International Conference Call
São Martinho (SMTO3)
3Q23 Earnings Results
Crop 2022/2023
February 14th, 2023

Operator: Good afternoon, ladies and gentlemen and thank you for waiting. Welcome to São Martinho S/A conference call to discuss the results of the third quarter of the 22/23 harvest.

Today with us we have Mr. Felipe Vicchiato, CFO and Investor Relations Officer, and Alessandro Soares, New Business and Investor Relations Manager.

The audio and the slide of this call are being broadcast simultaneously on the Internet at saomartinho.com.br/ir. We would like to inform you that participants will be in listen-only mode during the company presentation. Afterwards, we will start a Q&A session for investors and analysts only, when further instructions will be given.

Should you need assistance during the conference, please press start zero to reach the operator. We would like to inform that some information contained in this conference may be projections or forward-looking statements. As such, they are subject to known and unknown risks and certainties that may lead these expectations not to materialize or be substantially different from what was expected.

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

Felipe Vicchiato: Good afternoon, thank you very much for participating in this call about the third quarter of 22/23 crop year.

Let's go straight to page number 4 with the highlight of the quarter. Stable net revenue quarter on quarter, R$1.5 billion, resulting from a combination of the higher price of sugar and lower price of ethanol, mainly because of the tax situation of ethanol that favored local market prices. Our EBITDA, you can see third quarter 774, a drop of 13% because of the production cost increases and cogs, basically it has to do with diesel and labor, and adjusted EBIT 35.8% drop mainly because of the depreciation of investments made last year that had a major impact on the result of this year.

The company's net cash income dropping 33% going to R$507 million also due to increase in financial expenses, and I will be getting into details about that, and the MTM (mark-to-market) for the main items and the position in CDI.

Such as in the last quarter, we have another part of receivables of Copersucar being posted to our results and it was close to R$100 million. From the viewpoint of volume sold and TR equivalent, we are talking about include the 5%.

On the lower part of the slide, on the left, we have the net income and the cash income of the company normalized. We grew from 430 million, there was a negative impact of IFRS-16 of R$59 million. Basically, this is the difference from what you take from the cogs in order to round this, when you put the financial expenses of leasing besides R$44 million in mark-to-market of biological assets because of the drop in priced us of ethanol with the cost of the formation of the sugar cane field, and in this quarter we had R$44 million, a negative difference, 127 million negative when we talk about income tax through our result and the judicial deposit because of the IAA and the MTM of these derivatives as I said before with the financial result of the company, R$233 million with an impact on the net income, but 103 million where due to derivatives that are acknowledged or 10-15 year derivatives that have to be MTM, and as is open quite a lot in this semester, there was a negative impact.

And the debt of the company is mainly CDIs, but we do have this situation that I have already referred to and we are talking about a net income in the quarter of R$519 million, but the effect of the *precatório* (or the court ordered debt security), so this is very healthy for a quarter in spite of all the impact that we had about the lower prices in the domestic market.

Such as was the case in the last quarter, we were able to increase our exports of ethanol, 79,000 m³ of ethanol exported, and this helped us minimize the issue of the average price of ethanol in the local market, the domestic market. And if you have any questions about that I can answer it during the Q&A.

So, we have the cash cost here, the cash cost for the company includes the whole maintenance Capex that is acknowledged via depreciation afterwards and our cash cost for the 9M of the year, year-to-date, for sugar it was 1,732, a 22% increase, and for ethanol 2,570/m³ with an increase of 21%, and if we compare to the last quarter, the cash cost was more or less in line with what we reported last quarter. And for the end of the year, year-to-date, we are talking of a cash cost of 1,800 for the full year and the cash cost of ethanol around 2,600, 1% higher than the year-to-date 9M.

And we have a weighted average here… and the allocation of the fourth quarter, we have higher Capex than the average of the 3 previous quarters, and the main drivers of the cash cost for this year, diesel going up 51% and it has never been posted with the PIS and COFINS, which means that the practical effect on the cost year on year is higher than when we think about the diesel at the pump. Fertilizer is 42%, industrial input 66%. So, these are the major offenders so to say that drove our cash cost about 20%.

