Conference Call Transcript
Cosan
1Q25 Results

Operator:

Good morning, everyone, and thank you for waiting. Welcome to Cosan's 1Q25 earnings release conference call.

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I will now turn it over to Mr. Rodrigo Araujo.

Rodrigo Araujo:

Hello, everyone. Thank you for joining our earnings call for 1Q25.

Going through our usual disclaimers here. For our next slide, we start with the highlights for 1Q25. We had a quarter with around R$5 billion of EBITDA under management. It is the first quarter after the divestment of the Vale stake that we have. So, these results are excluding the results of Vale for 2025.

We also had a net loss of R$1.8 billion. 1Q25 was also marked by a relevant reduction in our net debt, mainly coming from the divestment of the Vale stake in the beginning of January this year, closing 1Q25 with R$17.5 billion of net debt.

In terms of dividends received, we had relevant dividends coming from Compass in the form of capital reduction. So, we had a relevant shareholder distribution from Compass, just reinforcing the thesis of a very strong cash generator and a Company that is able to navigate its growth cycle while distributing a relevant part of its results to its shareholders.

In terms of our interest coverage ratio, we had 1.2 times in 1Q25, and it is, of course, positively affected by the distribution coming from Compass, so this is also a relevant impact in 1Q25.

And also, in terms of our LTIF and the safety ratings, we continue our safety journey, and of course, we have safety as a non-negotiable value in the portfolio. Unfortunately, we have fatalities in the operating Companies in 1Q25, but we continue to be very diligent and strongly committed to having zero accidents in the portfolio and the highest safety standards in our operations.

So, going to the next slide, looking a little bit more into the operational performance of the operating companies, we had a quarter of lower volumes at Rumo. Of course, that was mainly impacted by a certain delay in the crop season, so we expect and we continue to be constructive in terms of the Company meeting its guidance for the year, but it is going to be a year that will be more concentrated towards the second half of the year, and of course, the operational efficiency and the ability to execute Rumo's operation will be quite relevant for the next coming quarters so that we are able to meet the guidance for the year.

But it is also relevant to highlight that we had an increase in the average tariff for Rumo, which reinforces our understanding that the competitiveness of the railway in terms of the logistics solution to grain exports in Brazil continues to be quite relevant.

In Compass, we had 1Q25 with an increase in natural gas volumes. Of course, it is part of the strategy. Remember that we had the acquisition of Compagas as well. So, we continue to have an increase in distributed volumes.

It is also relevant to highlight the fact that we had a better margin in 1Q25 coming from a better mix from the residential segment, mainly the increase of residential sales in the state of Sao Paulo.

Also, it is relevant to highlight what is the deployment of the strategy of Edge, our marketing and services Company. We continue to not only access the non-regulated gas market in Brazil, where we are able to directly assess the industrial consumers and increase our footprint in that market, but also the optimization of LNG cargoes that we are basically using the re-gas terminal to do arbitrage operations in the LNG market, which is an important part of the thesis and the strategy that is showing to be quite successful in Compass.

In Moove, 1Q25 was significantly impacted by the fire that we had in the Ilha do Governador industrial complex in February. The Company is strongly focused on getting back to its operational results and finding alternative production solutions to deliver the volumes and the expected results, but of course, 1Q25 was significantly impacted by the fire that happened in February.

In Radar, we had not only an increase in its EBITDA coming from the lease agreement, but also we had a sale of land in 1Q25, and it is relevant to highlight that we continue to sell part of the portfolio, and we continue to be able to deliver the transactions above the land appraisal, so, basically, we reinforced the value of the portfolio through the sales that are already ongoing.

And finally, Raízen had a tough quarter in terms of volume, mainly in the sugar operations, and also lower results in terms of trading as well in 1Q25, negatively impacting the quarterly results.

