Operator:

Good morning, ladies and gentlemen, and thank you for holding. Welcome to CCR SA's 3Q23 earnings conference.

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Before we proceed, we would like to clarify that any statements made during this conference related 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 not a guarantee of performance. They involve risks, uncertainties and assumptions, as they relate on future events that, therefore, rely on circumstances that may or may not materialize. Investors should understand that general economic conditions, the state of the industry and other operational factors can lead to results that are materially different from those expressed in these 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:

Thank you to our operator. Welcome, everyone, to this conference call for the CCR Group, referring to the 3Q23. I am here with Waldo Perez; and Flavio Godoy, Investor Relations Director. And we are going to give you a summary of our highlights for the quarter.

I would like to begin by mentioning that, last week, we concluded the 6-months period, since I came to this position in the Company. It was very significant for the Company and for its strategic position, because we concluded a strategic plan that was presented to the market during the CCR Day we had with our investors, where we presented our 6 priorities.

First, profitable growth; secondly, having an optimized portfolio; third, efficiency; four, optimized capital structure; fifth, leadership in ESG; and sixth, world-class competencies. So these were the 6 activities we presented on which our strategic plan is based. It's based for the long and the short term, but it's also for our value generation program for the next months.

The plan that we implemented in the last months had 15 structuring initiatives, focusing on different dimensions of the strategic plan. And it was expanded for a further 10 more. So now we have 25 being implemented, which will deliver on 4 essential dimensions of our plan: growth, efficiency, returns, and leadership in ESG, the quality of our profits.

So I would like to briefly say that the 3Q results were very favorable. On one hand we had sustained growth in our demand, which has been posted sustainably for the last few quarters. And besides that, we have rigorous cost controls. As you will see during our CFO's explanation, we had a like-for-like reduction of 3.6% in cash expenses in comparison to last year.

It's also important to mention that we had an agreement that was extended due to the COVID-19 pandemic from the ones that we manage. So this is a significant part of our portfolio.

Also, I would like to mention CAPEX. The Company continues to be correct in its movements. And in the 3Q22, we had R$4.2 billion in CAPEX, which is more than twice what we had during this time in 2022.

Finally, I would like to mention our ESG agenda. Throughout the last months, we have also seen significant advances there. One of them needs to be highlighted. The CCR Group was the first company in the mobility and infrastructure industry in Brazil that had its carbon emission goals met according to the Science Based Targets Initiative, or SBTI.

So this is an important indicator of our commitment towards being carbon neutral. This has been communicated to the market, especially during the CCR Day. And our commitment is to have 100% of green energy in our 3 models. And we hope to use sustainable fuels in all of our light fleet by 2025.

Finally, the Company was publicly acknowledged this quarter as well by Social Communication Companies for its performance in the industry as being the best company in the mobility industry in Brazil. So we were very proud, and we need to celebrate that because it confirms what the Company has attempted to do in the last years.

So that's it from me. I will pass it over to Waldo Perez, the Company's CFO, and I will conclude later on.

Waldo Perez Leskovar:

Thank you, Miguel. Good morning, everyone. Let's start with the highlights for the 3Q23. Considering our demand, we had a very solid and consistent growth in demand this quarter across all of our modals. In highways, we had an increase of 4.2% in equivalent vehicles. For Urban Mobility, we had 7.4% increase. And in airports, an increase of 11.1% comparing in the 3Q22 and the 3Q23.

Looking at highways, commercial vehicles had a growth of 3.4%, a positive highlight for agricultural to port routes. So AutoBAn, SPVias and others were the best this quarter. And we also had significant improvement in the performance of Rio-São Paulo, starting to charge for suspended axles, and this increased our demand by 4.4% and 5.1%, respectively. These results will be consistent for the future, and they have a significant impact on our demand.

Light vehicles grew 5.6%, above what we saw in previous quarters. And this represents the economic recovery of the post-pandemic period.

In Urban Mobility, ViaQuatro was our highlight, 9.4% increases due to higher circulation rates, considering the activity of services and retail. We also saw an economic recovery in downtown Rio de Janeiro, and there has been higher traffic congestion in the Rio-Niteroi bridge, which increases our demand.

Airports. The highlight here was international airports. Quito and Aeris had increased number of flights, and we also saw higher occupation rates across the board. In Curacao, we also saw higher occupation rates for the flights they already have. So we had significant performance increases this quarter.