I would like to remind you that the cash cost is a unit cash cost. If there is a lower dilution of fixed cost because if you produce 3-4% less than last year, per unit you have this impact, and as of the next harvest when we go back to a higher position because of a higher yield, then we will have the opposite effect of the operating leverage, which is the reduction of the unit cost of ethanol and sugar.

On the next slide we talk about the company indebtness. We closed December 22 with a net debt of R$3.9 billion, of which we have here the CDI, an indicator of 1.24, very comfortable. And on the lower left you have the major figures that led this net debt to go up, we're talking basically about the working capital, capital R$1.8 billion and we have to separate into two parts of working capital: R$300 million related to the corn harvest, the working capital of the corn itself, which is in the warehouses and I have already started to crush part of the corn at Boa Vista, so I will be using this overtime; and the remainder is basically because the cost of input went up very steeply and I still have a lack of sugar so to say this working capital goes up and it will decrease overtime, and because of the PIS and COFINS exception for ethanol accumulated, the receivables and part of the ICMS and with the return of the taxes we will be decreasing this in the next few quarters.

And the company had R$2.7 at short-term debt of 1.2, a very comfortable situation, and the average term of the dead 5.4 years.

On the next slide we have our hedge position still open for the 22/23 and 23/24. For 22/23 we hedged something close to 349 million tons of sugar at an average price of 2.500 per ton, and for the next harvest the average price will be 2.300 per ton. This amount is equivalent to 50-60% our own sugar cane, but it will depend on the mix of the next harvest, and the more I do the lower it gets closer to 50%, and considering the current conditions of prices for sugar and ethanol, we expect to have more sugar harvest for next year and it will be more close to 50%.

And there is an important point here that was posted to the result of this quarter, the volume of sugar that we posted this quarter had an average price of sugar which was much lower than the volume that we will have in the next quarter. And regarding the commercial strategy of carrying over more sugar for the March screens, the average price of our own sugar was quite low comparatively, we did the math here.

So, we had for the year 1.900 per ton and sugar for the next quarter 2.500, so during the next quarter we expect to have the margin of sugar at a much better level than the year-to-date 9M. and I would like to remind you that this price so far is a result of the hedge that we did over time and this the reason why we sold our sugar at a lower price than the one that I used to do regarding Consecana given the price of sugar as it continues to go up gradually get the last 18 months for the reason that are very well-known to all of you.

So, these are my initial remarks, so thank you very much.

Question-and-Answer Session

Operator: Thank you very much. Ladies and gentlemen now we will start the Q&A session for investors and analysts. In order to ask a question, please press star 1.

Our first question comes from Matheus Enfeldt, UBS.

Matheus Enfeldt: Good afternoon, Felipe, thank you for the presentation. I would like to know your expectation about the next harvest. Will it be in line with the estimates of the market, 8 to 10% of total product? And the TRS cost, we expect a drop around 10-15% or 20% given the higher dilution that we saw at the beginning of 2023.

And I have another question, I would like to know about ethanol prices and you have been positioning this differently last few quarters on your side, what about your talks between the industry and the government regarding the PIS and COFINS taxes and the impact on future prices at the export premiums? What can we expect because they were quite high in 2022, but we start to see a drop in these premiums? So, thank you very much.

Felipe Vicchiato: Good afternoon. we have quite a lot of questions, so if I forget to answer one of them, let me know.

Regarding the company expectation regarding yield, we will have a higher degree of certainty about the quarter. What I can tell you so far is that up to now the rainfall was quite good and higher than the historical average, January was very good as well, as well as December, and our sugar cane fields are going very well because of variation that we have and the technology that we apply.

So, our estimate I don't know what will be the average for the center-south, I cannot tell you that, but we expect to have a yield higher than the center-south, and we have made many investments in our field, and 8 to 10% for the center-south sounds very aggressive to me.

