Operator:

Good morning, ladies and gentlemen, and thank you for waiting. Welcome to CCR S.A.'s 4Q23 video conference.

We would like to inform you that this conference is being recorded and simultaneously translated. You may access the translation by clicking the button labeled 'Interpretation'. If you are listening to the conference in English, you can also disable the audio and Portuguese by selecting 'Mute Original Audio'.

Before we move on, we would like to clarify that any statement made during this conference relative to the Company's business prospects, forecasts, operational and financial targets are based on CCR 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 since 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 lead to different future earnings for the Company and lead to results which are materially different than those expressed in such statements.

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

Miguel Setas:

Thank you, operator. Before anything, I would like to welcome everyone to this conference where we will be discussing the results from 4Q23 and also the end of last year. I am joined by Waldo Pérez, our CFO; and Flávia Godoy, our IRO, to present to you the results of the last quarter of last year and also to have a question-and-answer session at the end of this presentation.

Before anything, I would like to wish everyone an excellent year 2024. This is the first session we are meeting this year. And also thank you for the support you have given the Company, especially since I have joined in April 2023. 2023 is a year we consider extremely favorable from the strategic and operational standpoint, as Waldo Perez will also detail later on.

And as you may remember, this was a year when we updated our strategy. We updated our strategy and our value acceleration program as we presented to the market during our CCR Day back in September.

As part of this revised strategy, we reset our culture and also, at the end of the year, reorganized and restructured the Company gearing it towards a more agile, efficient and streamlined operation, as we have also presented during CCR Day.

This value acceleration program has 5 different work fronts. And I stressed these 4 ones: the new strategy, a reset culture and a new organization. The new organization was based on a simplified hierarchical structure with fewer hierarchical layers and also the regulation of what we have, which is also something that's very important to us.

On the issue of growth, I would like to stress that 2023 was a year where the Company broke records. We invested R$6.2 billion, up 95.7% compared to 2022. This was the highest level in the Company's history, which shows how growth has accelerated in keeping with the provisions of our strategy.

These 4 dimensions: growth, efficiency, risk/return ratio in ESG were the priorities we have elected for this year. There was a lot of growth but also improved efficiency. And on the topic of efficiency, I would like to stress that we have expanded the Company's EBITDA ratio by 2.4 p.p., 2.4 in the year as a whole. This led our OPEX over net revenue ratio to about 40%. Our plan is to have that rate closer to 38%. That's part of our strategic plan so that we can be part of the group of most efficient companies according to our benchmark.

Another word on debt. We have announced over the course of 2023 that we would, and we did end the year with R$3.2 billion of debt in the holding as Waldo Perez will detail later on. On the issue of risk/return, I would like to stress that we have very healthy levels in our balance sheet with a leverage of 3x the net debt, which is very much in keeping with our policy, our limit is 3.5x.

So we are comfortably within that range. And this took place within a context where the CCR Group was able to also rebalance its contracts, which led to a derisking of about R$2 million in our concession contracts. A very significant number which follows from the work the Company has been doing to mitigate the risk in the management of its concessions. We are also going to improve our dividends as well.

On ESG, I would like to stress the quality of our services. We received several awards. Just a few mentions. We were awarded the best toll road according to CNT. Also some of the best private airport terminals according to ANAC's assessment of the most important ones, two of the most important ones are managed by CCR, one of them in partnership with an international operator.

We have the best subway line, Line 4 in São Paulo and many other awards that show CCR's operational excellence, reinforcing its leadership in the national market and Latin America.

Our leadership in ESG is also translated by our SBTi targets. We are the first company to have these targets approved in Brazil. Also, we are the first company in the infrastructure and mobility industry to have AA rating by the Morgan Stanley MSCI. And also we doubled our renewable energy capacity across our toll roads and also great social investment and the improvement of our culture.

So CCR has been a great driver of change with its impact in society over 2023. So it's a year we have a lot of reasons to be proud of, and we are very excited about the strategy that we are implementing and with very positive profit as well.

I will be back during Q&A. And now I would like to turn it over to our CFO, Waldo Perez.

Waldo Perez Leskovar:

Thank you, Miguel. Good morning. Let's now go into the financial results of 2023. Once again, we delivered solid financial performance, consistent across all the transportation needs we work on.

