

Conference Call Transcript
Cosan
3Q24 Results

Rodrigo Araújo:

Hi, everyone. Good morning. Thank you for joining us in our earnings call for 3Q24.

Starting here with management priorities, I think that something that we have been reinforcing over time is the fact that we are focused on being quite disciplined in terms of capital allocation and looking at improving leverage by doing liability management and portfolio management at Cosan, especially to navigate this higher interest rate scenario.

We continue to focus on the execution of what we have in the portfolio, continuing to deliver the expected results from the business plans of the different businesses, of course, always with high safety standards and focused on developing our talent pipeline.

On 3Q24 specifically, it is relevant that we had a lot of different movements in management positions within the group. They were clearly supported by the pipeline of executives that we have internally and have been developing over time.

I think that this shows the ability that we have to have people ready to occupy different positions within the group and to have management positions occupied by people that are being developed internally.

It is also important to highlight that we continue to support the agenda of contracted growth, investing in the opportunities that we have in the different structural projects of the different businesses within the group.

In terms of portfolio management and liability management in 3Q24, first, I will highlight, in Cosan, the fact that we have amortized the RLOG debentures that we announced last quarter, so, basically, taking out all of the amortizations from 2024 to 2026.

We also recently issued debentures in the domestic market in Brazil to support the liability management of our 2027 bonds that are still outstanding and become callable at par on January 25.

In terms of portfolio management in Compass, we completed the acquisition of the control of Compagas, the natural gas distribution Company in the state of Parana, in Brazil. We also concluded the sale of Norgás, basically a relevant portfolio management with inflows that support the growth of Compass' portfolio.

In Moove, we concluded the acquisition of DIPI Holding, which brings important flexibility in terms of industrial operations for Moove. And in Radar, we concluded the sale of the Vista Alegre farm.

Looking at the highlights of 3Q24, first we look at EBITDA under management that is aligned with 3Q23. We also had a positive net income of around R\$300 million compared to R\$679 million in 3Q23. Basically, the main difference is the impact of the dividends from Vale that we received in 2023, and we accounted for Vale back then at fair value, and now we have the equity pickup method. Also, in 3Q24, we had the negative impact of the TRS of Cosan shares in Cosan.

In terms of safety metrics, we see a slight increase compared to 2Q24. Basically, we had a quarter with a higher number of accidents in 3Q24. Of course, we continue to be very focused on having the highest safety standards and improving our safety metrics. We continue to be within the acceptable level, and even though we are focused on reducing any incidents or accidents, we still have our safety metrics within the acceptable levels.

Looking at dividends received in 3Q24, we received around R\$300 million. Net debt was basically flat compared to 2Q24, R\$21.7 billion. And our debt service coverage ratio of 1.2 times in the last 12 months, slightly below 2Q24.

Looking at the portfolio and the results of the different businesses, starting with Rumo, we had the higher volumes transported in Rumo with higher tariffs as well, which resulted in higher margins in 3Q24. We also gained market share in the port of Santos, so we had an important quarter in terms of operational results in Rumo.

Compass increased the volume of natural gas distributed, and we also had the progress of Edge operations. We continue to connect new consumers in the open natural gas market in Brazil. So we had the recovery of volumes and the progress of Edge operations, resulting in a stable EBITDA quarter-on-quarter.

We also had, in Moove, even though we had a lower volume in 3Q24, we continue to have a product mix and a commercial strategy supporting our EBITDA increase. We had a 9% EBITDA increase quarter-on-quarter in Moove.

In Radar, even though the results of the lease of agricultural properties were in line with last year, we had a lower EBITDA, mainly because last year we did the appraisal of the land in 3Q23. This year, we expect to have the appraisal occurring in 4Q24. So that is the difference between quarters.

In Raízen, we had the impacts of drier weather and fires reducing the sugar cane, crushing levels for 3Q24. We also had lower ethanol prices, impacting the Company's EBITDA for 3Q24. This was partially offset by better results in the sugar business.

We also had the contribution of Vale to our EBITDA through the equity pickup method of a little over R\$500 million. Looking at the EBITDA under management, we came from R\$8.1 billion in 2023 to slightly above that, R\$8.2 billion in 2024.