One thing is if you talk about 8 to 10% of the harvested area, but for the total area I think it's a little bit too much because maybe you will harvest less, maybe you will plant more, and maybe the yield of the harvest will be higher, so you have to check the math. And if it were 8 to 10% center-south, we would imagine that the sugar market would have a surplus much higher than it has today, around 3 million tons and it would be more than that, and the rain is OK, the fields are OK, very good, February we still have rains, the full March seems to have a very good estimate for rainfall and also for planting, our planting is lagging behind a little bit and we might still have this in April and we will start the harvest in the second or the third week of April because of that, there is a slight delay, but apparently we will have a much better year regarding yield.

And having a better yield, it's only natural for us to have a decrease in our fixed costs in the same proportion, and our thinking is that we will have a nominal cost when you talk about the diesel, labor, fertilizers, everything included nominal in billion reals equal to this year given the fact that this year we had a very high cost.

So, nominally it would be at the same magnitude of this year. if I am able to prove my yield 15%, my unit cost will be dropping 5, and one and two fourth. Two years ago or 3 years ago we're saying that this would be the year when we would reach 24 million, and we made all efforts to get there and with the best possible variety of sugar cane to be harvested. So, let's see this, let's wait and see, and we're doing 20 and to reach 24 it could take a few years still, but we expect a very good response.

The export premium, let me check the data here. So far for the 9 months, year-to-date, 243,000 m³ in exports at an average price, export price, of 3,841/m³ already net of all the costs, and this price was in the order of magnitude of 15-20%, higher than the domestic market looking at the average for the 9 months, and in the last quarter I will still have about 60 to 80,000 for exports cubic meters. Anhydrous at a slightly lower price 3.5-3.3 already net of taxes and I have a very small exposure of ethanol to the domestic market. So, we didn't suffer because of the drop in prices.

And for the next year, I cannot really tell you yet what the premium will be vis-à-vis the domestic market, but I believe that it will be smaller because we believe that PIS and COFINS will come back at the beginning of March as the government has already indicated in late December/early January postponing for a couple of months for the PIS and COFINS for gasoline and ethanol, so we expect this to come back and this would mean a lower premium in exports or maybe non premium for export and the ethanol would be basically all channeled to the domestic market.

But we did a great job this year and we are talking about something close to 300,000 m³ and we have conquered a very important market in Europe, we have big clients there and if there is a premium, of course we will continue to cater to this market in the next few years and decreasing our exposure to the domestic market. But it's very difficult to talk about the level of premiums, and they will probably be concentrated between May and June.

Matheus Enfeldt: Thank you very much.

Operator: Guilherme Palhares, Bank of America.

Guilherme Palhares: The nominal flat cost year-on-year, you talked about that, but maybe you could talk about the costs for April, and which are the major offenders or the vectors of a lower cost for next year. We believe the fertilizers will have a lower price and there is a trend of using less of this product per hectare. So, what do you see [inaudible]?

And the second question, in relation to the remaining Capex of the plant, how much do you still have to invest?

Felipe Vicchiato: If you look at the cost, you will see that the highest cost is sugar cane with 38% and the cost of the sugar cane is outside this number of stability, it could go up or down depending on the Consecana. When I say that nominally the cost will be similar, I'm talking about the cost on which we have a higher control because sugar cane it will depend on Consecana. So, labor represents around 20%, SG&A follows inflation, maybe slightly higher than inflation of freight, expenses, and they play a major part because we have a relevant harvest of grain, freights and this could have an impact, fertilizers and pesticides 15%, and these are dropping, 20-25%, and the industrial inputs are dropping as well.

OK, when I look at the total plus the gain of efficiency that I have consuming less diesel per machine and using less fertilizers and having a more precision agriculture so to say, the lower consumption of fertilizers and the higher technology and efficiency gains together with the drop in pesticide and industrial input and fertilizers, all that together will bring the costs down. Labor and freight might offset this trend. If I am able to get a high yield, this will lead to a lower unit cost per hectare or per cubic meter or whatever indicator.

