



Operator:

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to CCR S.A. 2Q23 earnings conference.

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Before we proceed, we would like to clarify that any statement made during this conference relative to the Company's business outlook, projections, operating and financial targets are based on CCR's management's beliefs and assumptions, as well as information currently available to the Company. Forward-looking statements are no guarantee of performance. They involve risks, uncertainties and assumptions, seeing as they relate to future events and, therefore, rely on circumstances that may or may not materialize. Investors must understand that general economic conditions, the state of the industry and other operational factors may affect the Company's future results and lead to results which are materially different than those expressed in said statements.

Now I would like to turn over to Mr. Miguel Setas, CEO of the CCR Group. Please, Mr. Miguel, you may proceed.

Miguel Setas:

Good morning, everyone. Welcome to our 2Q23 earnings conference. I am Miguel Setas, CEO of the Company, and I am joined by Waldo Perez, CFO of the Group; and Flavia Godoy, Superintendent of Investor Relations.

I would like to start by saying that this year, I celebrated my first three months as CEO of the CCR Group. These were very intense months, when I was able to understand the business and the current state of the Company, and most importantly, I was able to plan for what we call it the acceleration of value focused on five workfronts, starting by one I had already mentioned in our last earnings conference, which is a strategic update of our plan.

This quarter, as we will see in Waldo's presentation was a very positive one. We saw demand recovering, which will be the foundation of our work moving forward in highways, urban mobility and airport businesses, and where we continue in our operational efficiency efforts since 2021 that has led to our costs developing less than inflation. It is also a time when our investments proved to be much larger than what the Company historically had made.

At the beginning of this year, the Company nearly tripled its pace of investments as we will see in our CFO's presentation. We have three things to highlight for this quarter, which are very important to mention. First of all, the extension of ViaOeste concession contract through 2025, including new investments, the renewed agreement of our obligations during this period. And next, there's covid, and the concessions for the RodoAnel, Hidrovias, and also the concession of Renovias. And finally, an extension of Aeris' concession contract, our airport in Costa Rica for another 10 years, which will also allow us to lengthen the duration of second session.



We will also like to talk about our financials. This was a quarter where we accessed the credit market at scale by issuing over R\$3 billion in credit funds, which at the end of this quarter has translated into a solid position with our leverage under control and which allows us to continue to meet our investment obligations very confidently.

Lastly, a word on ESG. We were able to upgrade our MSCI rate from single A to AA, we are the Company with the highest grade in Latin America when it comes to transportation. So these were results we consider honestly, very positive and makes us very confident about the 2H23. They will also allow us to meet our investment commitments in a very safe and effective way.

On that note, I would like to conclude and turn it over to Waldo and then we will be back with our Q&A session.

Waldo Leskovar:

Thank you, Miguel. So let's move on to the highlights of 2023, in our 2Q. We saw a strong recovery in our demand, still with the basis of comparison affected by the wave of omicron. We saw an increase by 3% in highway demand, with a highlight to passenger car equivalence, and especially ViaSul and ViaLagos.

We also continue to see a constant increase by 1.5%, in this case, very much fostered by agriculture and the distribution of agricultural commodities in Brazil, and AutoBAN and SPVias the main highlights.

In Urban Mobility, an increase by nearly 10% in the number of passengers going as high as 177,000 passengers with 14% increase in Barcas, with a 29% increase. Barcas was fostered by the return to normal of the schedules in Charitas, which started in June 2022.

In airports, we saw a 16.3% increase in the number of passengers boarding. Here, as Miguel mentioned, we saw the highest number of passengers in Brazil since 2015, a clear sign of rebound. Domestically, we are coming close to pre-pandemic levels, and in international airports, already exceeding pre-pandemic levels. As a reference, the South and Central blocks saw a substantial increase quarter-over-quarter and a 29% increase in the Central block. So a very significant increase in all our business units.

When we look at the cost side, it's important to look at cash costs. And in this case, we compare 2Q22 and 2023, realizing that cash costs increased by only 2.3%. So below the inflation for this period, which was about 3.3%, that corroborates our cost control discipline, a result of all the steps we have taken over the last few years to increasingly enhance our operational basis in terms of efficiency.

When we compare our operational cost with our total costs, it's important to note CCS, which are investments, but for accounting reasons, are being noted as costs, and they combine with other noncash costs such as maintenance and earlier expenses. So this was a quarter with very strong cost control.

As a result, our adjusted EBITDA came to R\$1.8 billion. With robust growth in highways, we are talking about an 18% EBITDA increase in Urban Mobility, if we disregard the accounting effect from our financial asset, we saw a 12.6% decrease.



Which affected that financial asset was inflation, which was much higher this quarter than in 2Q22.