Finally, looking at our debt profile and our financial metrics, as we mentioned, you see that the net debt was slightly above 2Q24, 21.6% to 21.7%. We also had Vale shares appreciating a slightly quarter-on-quarter, R\$11.3 billion, and we also had our interest coverage ratio reducing slightly from 1.3 to 1.2 times for the last 12 months.

In terms of the maturity profile and the amortization profile, you can see that we have already tackled all the amortizations that we had from 2024 to 2026. We are currently doing a local debt capital market transaction in Brazil to do the liability management of the 2027 bonds. They become callable at par in January next year, so there is the next target in terms of liability management.

Especially compared to last year, you see that we improved the maturity profile to 6.4 years, and we have been able to reduce the average cost to CDI+ 1.37%, so we have been able to navigate

the favorable debt capital scenario in Brazil to not only lengthen the maturity but reduce the spreads at the same time.

Finally, looking at our cash flow for 3Q24, the main highlight is the fact that we ended up 2Q24 with a higher cash balance, and that was mainly because we liquidated the debt of the debenture transaction in Brazil at the end of the quarter and we only prepaid the RLOG debentures during 3Q24, so there is R\$1.2 billion of liability management that happened during 3Q24. Basically, that is the main reason for the cash balance to come down from R\$3.994 billion to R\$2.447 billion.

Thank you very much for joining our call for 3Q24, and we are going to move on to our Q&A session.

Thank you.

Isabella Simonato, Bank of America:

Good morning, Nelson and Rodrigo, and thank you very much.

Nelson, I would like to take this opportunity since you are here. Considering the changes that were announced, the management changes, I wish to understand the context in which that takes place. It is relatively clear, but, more than that, I would like to hear how you see Raízen as we speak. Apparently, when you look at all changes, there is a greater focus on Raízen because of your transfer. What can we expect from Raízen under your management?

Thank you.

Nelson Gomes:

Isabella, good morning. Thank you for the question.

What we have noticed from the market coincides with our motivation to promote that change. We noticed over the past few months a clear need for a change or an adjustment in Raízen's portfolio and the way Raízen is conducting its business recently. That is why we made the decision to make that change and to promote the change not only of the CEO but also the CFO so that we begin a new phase on how to manage the Raízen portfolio management.

Looking at the context of your question, what is my perception? It is that, over the years, we moved away from our current business. We created a number of peripheral initiatives that, over time, stole the attention of management, growing the structure, making the structure perhaps way too complex for the market to understand all the revenue sources in our portfolio.

And we now enter into a post-investment phase to make sure that the investments made will have an appropriate return to investors and that we should return to Raízen a focus to its core business as it deserves.

So we will focus on mobility, sugar, and ethanol, and the peripheral activities will be treated as we deem needed over the next months and years. So it is a change. It was a need perceived by Cosan and Shell. It is important to mention that to your question. The change was made in common agreement with the Shell partner. This is my last call with you as Cosan. Starting now, I will meet you at the Raízen calls starting next quarter.

Isabella Simonato:

Excellent.

If I may ask a follow-up question, what do you consider peripheral activities? And on E2G, it has been a major investment made by Raízen with the potential returns and benefits, but it has required a lot of capital. Where does it fit in that focus on your core business?

Nelson Gomes:

E2G is part of the core, like sugar and ethanol. Right now, we have two plants in operation: CoPi (Costa Pinto) and Bonfim. CoPi was the first one, and Bonfim has been operating for almost 12 months. We have two plants that will be commissioned starting this week and two plants that are under construction.

At some point, we will rediscuss and reassess E2G, but plants under commissioning today, Barra and Univalem, and those under construction, Gasa and Vale de Rosário, will be concluded, and, as I said, my work there will be to make all those investments made in the past few years, which obviously includes E2G, we have to make sure that those returns will go back to shareholders.

Right now, no decision has been made about the continuity of E2G expansion. It is now time to conclude those two plants that are under commission to operate well, to conclude those that are under construction within the deadline and within budget, and then assess a possible decision for other plants or not.

Isabella Simonato:

Thank you very much.

Thiago Duarte, BTG Pactual:

Thank you. Good morning, Nelson and Rodrigo.