The corn Capex, let me check here the most recent information that I have here. We published… the estimate is that in this harvest I will be spending about R$300 million, R$320 million, and so far I have 270, so I still have R$50 million to spend in corn, and this should drop in the second quarter, and in cogeneration about 80 million remaining. So, this is the bulk of our Capex. The mill is ready, the plant is ready, and UTE will be ready in August and will be started up in August, but the contract itself, well, the sale will happen in 2025, [unintelligible] contract.

So, this year we have 4-5 months of harvest and the next year we will be selling spot unfortunately because the spot price is very low, but as of 2025 this is when I have my full contract in operation for corn.

Guilherme Palhares: Would it be fair to say that São Martinho will be applying less fertilizer in the next harvest?

Felipe Vicchiato: Not necessarily. Not necessarily, it will depend on the sugar cane. If the rainfall is OK, I need less of these products, and the issue of fertilizers depends on the yield and the level of the precision agriculture in the area that I'm harvesting. So, not necessarily.

The decision about fertilizers is not based on prices, it is based on the response of the sugar cane. So, in each area, if I place more tons of fertilizers and the response will make sense, OK I will do it, otherwise I will not do it.

The point is, when I say nominal total costs will stay stable, it's not because the amount will be low, it will be a combination of lower prices.

Operator: Gabriel Barra, Citibank.

Gabriel Barra: Can you hear me? I have two questions, Felipe. The first one has to do with hedge. If you take the hedged volume for the net crop 23/24, about 45 to 50% depending on the mix and the production, given the moment that we are in and given the prices, could we expect a higher level than this one? How do you see the company's strategy for sugar hedge?

And also, regarding the price for the 23/24 harvest, maybe you're holding back your hedge because of sugar prices. Could you get into details about that?

And the second point has to do Boa Vista and corn ethanol. You recently started to operate in the last calls and talks, you talked about 16 to 20% IRR. Do you think this level of return is still possible with the price situation that you see now and this situation of ethanol in Brazil?

And the third question about capital allocation, what about your pipeline besides corn ethanol? And with higher interest rate and the price policy in Brazil, what are your next projects where you see interesting upsides and maybe you will return this capital to investors and shareholders instead of applying or investing in new projects?

Felipe Vicchiato: Thank you very much. I will start with sugar. Well, sugar has been going up consistently and surprisingly, so this is what helped the market when the Indian harvest with a drop in production beside the situation in India as well.

Regarding the mix, which is more towards ethanol because of the adoption of the flex cars in the Indian fleet, so these two factors are helping sugar here, so 21.5, and we didn't think it would be possible for the mark screen. We have been hedging for discipline reasons and also for risk control reasons. And with the corner and the plant for sugar next year, I'm saying that we will still have 60% ethanol and 40% sugar for next year because I have mill in Goiás, I have a plant in Goiás that crushes 7.5 million tons of sugar cane, if I do the maximum of sugar here I will be doing 40% sugar, and it's important to hedge so that I have a total TRS hedged at a comfortable level.

But trying to be more assertive in answering your question, we have not accelerated our hedge, the level of December continues at the same level, January and February we didn't do because of what happened in India and also for logistic reasons in Brazil, but in mid-June/July we expect to have at least 70% already done at the reasonable price.

And your second question has to do with Boa Vista. UBV (Boa Vista) we have not started production, full production of corn, we still don't have the authorization of ANP to do that. They visited our plant last week and they are evaluating to give us the authorization, so we are on a test phase and [unintelligible] we are operating quite well, but we are still testing and we are waiting for the authorization of ANP in order to have, in order to have full production.

So, they went there on February eight or nine and we have to wait for their final report and their final authorization. As I'm talking about harvest, the April/March harvest will be operated full, but we have not started this yet because we have to wait for the final authorization of ANP.

And as far as return to our concern, Gabriel, well, the level is more or less the same and it will depend on the dynamics, price dynamics regarding gasoline. If PIS and COFINGS come back – and this is what we believe will happen –, the return, the ARR will be going back to the same level that we had before. So, if we have a return of the PIS and COFINS and the [unintelligible], we will be talking about 20-25%. If it does not stay for forever, his will be close to the cost of capital.