Continuing with costs. Discipline in cost control was very good this quarter. During CCR Day, we talked about our ambition to have operational efficiency in the top quartile. So our OPEX cash on net revenue, our goal is to reduce it, and we are on the track to do it.

Our cost discipline allowed us to extend our EBITDA margin by 4.4 p.p. this quarter. And our cash cost decreased by 3.6% between the 3Q22 and the 3Q23. So it was an expressive and important result in our cost control strategy.

When we look at the impacts between these two quarters, starting with third-party services. We saw an increase in R$4 million. The main highlights here were the removal of R$30 million concerning TAS operation, an operation that we no longer have, and increased expenses in maintenance and signaling, Rio SP, amounting to about R$10 million.

Concession fee costs increased according to the demand. So we have a variable concession fee according to demand. Personnel costs had a reduction of R$35 million since we no longer have TAS, but we also had an increase of 5.57% due to contract cancellations.

When we look at other costs, here we had a reduction in R$506 million of the sales of TAS, which we saw in the 1H23, and also the TAC for Lines 8 and 9, R$150 million, and investments in ViaOeste, which are considered other costs. So the cash cost of the 3Q was R$1.294 billion.

And recognizing these investments in ViaOeste, in TAC lines 8 and 9, our total cost was R$3.2 billion. So we had great performance this quarter. It impacts our EBITDA directly. So we saw increased demand, reduced costs. And that led to an increase of our adjusted EBITDA of 8.4%. And we also saw increased EBITDA in all our models. This increase in our Urban Mobility was 24.5%, for example, and in Airports 38.1%.

When you look at the gray part of the bar in Urban Mobility, we can see that this was the effect of the different inflation indexes on financial assets. So depending on the concession, we used IGP-M, IPC or IPCA. So the difference in inflation between the 3Q22 and the 3Q23 is what generated this positive impact to EBITDA in Mobility.

Net income for the 3Q was R$252 million. Starting with the adjusted EBITDA for the 3Q and adjusting it for noncash adjustments and nonrecurring EBITDA, we had R$1.6 billion, minus depreciation and amortization, net financial results and income tax, what takes us to our net income.

However, when we deduce the nonrecurring adjustments, which were R$250 million, we had an adjusted net income of R$502 million, which is quite relevant for this quarter for the CCR Group.

Looking at investments. As we said during the CCR Day, we have a derisking agenda. So we are focused on executing and delivering on our investment plan. During the 3Q23, we concluded at R$1.33 billion in investment. And that includes the cost of ViaOeste, because that is an investment, and this was an increase of 30.2% versus the 3Q22.

When we look at the 9 first months of 2023, we had a record of R$4.19 billion, so 31.4% higher than the same period in 2022.

Looking at the main investments for this quarter, we have lines 8 and 9, receiving R$226 million in acquisition of rolling stock or new trains. In Rio SP we had R$274.5 million invested in pavement recovery, expropriations, duplications. And in ViaSul, R$132.6 million in pavement recovery, additional lanes and duplications in some stretches of Highway BR-386. So again, it's a derisking agenda that is focused with consistent deliveries on this front.

Finally, looking at our balance. We have controlled leverage. Our debt profile is being lengthened. And we have a very robust position, which allows us to look at new opportunities in a very selective way, prioritizing capital allocation. We finished the 3Q with a net debt-to-EBITDA ratio of 2.9x, or R$22 billion. We had 3 captures during the quarter, one with VLT Carioca, one with Pampulha and 1 with ViaSul. A total of R$978 million.

Our holding net debt reached R$4 billion. As we said, our ambition is that this net debt will be 0. So we are going in the right direction towards that goal. And when we look at our amortization schedule, we have a very comfortable cash position, R$7.6 billion. And as we discussed during the CCR Day in 2023, this is already balanced. And when we look at 2024, we have something new here. We have some bridge loans from composing these $6.4 billion.

And now all we have to work on is the bridge loans for Rio SP that are due in December 2024. So if we look at our amortization schedule for 2024, it's R$1.2 billion plus R$2 billion. So R$3.2 billion that we have to address, meaning that we are in a very comfortable position.