I would like to discuss the debt service coverage ratio. When we look at the dividend sources in the past 12 months, what is eye-catching as Compass with a capital reduction, and, assuming that this type of event will not occur and imagining that the dividends from other operations will not be very different with the current levels of interest rates, it seems that that ratio will drop even further in the future quarters.

So my question to you is, do you believe that this is a realistic scenario that I am assuming? And what is the degree, not discomfort, but what is the level of this coverage ratio that will generate more discomfort? There are different levers that have been discussed a few times in the calls, such as the possibility to generate the inventory returns, but to improve those numbers, I wanted to understand the debt service coverage ratio that makes you more comfortable.

Rodrigo Araújo:

Thank you for the question. Good morning.

I will start with your first point about dividends and the increased dividends. At the end, you talked about the profile of our liability. To match the duration of our debt with the CapEx cycle of the

business is something we did over the year. Over time, we expect the maturity of our business capacity and dividend payments to increase, as we had at Compass after a relevant CapEx cycle, but we know there is a limit for that to happen.

Being quite pragmatic to your question, your vision is correct. Our ratio is closer to the number of 3Q24, perhaps a little below, so your analysis is correct, assuming that we are not going to take any measure. That point is important. Our focus on having speed in having portfolio management of Cosan will be aligned with that.

We conducted the first phase, which was to adapt the profile, which is a profile that will give us the necessary time for the maturity of the portfolio management to take place. As you said, we had all the liability management for 2024-2026, we will now do it for 2027 and then 2028.

But you are correct. We have a sense of urgency that we need portfolio management to enter into a healthier level and an organic level, something we can carry without depending on extraordinary dividends of the businesses.

The sense of urgency to us is cleared, Thiago. More than a minimum, I think the sense of urgency is already there. We look a lot more at the optimum level. As I said, between 1.5 and 2 is what we should look at as ideal, more than thinking of a minimum. So I think the sense of urgency is clear on our side, and we are working on that.

Thank you for the question.

Thiago Duarte:

Super clear, Rodrigo. Thank you very much.

And, as far as what can be done with the portfolio, you are not pointing to any direction as yet?

Rodrigo Araújo:

You know that we have been working on options. Obviously, in some of the businesses where we have a greater stake, we have more flexibility to do portfolio management, maintaining control, and capturing a relevant part of the upside. Marcelo alluded to this recently.

One of our priorities, Thiago, is to do that without jeopardizing the quality of the final portfolio, so to look at a portfolio mix that, after management, will be OK. This is relevant. The sense of urgency is there. We have alternatives. We have different alternatives on the table, but we do not want to adopt something that will make the quality of our portfolio worse.

Thiago Duarte:

Super clear. Thank you.

Matheus Enfeldt, UBS:

Good morning, Rodrigo.

My first question is more conceptual. I apologize if it is way too philosophical. What does it mean to be in the Cosan group for its subsidiaries? How does Cosan contribute? Is it at the board level

only?

In practice, what does it mean when you say that you support the growth agenda of your businesses and to see how Cosan monitors projects, results, and the strategy of subsidiaries, or if part of Nelson's scope so far was to monitor the seals of subsidiaries or the structure within Casan that is responsible for monitoring more process and flow? That was it.

Thank you.

Nelson Gomes:

Matheus, this is Nelson.

I will try to answer. This is part of our daily lives. What does it mean for a Company to be part of Cosan's portfolio? Access to a management model, a culture, and a way of doing business that we still believe is irreplicable in the market. We had more successes than failures, assessing the last few years, and we will keep on looking for more successes than failures moving forward.

Challenges will always exist. I think my role so far at Cosan and Marcelo's moving forward is not to demand the subsidiaries, but to get close to them to build together and to look for opportunities to unlock value as we did with most of our portfolios so far.

If we look at our track record of all assets that we acquired over time, in the vast majority, we significantly unlocked value, which allowed us to follow this trajectory of acquisition over the past 15 or 16 years ever since I joined the group. So that is what it means, but to me, most importantly, is my first answer: to be part of a management model, a culture of way of doing business that unlocks value to shareholders.

Matheus Enfeldt:

If I may ask a follow-up question. How did you come to the conclusion that perhaps Raízen needed change? Just to understand how that decision was made, how that discussion took place, and the timing. I am sorry if the question is perhaps way too philosophical. I just wanted to understand the thought process.