And regarding the allocation for projects for the next few years concluding UTE and the corn ethanol plant, we do not have anything very important in our pipeline, we only have marginal projects that are still being studied, but they are small projects and probably the return that we have will be remunerating our shareholders.

There is a project for biomethane that I have already talked about and we are getting close to the technical evaluation to being submitted to the Board between March and April, but this is just a R$200-million project, so it's not very relevant such as was the case of the corn ethanol plant. But let's say the situation regarding interest rate change and PIS and COFINS situation, of course we will continue to evaluate. For instance, the corn plant can double in size very quickly at UBV using the cogeneration of the plant itself.

So, we will be evaluating this, but it will depend and as the Capex in the second phase is much higher than the third phase, I do know that the cost of capital today is very different from the first phase. So, we had inflation +3 and now it is inflation +7 or 8 recently, we made debentures inflation +7, but comparing to the first phase, well, it is inflation +3 vis-à-vis inflation +7. If you increase your Capex and you have a higher cost of capital, of course you cannot have the minimum internal rate of return, and then the company cash will be going to our shareholders in terms of remuneration.

Gabriel Barra: Thank you.

Operator: Tiago Duarte, BTG Pactual.

Tiago Duarte: Good afternoon, everybody. I would like to touch on 3 points. Going went back to the better prices of ethanol for export, could you please help us in the math? The high price so far in this harvest was very clear and of course it helps your growth margins, your contribution margin, but it also increases your selling expenses.

Could you break down this increase in selling expenses how much has to do with your ethanol going to export? What I would like to know is the unit margin of the export ethanol considering higher selling expenses.

And the second question, you talked about that very quickly, you talked about the approval by ANP, but the base case is that you will be able to crush 500,000 tons in 23/24, or do you have a ramp-up horizon that we should consider given that we already in February and for the next harvest the impact would be felt in full.

And lastly, regarding the internal rate of return for the corn ethanol plant, considering the corn price that you have already paid and that is already in your inventories, we have the impression that the margin of the corn ethanol would be higher than the one that you're have been achieving in sugar ethanol considering the maintenance Capex. So, is this correct? The corn ethanol unit margin, is it higher than the sugar cane ethanol?

Felipe Vicchiato: Tiago, thank you very much for the questions. My freight cost for ethanol for export so far, in 9M23 we are talking about R$50 million more, I would say R$10/m³ approximately, and the price that I referred to about the export ethanol for the 9 months year-to-date was R$3,841/m³ and the price is already net of selling expenses, export expenses, OK? It is posted to my gross revenue, but it is already net of selling expenses.

I can give you the quarter on quarter figures: 3,800 in imports and the average between those was 3.4, 3,400, 2/3 domestic market, 1/3 and export for the year-to-date 9 months.

Regarding the corn mill, the base case is that for the full harvest we do 500,000 tons. If we had talked at the beginning of January, I might have giving you a little bit more, but as we had a slight delay, the base case is 500,000. And the EBITDA margin cane vis-à-vis corn, it would really depend on the efficiency of my sugar cane fields in the next year.

What I can tell you today is that the price of corn today R$60 for instance approximately and DDGS I can sell at 1,500 per ton, my unit cost per cubic meter of corn is about R$1,900/m³, and I'm placing this as a reduction factor. I'm talking about the DDGS, 2,600.

When you look at all the mills, all the plants and you look at the sugar mills as well, you can see that corn is much cheaper in this case.

Tiago Duarte: Thank you very much.

Operator: Lucas Ferreira, JP Morgan.

Lucas Ferreira: Felipe, good afternoon. I have a more qualitative question. When you talk about price policy, we have already seen this in the past, up to 2017, what about your strategic planning? How do you deal with possibility of having the prices of gasoline going up and then dropping steeply? What do you have on the table to do differently from the options that you had in the past?

You have already talked about the exports; do you believe you will be able to have a bigger portfolio of clients abroad and other certifications? And do you see other players doing the same or do you believe that this could be buffer? Many people are producing more sugar because of India. When you talk, what do you discuss?

