, maybe a dividend.

**A - Felipe Vicchiato** {BIO 15228263 <GO>}

In the combination of dividend plus buyback, the idea is for that to be more relevant next year because of the cash allocation that we will be delivering, but not M&A, okay? So this is not the case here. We prefer to give the money back to our shareholders, in fact. And regarding the price of sugar that you referred to, most probably in the second quarter, what happens is that when you do the hedge accounting, it depends on how you classify the screen that you are hedging.

If I'm not mistaken, in this quarter, in the case of the dollar exchange rate, most of the NDF that were in these screens were close to \$4.6, \$4.75, much worse than the market dollar was in the period and the same regarding the sugar case. So the screen was in the hedge account, it was lower than \$12. It's very difficult to look at one quarter because if the July screen for some reason or another was hedged much lower than my total hedge. It ends up showing a lower value. But if you take the average of the full hedge it offsets the other quarters, but there are another question? I think I have already answered all of them.

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

No, no, very velar. Thank you. Very clear.

**Operator**

Fernanda Cunha, Citi Bank.

**Q - Fernanda Cunha** {BIO 20784520 <GO>}

Good afternoon. You said that in the second quarter, the CapEx will be higher, are you talking about the cash cost or the maintenance CapEx year-on-year comparison? And although you have already talked about this for next year, could you talk about your cash cost and your exposure to the dollar? And because of the dry weather, this harvest will end before and it will have an impact on the unit cost and net of this impact, what would

be the unit cost, net of this impact? And I would like to know your position about the exchange rate? Thank you very much.

### **A - Felipe Vicchiato** {BIO 15228263 <GO>}

Fernanda, thank you for the questions. I'm not sure, I understood all of them. The first one has to do with the cash cost. What happens in the following? Generally, the second half is where I have a higher CapEx because the bulk of the sugarcane planting is carried out in the second half and when I end the harvest, earlier which will be the case this year because of the dry weather, all expenses with labor, for instance and that I had and that was booked to the cost of the operation afterwards at the end, it is booked as CapEx.

And so we use the cash cost including the CapEx of the operation, just to make it more clear. So the second half proportionately as the CapEx is higher, and we are getting into a shorter harvest, ultimately, when you look at our final number with the impact of the exchange rate, with the impact of Consecana, because Consecana also went up very steeply with the prices of sugar and ethanol. So you have Consecana higher and the payment to suppliers and the cost of the land, et cetera, because the first one was very weak in terms of this payment because the prices were low. If you consider the second half vis-a-vis the first half of the year, the cost of the second half will be higher. So for the full year, we expect the cash cost to have -- to be more or less the same as it was in the previous year. I don't know whether it is clear. Per ton of sugar and per cubic meter of ethanol, it's a unit cost. The second point that you were asking about regarding the next year, it will depend on the harvest for the next year.

From the viewpoint of cost, it was very good because the TRS was very high. You have a shorter harvest and we were able to harvest less sugarcane, but with a higher TRS. Supposing that the next harvest is more normal and with not such a high TRS, we should see a yield slightly higher than we saw this year, but TRS will be better. The TRS going to about 5% lower, which would be a more normal tariff and because of that, my unit cost per TRS is higher due to this factor alone, and besides there is another factor, which is the cost of fertilizer, the cost of diesel that will have a direct impact.

And today the total cost we have about BRL2 billion or BRL2.5 billion of the total cost for the operation, that includes suppliers of sugarcane, and lease, and agricultural, chemicals and diesel, and labor, et cetera. About 35% of that is in dollars. And there, you include the part of the Consecana and also the fertilizers, the agriculture crop protection products. Thank you.

### **Operator**

Werner Roger, Trigon Capital.

### **Q - Werner Roger** {BIO 15268653 <GO>}

Good afternoon, and congratulations for the result. I have a few questions. The first one has to do with cogeneration. Until when will you be selling energy, because this harvest was shorter because of the amount of the gas and there is also this price difference in the market. They oscillated quite a lot and as you referred to in your presentation. And

regarding the cogeneration project, the expansion project, when will it be producing and bringing revenue to you? And how much of this capacity has already been negotiated? How much have you already sold in the free market? So this is my first question about cogeneration. And the second question has to do with the U.S. elections about Biden, and he is very much for clean energy. Do you have any expectations regarding the higher use of ethanol, reusable energy? And could that have an impact on the ethanol market in terms of prices as well?