This all takes us to our conclusion. During this quarter, we had a very expressive demand. We were able to control costs. We had operational efficiency. And this is all in line with what we planned for. We are always seeking better rates.

Derisking has been very intensive. So we are focusing on delivering on our investment plans. And we are opening more and more space in our balance through reduced leverage and by optimizing our capital structure, so that we can find new opportunities selectively.

So that concludes our results session. I will pass it back to the operator. Thank you.

Guilherme Mendes, JPMorgan:

I have a couple of questions. So Miguel, after your first 6 months, considering what you presented during the CCR Day and now, what do you think are the main challenges to reach the goals that you have received? And what keeps you up at night among those challenges?

Finally, if you can tell us a little bit about the competition that you have for new assets, not only your pipeline, but the potential clients that might be interested in highways and urban mobility.

Miguel Setas:

Thank you, Guilherme. So let me answer your first question. I would like to highlight that during the first 6 months, with the Board, we were able to create a strategic vision, right? So we defined a base strategy for the Company for the next years. So during the CCR Day, we also talked about our medium- to long-term view. We want to present to the market a vision that looks towards the long term.

I feel that the Board and the executive team is now very clear on our priorities. This makes me feel very comfortable. It makes me feel that our route is defined. We have received a lot of support from the Board about the strategy. So I confess that nothing really keeps me up at night considering this context, right? We have unique strategical clarity. After 6 months, it's great to see how well our executive team is doing.

There are 4 results that we want with the strategic plan, as I said in the beginning. We have a sustainable growth agenda that will allow us to give profitable growth. But obviously, this requires attention. We need to look at the opportunities pipeline, as you said in your question. The level of competition that we are going to face for these growth opportunities is something that we need to pay attention to.

Efficiency. We are committed to reducing our operational costs, our cost structure, and this will allow us to have cash OPEX over net debt of 32%. So how do we deliver on this commitment? This quarter is validating how the Company is looking at its cost structure very well. So I think that's a very important thing. We also have to look at all the inflation pressures, commodities and the international market. I think this is a dimension that requires attention.

Another of our pillars is returns. So we are focused on providing returns on capital costs. So the shareholder returns, for everyone investing in the Company, we want to make our returns attractive.

So we are focused on that dimension as well. And of course, we need to have good leverage. We need to have credit quality. So I would also say that this is a point that makes our strategy sensitive. And afterwards, there is a quality dimension considering ESG. And as we said to the market, we want to be the leaders there. We are also pressured to have leaders on the front line ahead of competition.

So we have 4 main points to pay attention to, as I mentioned. And honestly, Guilherme, none of it keeps me up at night. We are very focused on delivering on these strategies. And quarter after quarter, we are demonstrating it very clearly. We can see that this strategy is being implemented very well.

So this is our commitment. I do not know if you have anything to add, Waldo.

Waldo Perez Leskovar:

No, I think you said it very well. Our strategic plan has been very well defined. We have a number of initiatives focused on improving efficiency overall, not just in terms of costs.

We also are focused on services, supplies. Most of the results that we have here have been a long time coming.

Digitalization is another front that we will develop. And over time, we hope that it will provide more benefits and operational efficiency. We had a hiring freeze this year. And the Company is also defining what its optimal structure will be.

So there's a number of initiatives that are in our strategy. We are focused on delivering on that. And I agree with Miguel, there's nothing that will keep us up at night.

Miguel Setas:

And the second question, Guilherme, I think we all recognize that the macroeconomic context of Brazil is becoming more stable. And this is the context that we see in many areas of the world that are competing for capital.

Of course, we see that competition in Brazil will become more intense. During the last auctions, we saw new players participating, besides the ones that we regularly see in our industry. So besides that, we are also seeing players from the financial industry. We see international groups becoming stronger in Brazil. Companies that are more related to civil construction. So we are aware that in the highways industry, this landscape is more serious.

Urban Mobility, 70% of the market is in private company. So we have a very significant position. We have started seeing this during the last auctions. So we know that new players are coming in, new operators are getting prepared to participate during these auctions.

And some companies from Asia, some international players are also joining these auctions. So that means that we are going to have more competition, and we are getting prepared for that.

Victor Mizusaki, Bradesco BBI:

Good morning. Congratulations on your results. I have a couple of questions. The first is about charging for suspended axles in São Paulo. If I am not mistaken, that recently started. So if you could tell us a little bit about how that is going? And what was the impact of that in October?