And a follow-up about the corn ethanol plant, I think I have already asked this, but a major part of the profitability has to do with the DDG, sometimes the client asks for product to test and to try. Are you priced at this suboptimal price? What can you tell us about the first year of operation in a nutshell?

Felipe Vicchiato: I will start by the last one. You're talking about suboptimal prices, if the product has already proven that it has the amount of protein and the quality, you can sell the first lot at a lower price, but the volume is very negligible, and then the next ones you will go to the market price, and of course we cannot cheap a much lower price and we have the DDGS that is much better for the animals and the commercial area believes that we will be able to place the product with no problem whatsoever. And you can see that soybeans are going very well and it is a similar situation.

Regarding the pricing policy, we understand that the Petrobras prices whether they are going up or down it doesn't have anything to do exactly with the administration, and the government reduced PIS and COFINS and it had a negative impact on the whole industry, let's talk clearly about the measures taken by the Bolsonaro administration and it was much worse than others, and a lot is said about price control, but so far we have not seen a lot in this regard. Quite the opposite, the prices of gasoline went up, it went up 7.5% in January.

And I agree in part with you, if the prices go down very steeply and it goes up very slowly, as you described yourself, going up a ladder and dropping at an elevator's speed, but the price cannot be very different from the international prices, the situation is not possible, but internally we have manners of dealing with this droop, the first one is to access the export market, and as you saw, we will be having a record export this year, 300,000 m³ of ethanol, and in the domestic market having a lower price with the drop of PIS and COFINS, we are able to go to foreign markets that have a premium and it has the seal of being a renewable source.

And another fact that we see with positive eyes is the… for instance, in the United States, if somebody has this type of plant, it may be more advantageous to buy this ethanol because the CI of the American market they use gas for the boiler. The carbon density is lower in Brazil than in the United States, so that could be something very good. And we can evaluate also the integration of one of our plants in this regard to do this and export, and we didn't have that possibility before, until some years ago we didn't have this market.

You could go to the export market because the molecule is sustainable and now this [unintelligible] will be an obligation and companies will have to adapt, and if we do an integrated plant because of Capex and to decrease the cost of capital, in the United States the cost of capital is lower and our carbon is lower and then you can access the export market, this additional export market.

So, there are many, many ways in the remote possibility of having a control over prices here in the domestic market. We do have ways to circumvent that, and there is a lot of noise about that. The economy has to run, the economy had to work, ethanol has been increasing a lot in the energy matrix and the Lula administration has been a major ambassador of ethanol, so it would be nonsense to do anything against ethanol, and I believe that we will have the opposite situation, which would be incentives.

But for instance, CBIO the last government wanted to change CBIO and the price that was R$300 went down 80 and we might go back to CBIOS. But if you look at the result, you would see that the combination of CBIOS plus ethanol sold in the first half, which didn't have the impact of the PIS and COFINS, it was very good in terms of remuneration.

Now if PIS and COFINS come back, then we will have this change in situation going back to normal.

Lucas Ferreira: Thank you.

Operator: Regis Cardoso, Credit Suisse.

Regis Cardoso: Thank you very much. I would like to go back to the working capital. You said at the beginning that you think the credit of the PIS and COFINS and this is slightly different from what I thought, there is an implication about accumulating this credits and the inputs and also the level of taxes on the product. I don't know if on the side of the corn ethanol plant with the byproduct there is some implication in this regard and then the ICMS as well because there has been a change in the tax rates, and I don't know whether this generated any impact.

And this is a more general question, but could you go a little bit more in depth into the taxes federal and state taxes, please?

Felipe Vicchiato: The total working capital for the year-to-date we are talking about R$1,300 billion, of which R$330 million have to do with the corn and the remainder 970, or something like that, is working capital. Of things 970 of working capital, oh… and the corn inventory does not return, it's like a Capex, every year we will have to maintain this because we need to have this inventory of corn that was bought in the second production, the second harvest that has a better price, so it has to do with the project. It was ready when we evaluated the project for the corn ethanol, we already had the Capex plus 250,000 tons of corn as working capital in order to run the project.