Nelson Gomes:

Matheus, there is no right or wrong to that question. Over the past few months, what we noticed is that, as I said when I answered Isabella's question, and always analyzing with our partner Shell, we felt a need to adjust the course. And once we came to the conclusion it was necessary, we made that decision swiftly and effectively, making the necessary changes in common agreement with the two shareholders.

It is a natural assessment, and we do it continuously with all our businesses. With Raízen, it was time to change at the end of a cycle, but we deemed it necessary to make a quick change because the shareholders felt the need to make that change.

Matheus Enfeldt:

Thank you.

Monique Greco, Itaú BBA:

Good morning, Nelson, Rodrigo, and Fernando. Thank you for the opportunity to ask a question.

I will ask two, one about Vale. If you could share with us an update about the investment in the Company and the main expectations about the performance of that investment in the near future.

The other question is about Moove and Compass. How are you reconsidering the possibility for an IPO of those businesses considering the challenging market context? What are the alternatives that are on the table today for future transactions for Moove and Compass?

Rodrigo Araújo:

Good morning, Monique. Thank you for the questions.

I will start with Vale, and then Nelson can chime in. As for Vale, we had some important moves recently, a successful succession process, and the beginning of a management focused on some points we consider to be important to unlock and generate value in Vale. So we believe we can create value in that process, and we see events that we consider to be important to unlock value in the Company.

Obviously, we monitor the macro-scenario and what will happen or is happening in China. That is also an important indicator for us to monitor over time, but there is no change in our perception. It is always important to reinforce that the asset is liquid. We are happy with what we are being able to deliver in terms of value creation, but the asset is liquid, so it is something that we monitor constantly. That is the current status.

Nelson Gomes:

Monique, as to Moove and Compass, for different reasons and different times, we decided not to move on with the IPO. This decision is never easy, but, in the case of Compass, in 2021, when we made the decision not to go ahead, in the end, it was the right decision because we ended up having two rounds of private placement that brought a greater valuation of the Company then. That is why we decided not to follow with the IPO.

In the case of Moove, besides the deterioration of the domestic scenario by foreign investors, the quality of the book did not please us. It was short-term and, therefore, because of those two reasons, we decided not to move ahead, which does not mean to say that, over the next months and years, we will not have an opportunity of liquidity like private placement.

We do not rule out private placement opportunities with Compass or Moove, but, on the other hand, it has to be at the right valuation for us to go ahead with that.

A specificity at Moove is that we clearly notice CVC's desire, our partner, to exit. There is no hurry in that regard because the business is performing very well, but, at some point, CVC might wish to exit. We will be looking for liquidity events for both companies, but at the right valuation.

Monique Greco:

Thank you.

Bruno Amorim, Goldman Sachs:

Good morning. Thank you.

I have a follow-up question to Rodrigo's comment on your debt reprofiling. You are issuing debt at attractive costs. Can you comment on those conversations with debt investors? I ask that because the equity market seems to pacify a certain level of stress. What has been the feedback of your investors in the issuance of debt? Because the debt market seems to be more concerned than the equity market with the current situation of the Company. Could you make a comment on that?

Rodrigo Araújo:

Good morning, Bruno. Thank you for the question.

Overall, what we are seeing clearly is a different behavior of the debt market versus the equity market not only due to resource flow, we have a large flow of resources in the market being directed to the credit market in Brazil, but also because of the higher interest rates.

And that is constructive. We always look at that, we analyze the comparable cost in BRL and we see the local market today more interesting than the international market at different times. So, overall, that is it.

As for operations, we conducted two operations of reasonable size recently, and we see an ability to execute operations. We are focused on liability management, so there is an allocation rotation in credit as well, but we have not seen any type of restriction. We have been very successful in executing operations.

Thank you for the question.

Bruno Amorim:

Thank you. Have a good day.

Vicente Falanga, Bradesco BBI:

Thank you for taking my question.

My first question goes to Rodrigo. I wish to know if the US election somehow affected your liability management for 2027 that you were working on.

My second question, I should have asked it at Compass, but Congressman Laércio has worked intensely to approve gas release. I wanted to understand how you see that opportunity of a gas release to Edge should it be approved.