Moving on to liability management, we had a very active quarter, mostly coming from the divestment from the Vale stake. Overall, in 1Q25, we raised somewhere around R$11.5 billion, part from the divestment of Vale's stake and part from the debenture that we issued in the Brazilian capital market as well. And the use of proceeds was mainly to fully take out the 2027 bonds that were outstanding, and we also partially redeemed the 2029, 2030, and 2031 bonds.

We have also fully redeemed the first series of debentures in Brazil and also partially redeemed the fifth and sixth series of debentures in Brazil, so this was a very active quarter in terms of liability management.

I think it is relevant to highlight that we were able to do that while reducing cost and improving the maturity of the debt profile as well. So, this was also quite relevant to highlight.

In our next slide, we see that we ended 1Q25 with R$21.7 billion of gross debt, which translated into R$17.5 billion net debt. You can see that we are carrying liquidity, and of course, in this uncertain time that we see with a lot of market volatility, it is relevant to have additional liquidity.

As I have highlighted before, our interest coverage is 1.2 times for 1Q25, a little bit higher than 4Q24, but it was affected by the distribution that came from Compass in 1Q25. So, it is important to highlight that we had additional dividends coming from Compass impacting this number.

In terms of the amortization schedule, on the lower part of the chart, you can see that we have no amortizations until 2028, and of course, we did a lot of liability management on other parts of the curve. So, we finished with an average duration of 6.4 years and an average cost that came down from CDI plus 1.4% to CDI plus 91 bps.

So, next slide, we look at the cash flows for 1Q25. Of course, the most relevant figure here is the divestment from the Vale stake, as I have mentioned. We also had raised additional debentures in the domestic market. And the use of those proceeds was mainly to pay down debt and also to redeem part of the non-controlled interest of the preferred shares that we had in Cosan Nove, the Company that has the stake in Raízen. So, we partially redeemed the preferred shares in Cosan Nove as part of our capital structure strategy.

So, this is a little bit of what we had for 1Q25. Thank you once again for joining us, and please, let us move on to our Q&A session.

Gabriel Barra, Citibank:

Hello. Thank you for taking my questions. Hi, Marcelo, Rodrigo, and Tinel.

I have a couple of questions, please. The first one is about the capital structure and short-term divestments. Obviously, that is the main topic at the Company, that migration of the debt value to equity and maybe considering lower interest rates, so maybe there are a lot of questions about that.

So, could you give us an update on the divestment process? And what can we expect in the short term? What are the main elements we should be looking at this year?

Second question: since Moove is one of the few companies that do not hold a conference call, I think it would be interesting to discuss their thesis. It has been a tougher quarter, as Rodrigo said, because of the fire.

Could you talk about your strategy for Moove? First, as far as I understand it, and this is something to be discussed, what should we be looking at, and what should be your priorities now that the plant is being rebuilt? Is it market share, or is it margins? There is a supply issue that you need to address, so what kind of a timeline are we talking about to solve that problem? So, if you could give us a bit more color on Moove, that would be great.

Thank you.

Rodrigo Araujo:

Great. Good morning, Barra, and thank you for the questions.

I will start with your second question about Moove, and then we can talk about the capital structure. After the fire, the Company has been able to react quite quickly, and it has been impressive how fast it found alternatives. You are absolutely right. The Company is focusing a lot more on volumes than margins. The supply chain will not necessarily be the same in the future. It is much more to meet our client needs. That is our focus.

The Company has the capacity mapped. It is 100% in terms of alternatives. It is executing and taking all the required measures, whether it be through certifications for the clients or setting up plants, and it is doing everything that is required in terms of facilities that will act as an alternative.

That was already part of the Company's plans to do some risk management and take away some operations from the Rio de Janeiro plant. We acquired a grease plant, and there was a plan to migrate that to outside the Rio de Janeiro plant, so that might happen a bit faster.

Every month, I mean, in 1Q25, there was the fire, but April was better than March. There is a clear catch-up when it comes to results, and the Company is coming back. So that is where we are in terms of the operation.

