



Wilson, Sons



Wilson Sons Holdings Brasil S.A.

CONFERENCE CALL TRANSCRIPT

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INVESTOR RELATIONS

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PARTICIPANTS

- **Mr. Fernando Salek** – *Chief Executive Officer (CEO)*
- **Mrs. Fabrícia Gomes De Souza** – *Chief Financial Officer (CFO)*
- **Mr. Arnaldo Calbucci** – *Chief Operating Officer (COO)*

INTRODUCTION

Operator:

Good morning everyone. Welcome to the Wilson Sons earnings conference call for the second quarter of 2022. Today with us we have Fernando Salek, the company CEO, Fabricia Souza, the CFO, and Arnaldo Calbucci, the COO.

As a reminder, this conference is being recorded and we will have simultaneous translation for those who wish to listen to the English version. During the company's presentation, all participants will be connected in a listen-only mode.

At the end of the presentation, we will begin the question and answer session for industry analysts. Before proceeding, we would like to mention that page 3 of the presentation contains the usual disclaimers on forward-looking statements for your reference.

Now, I would like to turn the conference over to Fabrícia Souza.

PRESENTATION

Mrs. Fabrícia Gomes De Souza – CFO

Thank you.

Good morning everyone, and welcome to our earnings conference call.

Let's start on slide 5 by talking about safety, one of the key material priorities for our company. In 2021, still under the impacts of the pandemic, our safety results fell short of our own benchmark which led the company to take numerous actions. These actions have proven to be assertive and we have already noticed a recovery in our performance. The last lost-time accident occurred in September 2021 reducing our lost-time injury frequency rate to 0.30 incidents per million hours worked, which reinforces that we are on the right track with the measures adopted.

During the quarter, we published our first sustainability report in compliance with the Global Reporting Initiative which, in July, was nominated as a finalist in the services category of the ESG Investing Reporting Awards.

In the second quarter, our shipyard delivered WS Centaurus, the most powerful tugboat in Brazil and the first of a series of six 90-tonne bollard pull vessels joining our fleet over the next two years. The vessels follow the International Maritime Organisation Tier III standard and the new hydrodynamic design improves hull efficiency for an estimated reduction of up to 14% in greenhouse gas emissions compared to previous technology.

During the period, the Salvador terminal contracted the acquisition of 12 fully electric yard tractors to implement the first electrification project of this nature in Brazil, which will contribute to reducing our carbon emissions. To reinforce our ESG strategy, we hired an executive with almost 30 years of experience in this agenda to lead the sustainability department.

All these actions contribute to the development and continuous improvement of our ESG practices and operational excellence, strengthening one of our strategic pillars.

Turning to slide 7.

Here, we present a summary of our consolidated results.

Although the operating performance of the container terminals was impacted by global logistics bottlenecks, as we will discuss later, our net revenues increased 6% in the quarter to 540 million Brazilian Reais, with highlights including the price and volume improvement in the international logistics division, Allink; the increase in the average revenue per manoeuvre in towage; the higher operational activity in the offshore support bases; and, also, the growth in conversions and dry-docking services for third parties in the shipyard unit.

Despite the revenue increase, EBITDA declined 9% in the quarter to 201 million Brazilian Reais negatively affected by the equity income from our offshore vessel joint venture, with the Brazilian Real depreciation impacting balance sheet items such as deferred tax assets and net monetary items. Excluding equity accounting effects, the company's EBITDA was slightly above the comparative in Brazilian Reais and grew 8% in US Dollar terms.

Net profit decreased 86% in the quarter to 16 million Brazilian Reais mainly reflecting the impacts of exchange rate variation on the company's results, as the Brazilian Real depreciated 11% over the US Dollar, against a 12% appreciation in the comparative period. Negative exchange rate effects amounted to 50 million Brazilian Reais, of which 18 million are impacts on deferred tax assets mainly due to US Dollar-denominated loans, and 22 million arising from Brazilian Real-denominated monetary items of the offshore vessel joint venture. Excluding these effects, the company's net income would have increased by 21%.

In the accumulated first six months of the year, EBITDA was 2% below the comparative period in Brazilian Reais mainly affected by the decrease in container terminal volumes due to vessel call cancellations and the shortage of empty containers, although a 4% increase in US Dollar terms. Net profit increased 8% in the first half to 160 million Brazilian Reais, and was 13% above the comparative in US Dollar terms.

We now move to slide 8.

We highlight here the financial performance of our main business units in the quarter.

Container terminal revenues remained resilient as global logistics bottlenecks impacting operational activity were offset by improved warehousing, with increased container dwell time in both terminals. In US Dollar terms, revenues rose 7%.

The Rio Grande terminal was the most impacted by logistical bottlenecks and shortage of empty containers, registering a volume decline due to 38 vessel call cancellations and three blank sailings in the quarter.

In the Salvador terminal, volumes grew 4% mainly driven by the increase in transshipment, despite the negative impact of the empty container shortage and 17 vessel call cancellations in the period.