In passenger car equivalents, we saw an 8.4% increase, with positive highlights for those concessions, which are in the agricultural distribution route ports, such as AutoBAn, SPVias and MSVia favored by the strong export traffic. The sound performance also has to do with the increase or the beginning of the charge of taxes in lift axle vehicles with digital tax documentations that led to about 4% of the total charge in ViaLagos, ViaRio, and Renovias.

For passenger vehicles, also very interesting results, up 5.8%, outperforming what we saw before the pandemic. That made up a record level of traffic across the Company's toll roads under concession.

In Mobility, we saw an increase in 4.2% in the number of passengers. That rate is the result of continued rebound in-person activity since the pandemic, a process that can continued to be consolidated over the course of 2023.

In Ferries, we saw an increase of 19.4%, mirroring the economic rebound in the central region of Rio de Janeiro. In addition to that, over the quarter, we saw highlights in Line 5, ViaQuatro, VLT growing by, respectively, 9%, 6.2% and 5.1%. These units are more sensitive to the services and trade industries, and we are, therefore, strongly supported or boosted by the return of in-person activities.

Airports went up by 10%, stressed for Aeris and Freeport as international routes were consolidated and the domestic demand came back because of a larger occupancy and aircraft and higher frequency of flights. In Curaçao, flight occupancy also increased, which also contributed to that result.

When we look at the domestic airports, we also saw great performance in international traffic, especially with BH Air, we saw an increase in the supply of flights by Copa, TAP and Avianca, and we also saw the beginning of international operations by Azul in 3Q of last year. In Bloco Sul, positive impact due to seat supply in existing flights and existing routes.

Looking on the cost side, we continue to focus on superior efficiency in an attempt to take the Company to the first quartile of companies within this benchmark in an international level. We were able to deliver a wider adjusted EBITDA by 4.5 p.p., showing that we are on the right path.

As Miguel said before, the Company will try to reach and keep CAPEX or cash over net revenue at or below 13% in 2023. And despite consumer price index of 4.62% in the period, cash costs disregarding nonrecurring effects was virtually nil at 0.2%. Again, this shows that our cost is very much under control, and we are very much focused on this issue.

When we look at the changes, third-party services increased by R$23 million. In this case, much because of safety, surveillance and cleaning services in Lines 8 and 9. And across CCR, we also had the impact of adjustments in our existing contracts as well as some spending with consulting support to help us with our value acceleration program, as Miguel has already mentioned. We also saw an increase in our concession fee costs with an increase of the fee over tolls in ViaOeste that was the main factor, an increase of 5.3% during 2023.

We also saw an impact from the increased revenue in places where revenue entails a variable fee. So fees were also higher and this includes the airport of Curaçao. Personnel costs saw a decrease by R$10 million compared to the previous period. In this case, the cost was R$8.2 million in 2023 relative to the indemnification of some of our associates seeing as the ferries contract expired, which was partly mitigated by the collective bargaining that took place in the second half of 2023. As a result, we ended the year with R$1.55 billion in cash costs, excluding nonrecurring effects.

Looking at the adjusted EBITDA. The combination of strong demand growth and efficient cost control led to a significant adjusted EBITDA across our expansions of 4.5 p.p. The adjusted EBITDA in Roads, Urban Mobility and Airports grew by 15.1%, 13.1% and 43.6%, respectively, very substantially.

When we look at mobility, the revenue from our financial asset grew by substantial increase in that period because of Lines 5 and 17. But when we experts these nonrecurring effects, the line showed 62.1% performance mirroring the incidence of monetary or financial correction and interest in the base for September 2023. The most significant concessions in this case are VLT, Bahia and ViaQuatro.

Moving on to net profit. Our adjusted net profit increased by 185% during this period, very substantial growth, which mirrors strong improvement in our operational performance, the cost control that we are still focusing on and where we have been increasingly more efficient, and the lower corporate tax rate recorded in that quarter because of our payment of interest on own capital, which was very positive because of the operational efficiency of our concessions. Our adjusted net profit was R$319 million in the period and corporate profit of R$115.4 million in the period.