The Company does have an insurance strategy, and there are a lot of discussions going on around insurance at the same time. These are longer discussions to be had, but they are happening at the same time.

In terms of the future strategy, very little will change when it comes to the Company's strategy. As you know, it has been focusing on an international rollout. Obviously, now the Company focus is much more on what is happening now rather than any kind of rollout, so it has delayed that slightly. But obviously, in the short term, the focus will be getting back to our capacity as soon as possible.

In terms of the plant in Rio, at the end of this process, obviously, there is a learning curve because, every month, we are discovering and seeing new things. So, the future of the Rio de Janeiro plant, in terms of setup, will be completely different when it comes to fires. Part of the production that makes sense going somewhere else will go somewhere else. The vocation of the Rio de Janeiro plant is for large-scale products, so this plant will tend to focus on large scale. Anything that is special or smaller will tend to migrate to other facilities. We still do not have a reconstruction process going on because, obviously, the Company is looking at Moove's facilities and at what will be migrating to outside of Rio de Janeiro. So that is it in broad terms.

About your first question, in terms of the capital structure, there are lots of ongoing alternatives, but nothing concrete to share right now. Obviously, in terms of a sense of urgency, nothing has changed. It is very clear to us that the Vale divestment is part of what we need to do. And it is also very clear to us that we still have to raise funds, and there are many alternatives to do that.

It is a long journey, and, at the end of this journey, we will make sure that we do not land on a worse portfolio.

So, we are being very careful coming up with alternatives. Obviously, we have plans A, B, and C to make sure that we come out with a better capital structure, and, of course, we need to reduce leverage, but we do not want to do that and end up with the worst portfolio.

So, it is not a simple balance to strike. We need to do both things, but we are pragmatic enough to know that we have successful initiatives and those that are not successful, and we have other alternatives.

Marcelo Martins:

Just to complement what Rodrigo is saying, first of all, we are fully focused on adjusting Cosan's capital structure. Obviously, at the same time, we are closely monitoring the divestment initiatives at Raízen, and, on our side, we are directly involved in seeking solutions that go beyond that divestment. And that is a key priority for us. So, we have some ongoing initiatives and advanced discussions to be able to execute on them.

We will not go into detail because it will be speculation about a work-in-progress, but what I can guarantee is that we have made a lot of progress compared to a while back when we sold Vale, we have great alternatives in terms of execution, and we are very optimistic that we will be able to address that quickly.

We have a clear strategy: we need to improve Cosan's capital structure. At the same time, we need to adjust Raízen's capital structure so that we can, as Rodrigo said, keep a well-balanced portfolio.

And people might ask, "Are you considering selling a considerable stake at Compass or Rumo?" No, we are not considering that. That would not be the best way forward for us, and we are considering other options that go beyond that specific option. So, I want to make that very clear. Right now, we are executing things.

Thank you, Barra.

Gabriel Barra:

Thank you, Marcelo. Thank you, Rodrigo. That was very clear.

Isabella Simonato, Bank of America:

Good morning, Rodrigo. Good morning, Marcelo. Thank you for giving me a chance to ask questions.

I have a couple. The first one, Marcelo, your strategy and your focus are very clear. When you mentioned Raízen, you said that you are monitoring what is going on there very closely.

So, I would like to hear from you a bit more on how you see the Company's recent performance and the operating prospects for the fiscal year of 2026, which does not look like it will be an easy year in terms of the circumstances in the sector. So, as shareholders, how are you seeing Raízen's progress?

And, Rodrigo, about the liability management, as you said, you have been very active, and you have been working on changing the debt profile. Is that what we will continue to see looking forward? And more specifically, about the remaining preferred shares, what can we expect from that structure?

Thank you.

Marcelo Martins:

Hi, Isabella. Thank you for the question.