When we go to these accumulate… we have to separate this into two: R$630 million basically with client and suppliers to this returns when I sell my product, and the remainder 280 or 300 are taxes recoverable and most of these are federal because the ICMS is very small. What happened with the ICMS, Regis, was that we had a tax rate in São Paulo 12 and it went down to 9, but the product that I continue to buy, diesel and fertilizers, I take the credit if the ICMS is on the invoice, and as I exported a lot of ethanol, 300,000, and exports don't have these taxes accumulated these credits this year because of that, because of the exports for the ICMS specifically and it would be 20% of the total volume and the remainder 80% is PIS and COFINS.

And they are the most relevant because they pay on ethanol R$130/m³ of PIS and COFING and this was generated because of the change and the drop of the tax rate in the Bolsonaro administration. So, these 120 we believe that we can return this in about 18 months to zero this working capital.

And then you talk about the federal tax, PIS and COFINS, I can deduct this from the IR to be paid as the company is a profitable company. When we accumulate PIS and COFINS it helps us because it can be deducted from the income tax payable. And in corn, I almost have no inputs with this credit, and as we have 80% of the cost, when I buy corn I don't have ICMS or PIS and COFINS, and when I transform corn into ethanol then I have PIS and COFINS. There is no ICMS because I'm encrypted in a system in which I don't pay this is ICMS, but we do have PIS and COFINS and it will help us when it starts more quickly.

Regis Cardoso: Thank you. Another question, please. In a broader agenda of the industry and with the change in the administration, what changes are desirable? And more specifically regarding the PIS and COFINS, would that be an *ad rem* tax for ethanol? And those CBIO, do you have the same targets consistently or do you change every year, the CBIOs should be the distribution companies liable to pay these? And what would be constructive changes for this sector?

Felipe Vicchiato: Well, predictability is very important for the sector as a whole, making investments in the sugar cane, ethanol plant you start to operate at a certain scale after 3 years. You have to plant; you have to stabilize the fields at least 3 years from the moment you make the decision to the moment when you have some profitability. So, predictability is very important.

For a long time, we have not seen investment in ethanol by means of sugar cane, CBIOS is fundamental and maintaining CBIOs the way it was before and with all the targets going back to the previous situation and not having to change every single year, keeping the plan of decarbonization of the energy matrix of the country. This is fundamental because then you can foresee in the cash flow what will be the price of CBIO. If every year you have to postpone the target, then have no predictability.

So, it is fundamental to have a framework of CBIOs without the change in the target, and the monophase or the one-phase question is not really the case for this sector, this is not a problem. If you place this monophase in the sector, the sector is not homogeneous, you have company from A-Z, so we do not agree with that. The ideal situation is to leave this situation as it is because it is working properly.

And lastly – and I think this will happen –, and with any government it would be the same dynamic. Any CEO of Petrobras who sits there will have a pricing policy, be it cost as premium or whatever. So, this is very important for us so that we may model this and we have to work with what we have. Apparently, it will be something close to the international situation, but we need clear rules so that we may make the accurate investment decisions.

Regis Cardoso: Thank you.

Operator: Danile Sasson, Itaú.

Daniel Sasson: Good afternoon, everybody. You talked about the logistic challenge that the country was facing and [unintelligible] may be even worse because of the very good harvest of grains. Do you believe there will be [unintelligible] for you for this year? Is there a concern in terms of contract, or do you see any opportunities to improve logistics?

And you also talked about the offenders in your cost structure. How do you think competitiveness of São Martinho and the other players in the market? They caught breakeven of São Martinho vis-à-vis the other players' breakeven, and a major part of the incentive that you talked about are valid for all players, but maybe you see a possibility of gaining share over other players that have less financial capacity to cope with lower prices of ethanol for a longer time.