And when we look at airports, there's been an increase by almost 30% in adjusted EBITDA. Not only it is an effect of the higher demand, but also the new business points, the five new VIP lounges and a number of other initiatives that we have been working on to contribute to that result. So this was a very impressive result for this quarter.

Lastly, our net income came to R\$270 million. Looking at the adjusted side, that would come to R\$203 million. The most significant impact here compared to one year earlier has been our financial expenses, we saw an increase in our gross debt by 18.8% and also an average increase by 21.8 p.p.. But we continue to see increasingly strong and promising results in as much as macroeconomic situation increases and the interest rate is starting to go down.

So looking now at investments, we continue to focus on making and concluding these investments. They have come to R\$1.4 billion with ViaOeste in 2Q, up 209% over 1 year earlier. If we compare the 1H22 to right now, we are at nearly 40% of what was invested last year. So we are within what was planned earlier in the year.

In airports, we have continued to invest in the Central and South blocks with R\$109 million with improvements and adjustments in many of the assets that required adjustments in Urban Mobility, our Lines 8 and 9 of ViaMobilidade are still a focus.

And in Highways, investments by R\$152 million in RioSP with payment recovery and highway elimination. And ViaSul R\$115 million with also payment recovery and additional lanes. So we continue to deliver on all our business plans still within schedule and within budget. So we are very confident that we will continue to perform just as well moving forward.

Lastly, when we look at our balance sheet, our financial position is still rather solid. We raised funds, as Miguel mentioned, by about nearly R\$3 billion during this quarter, and this was during a very challenging time in the market, which shows that the market has been recognizing our solidity as well as our credit rating, which is still very interesting.

We also invested with the green debentures from BNDES that we acquired in 4Q22, and that has helped us to extend our debt profile, which has been a continued focus of ours.

We are already with 59% of our maturities adjusted and addressed, and we are already working on the maturities for 2024, seeing as South and Central blocks, which are part of the R\$5.3 billion are much of our focus, and we expect to address them later this year. So our amortization schedule will continue to be increasingly linear with the longest possible duration within the appropriate conditions.

Our cash position at the end of the quarter was R\$6.3 billion, so extremely solid cash position, allowing us flexibility for investments and readjustment of our capital structure. Our net debt-to-EBITDA ratio R\$22 billion is how we ended the quarter. So a very steady position when compared to 1 year earlier and a 3x net debt-to-EBITDA ratio. This gives us a very interesting result for the quarter.



We continue to see increasing demand and operational efficiency and a very solid financial position. Our investment plan is our focus. But we have a financial position that allows us to look at growth opportunities in a very careful way, considering that we still have a very interesting pipeline ahead of us.

With that, I would like to conclude my part and turn the conference over to the operator.

Victor Mizusaki, Bradesco BBI:

Good morning. I have two questions. My first question has to do with the Company's leverage rate about 3x net debt-to-EBITDA ratio, and there's also a CAPEX cycle for not only 2023, but the next few years as well. So my first question is, how do you see this leverage trend? If there's anything you can do to perhaps accelerate the decrease in your debt level.

And my second question, also along the same lines, but with regard to auctions, what could we expect for 2023? What's your priority?

Waldo Perez Leskovar:

Thank you for your question, Victor. As we have talked about for some time, leverage is a focal point for CCR. We are always addressing the topic of extending the maturity of our debt as well as making our capital structure more efficient. So we ended the quarter with a significant cash position, as I mentioned in my presentation, with a net debt of about R\$22 million, so very steady.

Our loans for Lines 8 and 9 have already been addressed. They are already being refinanced for the rest of the year. And this already taps into all of the other investments relating to Lines 8 and 9 with blocks with the central and south blocks, we expect to conclude the long-term investment that will also lead to the releveraging operation coinciding with the payment of our bridge loans and payment of our debt, helping us to adjust our debt profile to the profile of the project at large. So we are still focused on that. When it comes to new investments, we still have some firepower. We have substantial room with what we have already been doing.

It's worth mentioning that we also have portfolio recycling options to address our balance sheet. This is a constant concern of our board of advisers and management. And as we have done in the recent past, we are always open to partnerships whenever there's synergy or a uniform guideline as opportunities requires. And this is another way for us to grow in a sustainable and cautious way without excessively burdening our balance sheet.

So to your question, we are still selectively looking at opportunities. We have firepower to work, and we will go for the ones that make sense and match our profile at large.

When it comes to new auctions, our priority is what we have stated in our strategy. Currently, our strategy is focused on allocating capital to Brazil and the three business units we currently operate in. The most visible short-term opportunities are in urban mobility and highways. We expect to have six new batches of highways in the state of Paraná that will be auctioned by the federal government. And we are talking about R\$40 billion in CAPEX and what we have for the next few months, batches 1 and 2 in Paraná, and we are looking at those very carefully.