First of all, about Raízen, the good news about it is the level of awareness and practical initiatives to make the required changes and the speed with which these changes are being implemented. They are being very realistic about the circumstances in this sector.

There was a shareholders' meeting with Shell in London this week. So, to us and to Shell, it is very clear that, once the rebalancing stage is over in the capital structure, the Company not only has excellent prospects, but it is also very clear that we will be focusing on core business at high levels of efficiency and on returns.

Obviously, we need to consider substantial divestments. Those divestments will also include energy, reducing our crushing capacity and the portfolio's plants. There is also a high level of interest. Obviously, we are not talking about an umbrella mandate selling all the assets. That is not the case. But in the execution strategy, we are very clearly optimistic when it comes to the volume of divestments and the impact that will have on the Company's deleveraging.

That will not be the only solution. We are considering other alternatives. I will not go into any detail because it is all work-in-progress, but, as Raízen has stated during their earnings call, all options are on the table.

I can speak for myself and for Shell. We are very pragmatic and highly focused, so you will be looking at the divestments and the energy assets, as well as the distribution business, and the shareholders' role will be to look at what is under our responsibility and not the capital structure of Raízen itself.

Rodrigo Araujo:

Isabella, to your second question, in terms of what we needed to do and using the proceeds from our divestment at Vale, we have done quite a lot. You saw that in 1Q25.

Obviously, right now, there is more uncertainty, and there are divestment alternatives and other options in the capital structure, so we will carry more liquidity, but in terms of changing the debt profile, we will always be looking at opportunities to access the market and to improve the structure.

We are very cost-sensitive. I am sure you saw that we have been able to extend the duration, and there have been some positive windows at the end of last year. There was a great spread window in the Brazilian market.

And this goes for Cosan. We are not just sitting and waiting. The Company is very sensitive when it comes to numbers, but we are not counting on that.

And about the preferred shares, it is something we are continuously monitoring. There are variabilities, whether it is going to pay out dividends or not, there is a differentiation in terms of fiscal losses. So, we are monitoring the efficiency of the structure the whole time, and obviously, we can address that at any time depending on the variability and fiscal issues. In terms of cost priority, it is not the first alternative, but we are looking at it.

Thank you for the question.

Isabella Simonato:

Thank you.

Matheus, UBS:

Thank you. Good morning, Marcelo, Rodrigo, and Tinel. Thank you for all the clear answers so far.

My first question is about the interest coverage ratio and its impact. What I have been seeing as a consensus, and according to our math, obviously, we could be wrong, but it sounds to me like that, in 2Q25, Cosan will be very close to or below 1 time in terms of interest coverage ratio given the concentration of dividends we had in 2Q24, and maybe, this ratio will only improve in 2026 rather than in 2025.

My question has to do with Barra's question in terms of sense of urgency. Will that trigger any covenants? Are you discussing anything like that? Is there a sense of urgency in 2Q25? So that is my first question. Will that be a trigger for the Company?

And the second question is also along the same lines, but about the cash need and the structure of the preferred shares. Compass' capital structure is clear, but, considering the 25% of Compass' dividends being paid out to preferred shareholders looking forward, and at Cosan Nove, if I got it right, there was a dividend payout of the preferred shares, but it was not followed up by a dividend paid out to the holding Company.

So, what about the cash needs at the HoldCo level? Will you have to add some money to the structure to pay out dividends to the preferred shareholders? And the lack of visibility in terms of Raízen's dividends in the short term? So those are my two questions.

Thank you.

Rodrigo Araujo:

Thank you for the question, Matheus.

I will start with the interest coverage ratio. It will not be a trigger for a covenant. It has to do with a healthier capital structure for the Company. You are right. Organically speaking, the cover ratio will tend to drop, and as I mentioned, the additional dividends will be paid out only in the first quarter. So, it will go down over time.