In towage, revenues grew more than 3% to 262 million Brazilian Reais, with a 5% increase in the average revenue per manoeuvre. The improved revenue mix reflects the drop in containership calls, which have a lower average price. In US Dollar terms, revenues rose 12%.

Our offshore support vessel joint venture continues to show recovery. Net revenues grew 61% with a 29% increase in operating days and a 25% improvement in the fleet average daily rate.

Another highlight in the quarter is our international logistics division, Allink, which posted a 36% increase in net revenues to 36 million Brazilian Reais. This result reflects the high levels of demand and better revenues from both shipowners and terminals.

Looking ahead to the second half of the year, we believe that the challenging scenario for container terminals may show some signs of improvement, depending on the resolution of port closures in China, and especially in the case of Rio Grande, the recovery is subject to the reduction of call cancellations and an increase in the availability of empty

containers in order to materialise. In our businesses related to the oil and gas industry, we expect the recovery trend to continue with new contracts both in our offshore vessel joint venture and in the support base division.

Moving to slide 9.

Here, we present an update on the global supply chain crisis and the recent impacts on the company's terminals.

We understand that the logistics crisis scenario is not only a national issue, but a global situation that has impacted maritime and port operations worldwide, maintaining port reliability at extremely low levels of less than 35%.

The situation is not simple at all. Recently, the International Transport Forum, an organisation linked to the OECD that aims to study and analyse transport modes and their impact on economic development, published a report called "Performance of Maritime Logistics", in which the current logistics crisis scenario is the main focus of study. According to this report, the crisis is due to the combination of a series of factors, from port congestion to the active fleet capacity management by shipping lines, which has attracted greater regulatory attention recently.

Adding to this complexity, with the continued risk of lockdowns in China, the prospects of strikes in European and North American ports and the peak season in the third quarter, the consensus view is that the scenario is likely to remain challenging throughout the second half of the year and probably during the first months of 2023.

Our container terminals continue to suffer the impact of this scenario, facing high levels of vessel cancellations and blank sailings, resulting in lower operational performance for Rio Grande in particular due to a more pronounced cargo imbalance, as import volumes only account for a quarter of its deep-sea volumes. Also, with freight rate increases and the empty container shortage, some shippers have been opting to ship their goods on general cargo vessels, including cargoes rarely transported via breakbulk.

Moving to slide 11.

On this slide we can see some of our liquidity and leverage ratios, which remain solid as a result of a resilient balance sheet and business performance.

Bank debt rose in the quarter mainly due to Brazilian Real depreciation, increasing the reported balance of US Dollar-denominated debt. New disbursements of 65 million Brazilian Reais from the Merchant Marine Fund, related to the construction of new tugboats and fleet maintenance dry-docking, as well as other disbursements, offset 74 million Brazilian Reais in loan amortisations in the period.

Net bank debt of 1.5 billion Brazilian Reais increased 11% compared to 31 December 2021 reflecting the payment of 196 million Brazilian Reais in dividends to the company's shareholders in April 2022, as well as the impact of the Brazilian Real depreciation mentioned above.

In terms of cash flow movements, the main outflows in the period were the 70 million Brazilian Reais in capex mainly for the construction of new tugboats for the company.

As a result, we ended the period with almost 151 million Brazilian Reais in cash and cash equivalents.

Our leverage ratio remains low, although it has increased slightly to two times net bank debt to EBITDA as a result of dividend distribution in the quarter.

In terms of debt profile, 81% of our bank debt is long-term and 67% is financed by the Merchant Marine Fund.

The presentation ends here, and I would like to invite you to the Q&A session. Thank you.

Q&A SESSION

Operator

Ladies and gentlemen, we will now begin the questions and answers session.

Pedro Fonseca – Edison Group (via webcast)

What business segments have the most room for price increases to offset cost inflation?

Mr. Fernando Salek – CEO

I'll answer that. There is cost inflation. Historically, in our negotiations we have been able to incorporate cost inflation in our price discussions and normally we're successful at that.

Question sent via the webcast – Not identified

The offshore segment has shown recovery. Could you talk a little about the current demand and price scenario, as well as the medium-term outlook?

Mr. Fernando Salek – CEO

I'll pass it on to Mr. Arnaldo Calbucci, our COO.

Mr. Arnaldo Calbucci – COO

Well, the offshore segment has shown improvement in Brazil and in the world. This is caused by increases in oil prices and definitely by becoming more aware that oil is a fuel that will be necessary for a long time as we transition into a more green matrix.

So people are more aware of that now. Worldwide demand has increased from approximately 50% last year to 75% in the utilisation of support vessels. And in Brazil, these figures have been even more expressive. We have seen higher demands and improvements, of course, not great improvements, but a good price improvement. So perspectives are good right now and for the next few years.

Marcelo Arazi – BTG Pactual

How are you looking at the margins for the end of the year with the challenging scenario expected to continue?