We continue to focus on the execution of our investments, which amounted to just over R$2 billion in 4Q23, meaning up 48.1% over what we invested in 4Q22. It's also worth mentioning that in December 2023, we made the largest investments in toll roads ever made by CCR in a single month, over R$500 million that month alone. In 2023, our investment came to R$6.2 billion overall, up 95.7% versus the previous year. That was another record for CCR and showed the Company's ability to execute its investment plans.

Over the quarter, the concessionaires that invested the most were ViaMobilidade with Lines 8 and 9, Rio São Paulo in roads by recovering some of its pavements and doubling several parts of BR-101. ViaSul restoring some of its payment adding other roads and doubling also parts of BR-386 and Bloco Sul broadening and adjusting its airports to better serve our clients.

With those investments and the Company's financial performance, we ended the quarter with a very robust balance sheet and our leverage under control. As you can see, our net debt over adjusted EBITDA ended at 3.0x, showing stability over the last 5 quarters. It's also worth noting that the net debt came to R$3.2 billion for the holding, down 48%.

So as Miguel well said, this was a substantial decrease and shows our discipline and the focus this issue has for us. When we look at the amortization time frame, you can see that they have become more linear over time with a smaller refinancing risk in specific years.

We went for several contracts for refinancing of our loans. And as you can see here, we also invested just over R$5 billion in the southern block, central block, ViaSul and ViaMobilidade.

We will now be focusing on refinancing the bridge loan for RioSP. And as a result, we should have an amortization schedule that's very much in keeping with our operation and which will allow us to continue to seek for better growth opportunities.

Lastly, I would like to reinforce that the solid results from 4Q23 will allow us to continue to derisk the investments that we have already made, as well as to continue to implement our allocation strategy with discipline and conscientiousness.

With that, I would like to conclude my presentation, and we will now open the floor for questions. Operator, please, you may proceed.

Lucas Barbosa, Santander:

Good morning, and congratulations to everyone for your results and thank you for the opportunity. I would like to ask you about your traffic prospects for this year. How important is grain logistics for CCR's traffic prospects? Would you say that the crop failure would have a significant impact on CCR's traffic wise? Thank you.

Waldo Perez Leskovar:

I think I can take that one. Lucas, thank you so much for your question. 2023 was a year when we saw a record-breaking crop results at large. There's also uncertainty about 2024, about whether those levels will remain unchanged.

But it's important to note that the traffic profile of our toll roads ranges widely. Only 3 of those roads see a significant range of the agricultural industry, AutoBAn, SPVias and MCVA. So we will have to see how the industry develops to really be able to say something about that over the year.

I do not know if you have anything to say about that, Flávia.

Flávia Godoy:

I think that it's also important to note that the beginning of charges on lift axle vehicles, which began in 2Q in the southern concessions that was in 2023 in 3Q in São Paulo and most recently in the toll road concessions in the state of Rio de Janeiro. So that also confirms that the Company will continue to see the same level of revenue. If you look at what we are doing, we have also been between 1.3x and 1.5x the GDP.

And as Waldo said, we will continue to monitor these changes in crop results. Another important thing is the contribution of that of 1.5%, there's also a strong connection with our business. But when you go to other routes under the CCR Group's concession, we are talking about 55% commercial vehicles and the rest, there's a very wide-ranging basis of vehicles.

Rogério Araújo, Bank of America:

Good morning. Thank you for taking my questions. I have 2 questions. First of all, about the cost reduction. If you could add some more detail about the reorganization of the corporate structure, especially when it comes to the toll roads, what I understood is, in the past, the Company said it would have an administrative structure for toll roads in general. So I just wanted to understand a little bit better how that would work. And also, when it comes to SPS, how would costs be allocated? And most importantly, what's the potential of that in terms of reducing duplicate costs and SG&A over revenue?

And my most significant interest would be not only to understand the new structure, but also understand whether this 38% of revenue, which is the target for SG&A threshold. I would like to know if there's any chance it might be significantly higher than that in the next few years. That would be my first question. Thank you.

Miguel Setas:

Thank you, Rogério. I will begin answering your question and then turn it over to Waldo, who will add a bit more details. Just to add some context about our global reorganization, not only in the toll roads department.

We ended the year reorganizing our organization. We became a more strategic holding, our holding had about 300 people. We have reduced that by about 30%. Alongside that, we also brought a platform organization to most of the Company.