And in Urban Mobility, one project that's on our radar, which we have been looking into very carefully, is TIC and Line 7. This is a very substantial project with great synergy and convergence to our project in São Paulo, but it involves a number of challenges as well.

And we continue to provide the granting authority feedback so that they provide a more appropriate risk-return ratio so that it is attractive to the private sector. So we continue to adopt financial discipline, also looking at opportunities in a very careful way.

Julia Orsi, JPMorgan:

Good morning. We have two questions. First of all, with CAPEX in mind considering the deflation scenario, can we expect to see some additional adjustment in the next few months?

And for the next auction, especially for the batches in the state of Paraná, what is your expectation in terms of competition?

Waldo Perez Leskovar:

Perfect. Thank you, Julia. Well, in regard to CAPEX, the CAPEX account involves an accounting calculation where we add the numbers from the proposal that was the winning one. But to your question, you are absolutely right, the pressure on commodities has decreased substantially since 2021.

We saw a substantial decrease in general, looking at all our commodities. For example, steel went down by 4.9% since last year, the cap went down by about 11.5% in the 2H23. And last year, there was a decrease as well. All of that affects the CAPEX of each of our projects. When we were awarded these concessions, we were near the peak of the commodities boom.

So our pricing calculations already accounted for higher raw material prices than where they are right now, but these are 10-year, 7-year, 12-year-old investments. So we need to coordinate with our input teams to allow for any future increases. But for now, we are still within what we allowed for in our investment plans, and we will continue to execute them.

As for the batches in Paraná, as always, we expect the competitors to be the same as we have seen in previous opportunities, but this is still an analysis. Every unit is already tight, but we have not concluded our analysis yet. But we know there are other competitors looking into them as well.

Julia Orsi:

Thank you, and have a great day.

Jay Singh, Citibank:

Good morning. Thank you for taking my question. My first one is, do you have any interest in other airport assets, whether it's in Brazil or it's international? And I have a follow-up.



Waldo Perez Leskovar:

Thank you for your question. As I mentioned earlier, our strategy is to allocate capital to Brazil. So any new opportunity we look into will be in Brazil, and the three businesses we work in are Highways, Urban Mobility and Airports.

Jay Singh:

And as a follow-up, I would like to ask regarding the Urban Mobility segment, do you think that it would make sense for CCR to invest in eVTOLs, whether it's now or 10 years from now?

Waldo Perez Leskovar:

Urban Mobility is a business where I believe there will be a substantial change over the course of the next 30 to 50 years, especially in large urban areas and metropolitan areas, especially those where we already operate.

So we might see more of a multi-mode system where you will operate not only a subway system or an overground train system, but combine that with other urban mobility choices to provide a more complete service to our clients. And within this outlook, we believe there will also be opportunities we might look into in the future in terms of freight.

It's no secret that in cities like São Paulo, where we have a very strong footprint, we see growing inefficiencies when it comes to bringing merchandise to the product. So we believe that logistics solutions that will incorporate our own mobility systems may be ceased.

So these are things for the future. We do not have exactly the idea of how that will work.

Jay Singh:

Super helpful color. Thank you.

Andressa Varotto, UBS:

Good morning. Thank you for taking my question. I would like to follow up on the CAPEX question. When we look at the 1H23 versus your guidance, we noticed that the Company is a little bit behind when we look at the CAPEX for the year. And I wonder whether we can expect your CAPEX to accelerate over the course of the year. And would that be a result of this decrease in raw material prices?

And my second question is more of a curiosity really. I would like to understand a little bit better the incoming projects, especially with Lines 8 and 9 and the ports for the Central and South blocks, how are they performing versus the Company's initial expectations? Those would be my questions.

Waldo Perez Leskovar:



Perfect, Andressa. Thank you. Our CAPEX, including the CAPEX for ViaOeste, which has been including cost as well, R\$2.8 billion for the year. Naturally, CAPEX is never uniform. It's not something that you can divide into 2 or 3 months. It's always based on the conservation and the progress of works and the performance of the teams. We have just started our works in the south and central blocks, which will be more significant for the 2H23.

So what I can say is we are in line with what we had planned. At the beginning, we do expect to see an acceleration in the 2H23, especially in terms of volume. And for now, our internal forecast and outlook is to achieve what we expected at the beginning of the year.

As to returns, these are 30-year long projects, 30-year long concessions which involve more significant investments at the beginning, especially with Lines 8 and 9 and South and Central blocks, more dispersed over time and with RioSP, which will start more in 2025.