Felipe Vicchiato: Daniel, logistics are more related to sugar in general and not because of São Martinho specifically. All our sugar today is via railway and distributing sugar shouldn't be a problem at the end of the harvest. Maybe the cost will go up because the price that we pay for railway usage might go up if the freight goes up, but we do not foresee any problems regarding distributing our sugar.

In relation to cost, there are two factors for the company and that are foreseeable for the two years ahead of us: the first one has to do with yield, it affected the whole sector, but for us the impact was bigger because I have 70% of sugar cane, and companies that are more integrated and they have a deleverage, operational deleverage and the total unit cost goes up.

And the other day we were doing the math here, let me check here, but in two years my unit cost per TRS went up about 50%. Overall, almost half of that was the operational deleveraging. When I return with the production of TRS equivalent at the better level, I had 70 in other hectare and if I return to 80-85, which is what I usually had in the past, this will reduce my cost of operation. And the second factor accounting for 70% of the cost increase, we understand it is in structural issue regarding fertilizer, diesel and product and [inaudible] products and labor going up 22% and it is here to stay.

So, just to give an idea, if you take the 2021 harvest, we had a TRS production of 3,300 and this year we were talking about 2,800 for this year, a very significant drop, and the corn going up to 1,600 per TRS, 60% in two years. Most of that is explained by the drop in the TRS produced.

And the good news is that we should be going back to higher yields. I'm not going to go back to the maximum such as we had in 21, but most of that will come back for the next year should the rainfall continue and yield responding, and this will help us in regard of costs. And structurally speaking, we have a lower cost. On average, I would say it's about 30% lower if you put all the players on the same base, but the fact is that it is very difficult to get a neighboring area to plant more cane in neighboring areas, they want to protect themselves and they need that additional income.

And this will always happen and what happened is that we have been seeing that the volume produced in the center-south is at a stable level and it has remained at this level for many years because the sector is growing in the center-west by means of corn or brownfield that grow modularly that the volume crushed is dropping when you look at a longer window, 8 to 10 years, and the reason for that is that some are facing problems and it isn't feasible for the mill to continue producing when it is more expensive to harvest the cane than the price that they will be getting when they sell the sugar.

So. you have the harvest, you have the rural traffic and the planting. If you don't do the first two, you have to do the third, which is the harvest, and the yield is very low. They just stop harvesting and this is when another player may take advantage of that. This does happen sometimes, but it is very difficult to tell you how much we would be able to gain in share.

Daniel Sasson: Thank you.

Operator: Christian Audi, Santander.

Cristian Audi: Two quick questions. When you talked about the options depending on the Petro prices that you talked about accessing the ethanol market, how fast can you do that? If you have a window opening in this regard in Europe, for instance, can you sign a contract immediately and be very quick, or do you have companies or plants interested in your product already in the United States?

Felipe Vicchiato: Anhydrous ethanol is the one that is exported, or the H2 industrial. If the window opens within the United States for their own consumption or carburant or in Europe, we can quickly sign the contract. This is a fast process. But SAF is already different because first you have to have the technology in place, you have to have somebody investing in the technology there and it has to prove it is feasible.

Looking at 18 months of 24 months, we already see many players moving in this direction in order to place the product and São Martinho included. For the next harvest from March-April, we have to look at the export market for fuel, for carburant, and in the long run then we can look at another market which is more profitable.

Cristian Audi: Just on updates regarding gasoline that could impact the state ICMS, or is it still being discussed with no decision?

Felipe Vicchiato: Continues to be discussed and no decision. You were talking about the possibility of gasoline not staying within not being considered as a staple, an essential good, and then we would have the difference of 17% in ICMS, but so far no news in this regard.

Operator: I would like to remind you that in order to ask a question, you should press star 1. In order to remove your question from the queue, please press star 2.

Please, stand by while we wait for questions.

And there are no more questions, I would like to give the floor back to Mr. Felipe Vicchiato for his closing remarks.

Felipe Vicchiato: Thank you very much for participating in our call. We will all be available to you should you need any further clarification, and if we do have news or material facts, we will inform you.

Operator: São Marinho conference call has come to an end. Thank you very much for participating and we wish you a very good afternoon. Thank you.