**A - Felipe Vicchiato** {BIO 15228263 <GO>}

Thank you for the questions. We should be cogenerating up to January at least at Sao Martinho, Avista and Santa Cruz as well. So this mean that we will have part of this higher spot price. But let's talk about the total volume of cogeneration. It will not be very much different from the guidance that we published in June, although the spot price can be higher, the volume is still very low. So it's not going to make a lot of difference when you look at the full year for the company. The Sao Martinho cogeneration, we will start the outlays. We will start BRL35 million disbursement now, so that the plant may be ready in 2023, starting already cogenerating, and in the case of this plant, practically 100% of this plant, we have already sold in the auction -- the energy auction.

And when you talk at the Sao Martinho system overall, we had 100,000 megawatts hour of free energy to be sold in the spot market and with this plant, then we decreased the free energy and it becomes 80,000 and by means of the project, I was able to contract more long-term energy when this plant is ready to go, but this will only happen in 2023. And the disbursements are now ended the next year and also part in 2022 as well.

In relation to your question about the victory of Joe Biden? We understand that this is going to be super positive for ethanol because he can simulate the production of ethanol in the United States and even the import of ethanol from Brazil to the United States. Once the Brazilian ethanol has a much lower CO2 because the core ethanol that is produced in the United States uses fossil fuel and the Brazilian one uses the gas, that is 100% renewable. So I think this is very positive. It really turns the page for the sector.

And in our opinion, this is going to be very good. I don't know whether this is going to happen in 2021, but anyway I think it will be good for the sector, yes.

**Q - Werner Roger** {BIO 15268653 <GO>}

The energy contracted, the contract have an indexator. Sometimes it is the AGPM [ph], which has had a very high adjustment for next year and what you talked about the ethanol, the corn ethanol. In Brazil, we used the biogas, which is not the case of the U.S. and Sao Martinho considering the corn ethanol production or you're not considering it right now because of the oil prices, et cetera?

**A - Felipe Vicchiato** {BIO 15228263 <GO>}

Well, I will start by the easier one, the adjustments in our current energy contract. We only have one in Sao Martinho currently that is a bilateral contract with a (inaudible), a distribution company, 400,000 -- let me check the volume. Just a second, let me check



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the data here. I think its 120,000 megawatt hour of energy in this contract, 200,000 and using the IGP-M of approximately 900,000 megawatt hours. And the next one, which was the one that we sold in December last year and that will be enforced in 2023 is based on the IPCA.

So 20%, 25% of the contracted energy or the total energy of the company is based on the IGP-M. Regarding the core ethanol, the major doubt that exists has to do with the price of corn itself. The issue of oil prices we have already been able to overcome this, and we believe that there has been a recovery already and we are used to serve this environment, so to say.

But the core price is to (inaudible) the project is very good from the viewpoint of return and it has a very high tolerance in terms of cost. But if the price of corn gets higher than \$4 the (inaudible) and with the depreciation of our currency, the return will be a little bit too narrow. And I was reading recently about China, that China in the future will have to buy much more corn in the market. And probably this is going to change the raising of swine, for instance in China.

And there is a report in the publication about that. So we all pay attention to that. This CapEx would be about BRL600 million. It would be good. However, we have not made a decision yet about the project and we will probably decide that by the end of the current crop year. Well, let's plan core and this is a suggestion on the part of shareholders.

## Operator

(Operator Instructions) The Q&A session has come to an end. Now we would like to turn the floor back to Mr.Felipe Vicchiato for his closing remarks.

### A - Felipe Vicchiato {BIO 15228263 <GO>}

Thank you very much for participating in our call. Our team and myself will be available, if you have any doubts. Thank you very much. Good afternoon.

## Operator

Sao Martinho's conference call has come to an end. We thank you very much for the participation, and wish you all very good afternoon.

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