But for now, we are within the expected in general. Our most significant challenge has been with lines 8 and 9. We have been seeing very substantial demand challenges. We had a first year where we were able to mitigate that by 5%. That range has gone to 15%, so the demand risk has gone up.

And even though demand has been recovering month after month, Urban Mobility at large has underperformed the expectations, which has had an impact on the revenue for lines 8 and 9, where we also had to make a number of investments earlier than expected, since our assets there were a little bit more deteriorated than we had anticipated initially.

So we have about R\$580 million, give or take, within our investment plan that had to be made earlier, which obviously impacts our tier. And we have invested about 60% of that already. So this is one point of attention with Lines 8 and 9. We will continue to invest in the operation so as to operate that as we expected, always meeting our users' expectations. And over this 30-year concession we will have to continue to monitor that performance. But for now, we are very much in line with what we had planned. And again, we are focused on execution at this point.

Andressa Varotto:

That was perfect. Thank you.

Lucas Barbosa, Santander (via webcast):

Good morning, and thank you for taking my question. I have two questions. Could you add some color to what is the most significant rebalancing work that's still in discussion with the granting authority?

And two, how attractive do BR-381 and Paraná Batch 1 projects look to you at this point?

Waldo Perez Leskovar:



Thank you, Mr. Barbosa. About the rebalancing work, we are still focused on several different discussions. We have been very successful in a number of ways in the last few years. The most important ones right now are BH airports, where we expect to rebalance some of the work compared to 2023. The rebalancing has always taken place at the last quarter of the year. So conversations around that have been very positive at this point.

Recently, we also had an increase in fees for the state of São Paulo, starting in July of this year, and this should already have an impact on 3Q and 4Q, which is really when we start rebalancing for the beginning of covid.

We also saw the extension of Aeris, which was rebalancing for the COVID period. and we will see more of that moving forward. We also have the airport in Quito, where conversation is very much advanced and should lead to an extension of that concession contract as well.

And lastly, a very significant rebalancing work in Urban Mobility in São Paulo, considering that during the pandemic period, demand was fairly below the maximum 40% limit of our mitigation range. And conversation has moved forward in a very positive way. We expect to have very good news very soon.

Bruno Amorim, Goldman Sachs (via webcast)

Thank you for taking my questions. I have three. How do you look at the competitive environment for Highways and Urban Mobility? In those two businesses, how does CCR's competitiveness play into the fact that some competitors are verticalized and work on construction as well as operating concessions?

The second, should we expect anything similar to CAPEX by R\$2.5 billion in 2H23?

Waldo Perez Leskovar:

Thank you for your question. When it comes to Highways, we need to split the world in two. There are Highways that require investments that are very significant because of their length and complexity. In that sense, competition has been, and we expect it to continue to be very limited. So we will continue to compete with the same actors we have completed so far. When it comes to construction, we have increasingly more relied on partnerships. So we forge partnerships in projects that really are more complex, so as to mitigate risks.

And we believe that, that should be a prevailing strategy in the market, and that should make us even more competitive than right now. And I think the same can be said to Urban Mobility. We saw a more recent increase for Alliance 8 and 9 when it comes to competition.

But also as a strategy we have partnered with EPC users. And we made one of those contracts precisely so as to mitigate risks and for more safety so that we saw increased competition in this business. So that's the strategy we have adopted, and we believe this is one that has proved efficient so far and should continue to prove so.



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And to your question about CAPEX, I have talked about this before. It is not linear throughout the year. We are still planning for the 2H23, and we expect it to be very close to what we have planned for at the beginning of the year.

Operator:

Thank you. This concludes our question-and-answer session. I would now turn the conference over to Mr. Miguel Setas, for his final remarks and conclusion. Please, Mr. Setas, you may proceed.

Miguel Setas:

I would just like to conclude by thanking you for joining our earnings conference today, and also reinforce a few of our initial messages. Again, this was a quarter where we saw demand bouncing back.

We still believe that this will be a trend for the 2H23 as well. We are focused on improving our operational efficiency and our cost efficiency. This was a positive quarter in those terms. We were below inflation, and that will continue to be our focus.

In CAPEX as you know, we have a very robust investment plan to follow, and the 2H23 will be critical for us to reach a historic milestone in CCR's history.

We are also paying close attention to contract management. The answer to your questions also made it clear that there is a set of improvements in our contracts that will be critical to maintain economic balance in all of our concessions.

So I would like to conclude, once again, by thanking you, wishing you a great weekend, and hoping to see you in the next quarter. Thank you, and have a great day.

Operator:

CCR's 2Q20 Earnings Conference has now concluded. If you have any questions, please submit them to ri.ccr@ccrgroup.com.br. Thank you all for joining us and have an excellent day.

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