My second question is, Waldo, you talked about the capital structure. It wasn't very clear for me. I am sorry if that question has been asked before. But when we look at the holdings debt, we see a downward trend. So are you working on any targets on when that debt will be reduced? So would that be done with dividend flows? Or would you need to have any kind of operation like capitalizing the holding or something like that? Thank you.

Waldo Perez Leskovar:

Considering suspended axles, you are absolutely right. In the state of São Paulo, we started those charges in early October. We had already been doing it in federal roads, in Rio SP, in Sul and Costeira The initial figures show an increase of about 3% our revenue for commercial vehicles. So it's still early. We will have to see how that's going to perform.

And considering your question about capital structure, you can see that there was a reduction of the holdings net debt during this quarter. We hope that by the end of the year we will also have additional reductions.

I cannot give you a precise target date. Our goal is more for the long term. That's our ambition at least, and we do believe that that will be possible with a number of factors. Dividends from our occupations will certainly be relevant, but as we said in CCR Day, we are going to start recycling our capital when the time comes, and it will definitely be an additional contributing factor to reach our ambition.

Rogério Aráujo, Bank of America:

Good morning. Congratulations for your results this quarter. I would like to talk about the cost reduction. It came as a surprise for the market to see that reduction year-on-year. During CCR Day, you mentioned a strategic plan that was going to be presented during the 3Q24, and the Company was still analyzing how these costs would be reduced, that you only had benchmarking, and that 3 margin points were something to be reached for Tier 1.

So I would just like to understand how this cost reduction connects to your cost-cutting plan. From what I understood in that waterfall graph that Waldo presented, there was a reduction in costs in TAS included in those figures. Is that right? And if you could give us some more details on what has already been done and how representative it is for your SG&A? And what has already been mapped, that would be great. Thank you.

Miguel Setas:

Thank you, Rogerio. Just one comment and I will pass it over to Waldo. Since I joined the Company, this message of efficiency has been discussed internally with our management team and even our business division.

So from the moment I arrived in April, we set a target for our budget of a 2-digit reduction. So as we are still analyzing, like you said, we announced this during the CCR Day, but since we are still analyzing or we are still creating a detailed plan to deliver on efficiency for the next years, we have some emergency measures. Recruiting, we have an admission plan, reducing these, I mentioned. So this is all undergoing and it will contribute towards these results.

This is not a recurring event. We are not saying that this will be the norm for long. We have a reduction of 3.6%. So this cost should be looked at a flat base right now. The reduction this quarter has some one-off factors. So I would not want you or the market, in fact, to have the perception that, for the next quarters, we are going to stay at the same level.

It was exceptional. But I would just like to say that, previously, we mentioned that we were going to start this plan and we have had some cost reduction results already. So we know that we need to go beyond that. We set 38% as a limit, as an upper cap.

Obviously, we need to work to be below 38% during that time. So this, of course, is an effort that will take a couple of quarters to be delivered.

Waldo Perez Leskovar:

Yes. And as we communicated to CRT, we are still looking at that in detail based on benchmarks. So we need to see how we are going to challenge ourselves and how we are going to reach that in a recurring way.

So there are measures that we have identified that we see some factors and we are reviewing our contracts in details once again to see how we can optimize our contracts. We split recurring from strategic purchases. So we are focusing on contracts that represent 80% of our value. So this is a very important front. It will have a significant impact. And considering our CAPEX, these costs will be expressive.

Now, operational structure. As I said, we had a hiring freeze. We are readapting our structure at the holding, and we are going to do it for the entire organization. And that will allow us to optimize the entire Company.

In some areas, we will require more efficiency. In some areas we will require more experience. So this will also help us to contribute to our ambitions. And last but not least, viewing processes. Optimizing processes for the entire company will provide efficiency and cost reduction, whether it is improving quality and internal services, but also providing productivity, which is what we are focusing on.

Looking at technology and shared services, we also have critical analysis of where we are doing well and how we can outsource some areas to have better services that are more efficient. So these are all initiatives that we are looking at. It will take some time, as Miguel mentioned, but I think it's important to make it known that we are focusing on our strategy.

Flavia, would you like to say anything?