And what you said, Rogério, about a unified overview of administrative departments, we are adding that to all our platforms, the toll roads platform, the urban mobility platform and the airports mobility, adding organizational coherence and an entire structure when it comes to the full management of all of its topics. So these platforms will be ready to be automized and to establish partnerships with other concession operators and fully manage its P&L.

And at this time, we are now moving to a second reorganization process. We took this first step in January to add a platform sense to our business to streamline our holding, create a service excellence department. So we now have 4 departments that now stand out as strategic departments in CAPEX management, supply chain management, technology and customer experience. These 4 departments were created as core to serve all of these platforms.

And besides that, we also decided to refocus or we gear our services center to focus on efficiency. So we are also reorganizing what we call CSC or Shared Services Center. So not only in the toll roads, but also urban mobility and airports. So we are now in a second stage of the project revisiting the entire size of the Company, creating these centralized structures so that we have better critical mass to manage the platform. That way, we will have these costs separated or concentrated in each organizational header to individualize each of those platforms.

So as you mentioned, our purpose is to reach 38% cash OPEX over net revenue. We have a plan outlined for that for covering the next 2 to 3 years. So at the end of 2026, we should be below 38%. That's our medium-term plan to see that continued trend through 2026.

Naturally, that will involve a few costs as well, which should be considered restructuring costs that might be a slight burden during this time. But in the medium term, over the next 3 years, the plan is to be at least slightly below that benchmark of 38% at the highest.

Waldo?

Waldo Perez Leskovar:

I think it's important to mention that we have already identified as said before, line by line, where opportunities lied. We are now defining our plans of action, which actually have to do with reviewing the personnel structure or with streamlining our process so as to make some of our processes faster, more efficient, and also to make the organization simpler.

We are also looking into potential outsourcing opportunities for the medium term, not only for existing costs but also to keep or even improve the quality of the service we provide for our platforms. Technology is becoming an increasingly important building block so we are now identifying automation and robotization opportunities, which we also expect will bring a superior efficiency for the group.

And also, long-term digitalization is something we believe will set us apart more and more within the CCR group. So several initiatives, some more in the near term, others in the longer term, all of which we believe will take us to this efficiency level we have adopted as our ambition.

Rogério Araújo - Bank of America:

Excellent. Thank you so much. My second question has to do with the MSVia's recontract processing. If you could add some color to that, that will be great.

Waldo Perez Leskovar:

It's been 2 days since the government's audit court have accepted to analyze our filing. Our work group has been set up and the court has 90 days to reach a conclusion, which may be extended to another 30 days. So in the next 90 to 120 days, we should have more concrete information to give all of you about that process.

Guilherme Mendes, JPMorgan:

Good morning. Thank you for the opportunity. We also have 2 questions. First of all, on the auctions side, thinking about the auctions that are closer to taking place with mobility and then on the toll roads, what's CCR's appetite for that audit specifically? If you could think about where your heads at in terms of regulation and risk/return, and how do you see the competition, or what do you expect from the competition for these 2 assets?

And my second question with regard to CAPEX, do you see any significant upside considering the CAPEX that you have planned, considering the pressure that you expect going forward.

Waldo Perez Leskovar:

Thank you so much for your question, Guilherme. CCR is still looking into all the existing opportunity across the industries that we work on, there is an opportunity coming up as part of a consortium. So we are looking into it very closely. Until the date of the auction, we will have concluded our analysis and submitted them for approval, at which point we will decide how we will participate. But we are very much engaged in that process.

With regard to 040 between Belo Horizonte and Juiz de Fora, that's another very interesting opportunity. It includes about R$6 billion in CAPEX. That's an average profile. So this is another toll road where investments would start more significantly after the third or fourth year of operation.

So in the first 3 years, that would actually have a positive impact on our leverage ratio. So we are looking into both opportunities. It's running through our governance process. April 14th toll road involves a little bit more time. But as for competition, we believe there will be competition in both cases for ticket Line 7. We know there are other consortiums looking into that and April 14th, because of its profile and interesting return, we also believe it's being assessed by some of our competitors.