And that is one of the points that only reiterates the fact that we need to lower our net debt. That is why we are discussing alternatives to decrease that. The sense of urgency has more to do with having a more well-balanced structure than anything to do with covenants regarding liquidity.

To your second point, about preferred shares, those are two different things. Obviously, given the structured model, preferred shareholders will have a preference, so you are right. But it is not obligatory to pay out those dividends. What happens is that, over time, when there is no dividend paid out and the fiscal side is different, then we have to monitor to make sure that the structure is not more costly than other capital structures at the Company.

In terms of the service at Compass, it will depend on the level of payments by the Company looking forward. You are right in terms of preferred shareholders having the priority, but what happens looking forward will depend on the Company. That is the context.

Thank you for your question.

Matheus:

Thank you.

Guilherme Martins, Goldman Sachs:

Thank you.

Hi, Marcelo, Rodrigo, and Tinel. Good morning, and thank you for taking my question.

It is a follow-up to Matheus' question. Obviously, the Company is going to have to divest more to get to a healthier situation or closer to the 1.5 times, as you said, which will be healthier. So, if there are no more divestments as of now, what would be a potential DSR in terms of interest coverage ratio by the end of the year?

Rodrigo Araujo:

Thank you for the question, Guilherme.

We do not disclose guidance on that, but as I said, it should drop along the year. It should be lower than that. It also depends on the performance of the companies in the portfolio. Obviously, we will be working throughout the year to see how that is going to pan out, but you are right.

So, it is an important chapter, and we are definitely working to make sure that we execute on something this year. We are not working with a scenario where we will not be executing on that this year.

Thank you for your question.

Guilherme Martins:

Thank you, Rodrigo.

Lucas Ferreira, JPMorgan:

Good morning.

I have a couple of follow-up questions about what you discussed earlier. Rodrigo, could you talk about Moove? What are you expecting in terms of CapEx for the next one to two years, considering the fire? You mentioned looking for alternatives at Ilha do Governador.

And I have another question about Cosan Nove. Is there a clause? What might happen if there is a capital increase at Raízen? Will that trigger any advances? What might happen to Cosan Nove if there is a different structure at Raízen or a capital increase or anything that might happen in the future?

Rodrigo Araujo:

Thank you, Lucas, for the question.

About Moove and CapEx, right now, we do not have a CapEx estimate because, as I said, we are working on things that will be migrated to the Company's facilities. Given the current scenario, we are using a mix of Company's facilities with third-party facilities.

We do not have a CapEx estimate for the time being. We have considered something marginal, especially in terms of adjustments and setup, but we do not have an estimate.

As I said, the Company has its own insurance. So, the expectation for the CapEx, whatever it might be for the plant, is that a large part of it will be covered by the insurance.

To your second point, about Cosan Nove, there is no specific clause, but obviously, a lot will depend on what happens to the structure. There will have to be a renegotiation because the Cosan Nove structure may not make sense anymore or it might be impacted.
There is nothing happening at the moment, but depending on the Company's capital structure, there may be a need for a reduction, but nothing major. And the partial redemption that took place this year is something relatively simple to do, so it should not lead to an impact on a discussion at Raízen.

Thank you.

Lucas Ferreira:

Thank you.

Regis Cardoso, XP:

Good morning, Marcelo, Rodrigo, and Tinel, and thank you for taking my questions.

A couple of follow-up questions about the capital structure. Rodrigo mentioned that you will have to reduce the absolute debt level, so what are we talking about at the end of the day? Are you planning on bringing the HoldCo debt level to zero and considering that the preferred debt might not have the same fiscal effect as the tax shield? What would be your target? Is it R$10 billion, R$0, R$15 billion?

In terms of the preferred shares, Rodrigo talked about variable rates. What kind of variability are we talking about? Is there a tax efficiency effect when the redemption value is over the initial value? Is that something we should be monitoring?

And if you will allow me a third follow-up question, please? Do you have any idea about Moove's timeline? Can it be measured in weeks, months, or years, just so we know what to expect?