Mr. Fernando Salek – CEO

Marcelo, from our margins perspective, we expect them to stay at the healthy levels they are in right now throughout the next semester. We don't expect any margin compression caused by any challenges in this current scenario.

Cristiane Bastos – MOL (Mitsui O.S.K. Lines)

How do you see the business scenario in terms of profitability and growth for the towage segment in 2023?

Mr. Arnaldo Calbucci – COO

We are working with a stable scenario in terms of profitability. The important thing that occurred this year was the acquisition of Starnav's tugboats by SAAM. This is a positive movement showing that the market is consolidating, and with the demand we have this will allow us to maintain stability without expanding the Brazilian fleet. So we expect to maintain profitability and growth with the recovery of the shipping industry, reduction of the global logistics chaos, we estimate that it will still have a slight growth.

Question sent via the webcast – Not identified

In July, the Salvador terminal registered record volumes. Could you explain the reasons for this performance in the current scenario

Mr. Arnaldo Calbucci – COO

Yes. Salvador had important volumes in transshipment and shifting . This is an important movement for volume and also to maintain terminal calls. But to summarise it, we've had important volumes in all segments, imports, exports, cabotage and even empty containers. This is related to the resilience of our strategy and a strong commercial effort that was very successful made by our team in the Salvador terminal.

Mr. Fernando Salek – CEO

Yes, I would just like to highlight something. Our Salvador terminal doesn't have the same pronounced imbalance between exports and imports, so that helps us mitigate the effects of the crisis. So although in Salvador we had some cancellations and so on, the availability of empty containers has not been a big issue like it was in Rio Grande.

Alex Paterson – Peel Hunt

Investment in offshore oil and gas was weak even before the pandemic. Do you expect to see the need for a catching up of capital investment and if so, what kind of OSV utilisation rate would you expect in say 2023, 2024?

Mr. Fernando Salek – CEO

Alex, I'll start answering your question. So what you said is a fact and the level of investments in the industry, the Capex for the upstream oil and gas industry, has been very low in the last few years. I think for a number of reasons and even geopolitical reasons, we are coming to a moment in which we understand that the role of oil and gas as a source of essential transition energy will be longer. And of course, there is the recovery in the price of oil, which changed the investment logic.

So I do believe there will be an acceleration towards selected projects, and Brazil has a very good position when it comes to competitiveness to receive a significant part of these Investments. I think that's the idea.

Regarding utilisation rates, we expect a gradual recovery of the industry as Arnaldo said before. We're starting to see that there will be a recovery in 2022. It will continue in 2023 and accelerate in 2024. And we believe that gradually the utilisation rate will go up, balancing offer and demand in a healthier way for the market.

Pedro Moreira – Trilha Investimentos

What is the strategy to increase volume in Rio Grande in the medium term (after the crisis)?

Mr. Fernando Salek – CEO

I'll let Arnaldo answer that question.

Mr. Arnaldo Calbucci – COO

Pedro, what we're doing and what we will continue to do after the crisis passes, this will be very evident, is working very closely with our cargo clients, trying to recover volumes like in Rio Grande that are being exported by other ports. Due to the current crisis, part of the cargo produced in Rio Grande has been loaded in other ports, sometimes even the Port of Santos. So we've been making that effort. With a reduction in cancellations, we believe that this cargo will come back to us.

And another point is to work on an environmental solution, which is the increased use of our barges in Lagoa dos Patos, which is a solution that removes many trucks from the road, reduces emissions and has been widely accepted by clients who need to reduce their footprints.

Another point is cargo that migrated to break bulk vessels due to high prices in loading and importing through containers. So importers and exporters were forced to export cargo in break bulk vessels and we hope that as the crisis goes away, and shipping prices go down, that they will continue to come through the Rio Grande in containers.

Mr. Fernando Salek – CEO

I just like to add something. Since we're talking about the medium-term here. And here, I would say even medium to long-term. It's important to say this, as vessels grow in size continuously, in Rio Grande we're very well positioned with draft conditions and so on to consolidate over time as an important hub for the south of Brazil, including the Mar De Prata region and so on. So this is an important topic that we have been working on with the state, so that we can move in that direction. Obviously, another important point is fostering the industry in Rio Grande do Sul, so that it can have a higher demand for imports over time.

Operator

Since there are no further questions, we would like to hand it over to Mr. Fernando Salek for his closing remarks. You may continue, sir.

Mr. Fernando Salek – CEO

I would like to highlight our satisfaction with the absence of lost-time accidents since September 2021. In addition, we were very pleased with the resilient financial results recorded in the quarter. We recognise that the current environment is challenging, but continue to strive to improve the world-class performance of our infrastructure, the portfolio of our activities and the resilience and versatility of our services. We believe it is the best possible way to address the challenges of our industry, transforming maritime transport over time and creating a better future.

I would like to thank everyone for participating in our conference call. I hope you are well and safe.

Thank you and have a good day.

Operator

This concludes the Wilson Sons conference call.