As for our CAPEX, you asked us about our future CAPEX. We expect R$8.6 billion, including ViaOeste. If you exclude that, that would come to R$7.6 billion. This figure includes the postponement of just over R$2 billion in the figure for 2023. That was covered by our business plan.

And as for synergy realizations, we are also looking into possibilities to optimize and streamline that CAPEX, which is why we have segregated our supplies operation into two, the more transactional recurring purchases moved to our shared services during the reorganization process that Miguel mentioned, and the supply chain department becomes a strategic area where, in partnership with the engineering team will work on optimizing projects and in our hiring.

And through this excellence center, which is cross-cutting for many of our platforms, we expect also to realize some of these figures that we expect.

Victor Mizusaki, Bradesco BBI:

Good morning. I have 2 questions. The first has to do with your airports operation. You talked about an increase in 45% in your airport operations. And more recently, we saw the IPO of an airport in Greece. We know that this will be significant for the industry. My first question is what have been your strategic discussions about that?

And my second question also on the issue of airports. We saw large investments in the southern block. And when we look at CCR's explanation note, the sum is very similar to that, considering the commitment to invest on that. So thinking about airports 2025 and beyond, we might expect your airports division to become a great cash generator for all of you? Are we aware to think of that?

Miguel Setas:

To your first question, Victor, how strategic discussions have evolved about the airports division. Well, as we said, they are consistent with the strategy that we announced during CCR Day. At that point, we announced to the market that our purpose is to derisk that platform during the first months of this year.

So we plan to reach the end of 2024 realizing the R$1.7 billion that we still have to execute during Stage 1b for our airports division. And that is our main priority to have these assets derisked.

And as we have said before, during our CCR Day, we are aware that consolidation is inevitable in the airports industry. And being one of the main players in the national or regional department, CCR is naturally interested in taking part in those movements.

But that is something we expect to be in a longer time horizon, meaning it's not imminent. As I said, we are focused on derisking our assets, but we are still paying close attention to those movements in the market, and willing to take part in them when the time comes.

I think that Victor’s example is a great one. It shows the potential of this industry. So this is a possibility. We are within the realm of corporate configurations is something that we do not dismiss. It is a movement we consider to be possible within the context of consolidation and the evolution of this platform as previously said. So we are still on the strategic path that we announced before and implementing what we had purposed to.

Waldo Perez Leskovar:

Victor, as for cash generation, we are convinced our airport platform will be a cash generator. We have a more mature mix in the newer assets now in Brazil effectively in the central and southern blocks. We will continue to grow. You saw that demand increased by 10% in the last quarter. Airport demand has a higher requirement relative to GDP in terms of cost.

We have benchmarks with other airports in Brazil, and we are convinced we are a role model. We are still seeking to optimize our cost base across our industry. So we do believe we have a very promising business, and we will be paying close attention to every opportunity, as Miguel well said, and even if it makes sense at any point to issue shares to the market. Whatever unlocks the highest value to CCR and its shareholders, that's the path we will follow.

Filipe Nielsen, Citi:

Good morning. Thank you for taking my question. There are 2 points I would like to cover. First of all, I would like to follow up on the CAPEX issue. In the past, you have said that your executed CAPEX is actually 60% to 70% of your guidance for the year. I would like to understand whether that average also applies to the CAPEX you included in your guidance for this year. And also, how much of that CAPEX represents any postponement of investments from 2023. We know that last year, we had stronger rainfall in the south, so I would like to understand a little bit of the breakdown of that guidance for CAPEX.

And also, in terms of effective rates and your debt for the holding, we saw very significant progress in that sense, but you also showed R$3.2 billion. So I would like to understand how much improvement do you still expect on that? Maybe the actual rate for the current trillion might be more positively impacted by your interest over capital, but I would like to understand what you expect in terms of structural improvement in that sense. Thank you.

Waldo Perez Leskovar:

Perfect. Thank you for your question, Filipe. First of all, to your CAPEX-related question, when we settled on our investment plan, the investments we decided on pursuing were those which we either thought were required or mandatory for regulatory issues. So when we decide on a sum, that's the actual sum we will pursue for the year.

But the world is a dynamic place and sometimes events will take place during the execution of highly complex construction work, for example, that may lead to delays or sometimes even anticipation. So there's no percentage that will be below what we are pursuing. We settled on an issue which is R$8.2 billion in 2024, including our investment in ViaOeste.