Thank you.

Rodrigo Araujo:

Thank you for the questions.

As for Moove's timeline, not for the reconstruction CapEx, but by the end of this year, we expect to be in a much better position, not only in terms of production capacity but also in terms of a clear strategy and executing on the CapEx. There is also the insurance I mentioned, so I do not see that as a risk.

I was talking about the rate step-up. There are points in time when there are rate step-ups, and, at the current cost level, that begins to not be competitive. I am talking not just about Cosan Nove, but Cosan Dez. At the average cost we have right now, it will be more expensive than the average cost, so it will be less compelling.

To your point about the results and the balance that is over the original amount, the important point is that it has a lot more to do with the Company's results and the dividend itself, so the destination going to the preferred shareholders has to do with the net income. The fact that it is over the original value is not a risk to the Company.
And about the capital structure, we did mention that in the last call. We are aiming to execute that in the next month or two, so for the short term, we should have a healthier structure.

And in the long term, R$0, of course, would be an exaggeration, but that is the midterm. R$1-1.5 billion for the short term is what we are looking at. We will be in a better position, and we will allow ourselves to navigate that challenging scenario where there are higher interest rates.

Thank you for the question.

Marcelo Martins:

Let me just jump in.

What we want is for Cosan, the HoldCo, to have a structural debt level closer to zero. I do not know if we will get to zero, but HoldCo's dependence on a growing dividend cycle of the operating companies should not take place. So, we need to give them freedom so that these companies can grow and implement their strategies.

And our focus has been already, and once we can focus again, it will be through the controlled Company. So, our objective is to not have any new lines of business or any substantial acquisitions done through Cosan. That is a moot point, and that is what will allow us to have low structural debt levels so that we can continue to manage our portfolio efficiently.

Regis Cardoso:

Thank you, Marcelo. Thank you, Rodrigo.

Gustavo Sadka, Bradesco BBI:

Thank you. Hi, Marcelo, Rodrigo, and Tinel.

You have addressed most questions. I have a question about Radar. Right now, given the current interest rates, considering a CDI investment, it looks like it is more favorable to sell, and, given the Company's leverage, will you be ramping up land sales? And what can we expect in terms of those sales?

Thank you.

Rodrigo Araujo:

Hi, Gustavo. Thank you for the question.

Yes, that is already happening in practice. To your point about the target, we do not have a set target for that, but in addition to the yield, we have been selling this land above our portfolio appraisal.

In the last few years, we have captured significant value, especially the bumper crop, and you are right, we are below the SPS, but that has been happening for a while without guidance for that.

Thank you for the question.

Gustavo Sadka:

Thank you, Rodrigo.

Operator:

The Q&A session is now concluded. I will now turn it over to Mr. Martins for his closing remarks.

Marcelo Martins:

In my closing remarks, I would like to focus on Raízen, please.

I think we have made great progress in the last few months. We are very, very happy with the measures that have been implemented by the new management, by their focus, and the very clear view about the future of the Company as well as the divestment plan that is being put in place right now.

We do have a very feasible plan, and it has the right size to be able to adjust the capital structure. We are highly confident in the Company's ability to deliver excellent results and to focus completely on the Company's core business. I am speaking for myself, and I am also speaking for Shell.

Even though this has been a very tough quarter, I think, once again, it does show how serious and how engaged the Company's management is to take the necessary measures, to make the necessary adjustments, and to communicate that clearly to the market.

Our role and everything that goes beyond the Company's divestment plan are very clear to us and to Shell. We are working very closely with them. We are in agreement with what we need to make in terms of adjustments to our capital structure, and we are working together and highly focused on that.

So, thank you all for joining us on this call, and we will see you soon.

Operator:

Cosan's 1Q25 earnings release videoconference is now concluded. For further questions, please contact the Investor Relations Department.

Thank you so much for joining us, and have a great afternoon.