Thank you.

Rodrigo Araújo:

Good morning, Vicente. Thank you for the question.

I will start with the first and Nelson will talk about Compass. About the US elections affecting liability management, we did not see that. Not only because of the US election, but because of a number of factors, the year was very volatile in the interest rates in the US.

Going back to what we did from the very beginning of the year, the issuances we made in January were Treasury 10 Years at 4.10%. 3 weeks after the 10-year Treasury was 4.70%, 2 weeks after it was 3.80%, and now it is 4.50%. So it was volatile, not only because of the US election. It was volatile this year in the US market overall.

In the operation we conducted, we were looking at comparable costs, and the impact of the selection was null. Before the operation, we already saw lower costs to conduct the operation in the domestic market, and that did not change. So there was no direct impact of the US elections.

Nelson Gomes:

Vicente, to gas release, we always advocated that the major lock for the price of gas to be more competitive in Brazil was the absence of supply. Throughout our work since Comgás, we seek to generate opportunities so that we can have more gas supplied to Brazil.

And gas release is nothing but a generation source to supply gas to the country. This makes the market move. This will have more gas available in the market, and availability will make gas more competitive. So that type of initiative on the part of the government or the Congress has our support, and it is in the right direction for a more open and competitive gas market and more abundant supply. So it does have our support.

Vicente Falanga:

Thank you, Rodrigo and Nelson.

Regis Cardoso, XP:

Hello. Good morning. Thank you for taking my question.

I joined the call a little late, so I apologize if the question was already asked. Nelson and Rodrigo, what was the motivation to change the management team? And Nelson, what type of strategic change do you believe would be necessary at Raízen?

Nelson Gomes:

Regis, good morning. This is Nelson. Thank you for the question.

That was the first question of the call asked by Isabella. I will try to summarize the answer, but if you want to follow up with our team, we can clarify that.

The motivation comes from an identified need to adjust the route in one of our companies, which is Raízen, and, when we identified that need to adjust the course, we analyzed our resources available and we allocated to Raízen what we imagined had the best fit at the moment.

I emphasized in my answer to Isabella that this was a decision made between the two partners, the shareholders Cosan and Shell, and once that decision was made, we implemented that swiftly. So, in a nutshell, this is what I answered. There were some questions along those lines.

Regis Cardoso:

Thank you. I will listen to the recording later.

Operator:

The Q&A session has been concluded. I turn it over to Nelson Gomes for his final thoughts.

Nelson Gomes:

As I said at the beginning of our Q&A session, this is my last call as Cosan. I want to thank you all for the constructive relationship we have had, all our debates and conversations over 2024, while I was the head of Cosan.

I wish to thank our internal team that helped us build this new way of working with the market over the year and the whole team of our businesses that contributed for us to truly have a Q&A focused on each business. The beginning of the earnings calls helped us clarify our gas business, and it was a continuous evolution over the years, so I have to thank all of you for listening to us, all of you with me in this journey.

Since Marcelo Martins just entered the room, I wish him all the success. I want to thank Marcelo for the time at the board at Raízen, where we made tough but right decisions, and again I wish Marcelo and the team success in this new phase at Cosan. And I will see you at the next call across the bridge at Raízen.

Marcelo, over to you.

Marcelo Martins:

Thank you, Nelson.

We all know each other. I want to thank Nelson for this enormous contribution he made to the group as CEO of Cosan. As you know, Nelson has been with us for nearly 16 years. He did an outstanding job, and he gave very important contributions to the Company during that period.

And I think he is taking on a significant challenge in the group, which is the CEO of Raízen. He was undoubtedly the right person for that. All the moves were a consequence of the decision to place him there because we believe that he not only knows the group but Raízen at depth. He knows exactly what needs to be done.

He is incredibly talented at forming teams, and he is taking part of the team with him. He can make not only important strategic changes at Raízen, but Nelson has proven to be a major leader and cultural influencer in the companies he was ahead of, and he will do the same at Raízen.

I want to thank him for his contribution so far, and I wish him luck. I will be with him on this journey with Raízen, and we will continue our communications as of next quarter.

Thank you.

Operator:

The 3Q24 earnings call for Cosan is over. Our department for Investor Relations is available to take questions.

Have an excellent day.