We carried over from last year to this year, which is just over R$2 billion, is connected to the trains for Lines 8 and 9, which were supposed to be delivered last year, but will be delivered this year. So again, something that's out of our control.

And the investments that were delayed on ViaSul and ViaCosteira were delayed because of an unusually long rainfall period. We had about a month with only two days of work. So these are unpredictable factors that we consider force majeure, so to speak. So they do not impact us in terms of penalties. So these are 2 major examples of what has actual impacted this figure. I do not know if you have anything to add on this topic, Flávia.

Flávia Godoy:

I think it's worth stressing, Filipe, that today, the Company has CAPEX of about R$33 billion across our 4 concessions. When we look at 2024, the figure we reported yesterday to the market was our capital budget. So it's the best estimate of investment that the Company expects to make during the year.

When you look at a few concessions, for example, Line 5 within that CAPEX figure, we include investments in improvements or commercial revenue or investments that may be subject to rebalancing, but at a smaller rate.

So in 2024, there's some investment we have already planned for and some mandatory investment as well as potential investments as well. And as Waldo said, about R$2 billion moved from 2023 to 2024, and the Company's execution history is about 75%. That's not a guidance for 2024. Of course, we are devoting all our efforts to be assertive with these numbers and to execute this year just as Waldo mentioned.

Waldo Perez Leskovar:

Perfect. And as to your net debt related questions, I think we have made clear that we have made some significant efforts. We saw a decrease by nearly 50% in the holding's net debt, our ambition is even greater than that.

What we would like is for this figure to come eventually to zero net debt, but that will depend on a few factors such as the cash generation of our operations or the recycling of our assets, our portfolio management, for example, which at some point, might help us to unlock some capital and bring back to recycling. And then we will assess how to go about that. So these are paths that we are pursuing, and we are very much focused on that.

As to the actual rate, this is not the only thing that impacts our actual rate which has improved significantly, not only through that but also through the interest over capital distributed throughout the year, given the better performing operations overall within our Company.

So operational performance is key. But when it comes to inefficiency because of the fiscal consolidation in Brazil, inefficiency compromises that as well. So when the ferries works are completed in February 2025, we believe we will be closer to that actual rate that we reported.

Alberto Valerio, UBS:

Good morning. Thank you for the conference. I would like to know if you have any update on disinvesting from airports. Do you see any decrease in the supply of domestic flights?

Waldo Perez Leskovar:

Thank you so much, Alberto. So on the topic of airports, as Miguel very well stressed our purpose this year is to ensure good performance and the conclusion of our investments in Stage 1b, thereby derisking this investment overall. Aside from the fact that we are focused not only in improving traffic, but also optimizing our commercial revenue and seeking new value generation opportunities. So there is no clear divestment plan as we speak.

But once this investment, which is a priority for us, has been concluded, we will start looking at operations for consolidation around the market. This is a market where in Brazil, 90% is under concession already. Other concessions are expected in the medium to long term. So it seems clear to us based on our business intelligence, consolidation movements will occur, and we might take place or we might take part in them, considering our capital exposure, especially for airports.

As to your second question, we have not felt any decrease in the supply of domestic flights, quite the opposite, actually. At least our airports have seen a constant level of supply or even an increase in supply or load factor. So this year, performance has been really positive and we expect 2024 to see the same level of performance.

Operator:

With no further questions, the Q&A session is now concluded. I would like to now turn over to Mr. Miguel Setas for his final remarks and closure.

Miguel Setas:

I would like to thank everyone for your attention and the time you have devoted to our Company and reassert that our great enthusiasm about the introduction of our new strategy, which we communicated in September 2023.

We are starting the value acceleration plan with 25 new initiatives, a very comprehensive transformation plan, and we are highly engaged on having that translate into what we added to our vision, which is to achieve leadership in the industry generating sustainable value. This is our focus.

And on that, I conclude our presentation. We hope to see you next quarter.

Operator:

The CCR earnings conference is now concluded. If you have any questions, please submit that to the Company's IR team at irccr@ccr.com.br. We would like to thank everyone for joining us and wish you all a great day.