Flávia Godoy:

Yes. Hi, Rogerio. So to answer your question on TAS, as the Company said during the earnings release, we presented nonrecurring effects, and in July last year, in the 3Q22, we had the sale of TAS. So that has been excluded from our results so that we have the same comparative base. And this has also shown in details the effect that TAS had in other lines. So our representation was R$35 million in the services line.

So again, this is a business that was taken out of the Company's portfolio. It was a strategy of the Company adopted in 2022, to sell assets that were noncore, and we have this impact when we draw that comparison, or when we put it on the same base.

Rogério Aráujo:

Thank you. That was very clear. If you allow me, a question on the renegotiations for the MSVia contract. How is that doing? We heard that the terms have already been negotiated between the Company and the government. At least this is what was it in the press. So, what else can you tell us, what should we expect in terms of new CAPEX, fees, revenue, and tier?

Waldo Perez Leskovar:

Rogerio, thank you for your questions. Yes. So we created with the government, a new contract for MSVia, which includes accelerating investments and a new fee. And this is now being discussed in the Court of Accounts. So this is now being analyzed and we are waiting for their feedback on that.

Initially, we thought that this would have been concluded this year already, but it's likely that it will happen during the 1Q24.

Lucas Marquiori, BTG Pactual:

I have 2 questions as well. First, I would like to hear about the CAPEX level. If I am not mistaken, the Company had a guidance for the year of R$7 billion to R$8 billion, and you are close to R$4 billion. So are we expecting CAPEX to go up during 4Q or will it go down for 2024? If you can give us an indication on what we should expect for 2024, that would be great.

My second question is about the public bid that has been going on for nearly a month. So what has been your perception on that, looking at the figures? Is the appetite for this project going up or down? So that's all. Thank you.

Waldo Perez Leskovar:

Great. So, to answer about CAPEX, yes, we still have some challenges in how fast these deliveries can go. Our teams have been engaged, engineering and our partners are aiming to deliver the figures that we promised for the end of the year. But of course, there are some events that are out of our hands.

So in Brazil, for example, we had some very rainy periods that went on for a long time. So to give you an example, we were only able to work for 2 days in the last month. So this kind of thing impacts how fast we can make our investments. In lines 8 and 9 were also having delays from our suppliers in delivering trains. So the global supply chain has been affected.

So those are the main reasons why we are still running short. But it's not concerning. We are still paying attention and we are focused on delivering on what we can for this new business.

About next year, we are still starting the budget process for our 5-year plan, and this process will conclude in early January. So that will allow us to understand what investments will be required for the next 5 years.

About TIC, do not think that this is any secret to the market. We have been looking at this project for many years. It connects to São Paulo's metropolitan region and our other lines. So I think we are the most experienced company in Brazil to take on this challenge. It's similar to the challenges that we had with lines 8 and 9, and we heard many things from other participants as this auction was organized. So that balance to the risks out from this project.

There are still some relevant risks. We are looking at them in our processes. And of course, we are very interested in this new auction.

Filipe Nielsen, Citibank:

Good morning. Thank you for taking my questions, and congratulations on your results. Actually, the questions I had were mostly answered, but I did have a follow-up question about CAPEX and one last question about airports. On CAPEX, just to see if I understood it correctly, these problems that are out of control can be understood as a CAPEX that is sliding towards the future, not an efficiency gain or derisking in the CAPEX strategy. Just to see if I understood it correctly.

My next question is about airports. Connecting to the comment that was made on in the CCR Day in Latin America, have you seen any potential assets outside of Brazil? What new projects have you seen? If you could give us some color on that, it would be great. Thank you.

Waldo Perez Leskovar:

Perfect. So about the CAPEX, to make it clear, I think you touched on an important point. We have contractual obligations due to the concession. But these obligations are not based on calendar days. They are based on future demands. So we are making an effort to reach those dates. So what's not done this year that is mandatory will necessarily continue next year, and so on and so forth.

So yes, trains on lines 8 and 9 will be delivered. And whatever is not delivered this year will continue next year.

The delay that I mentioned that we had in ViaSul due to the rain. If it's postponed by a couple of months, it will continue in February and March. So that's how concession contracts work. What we are always looking at in our risk matrix is that the end delivery date is not postponed. So that's our focus.

Considering airports, I will let Miguel answer.

Miguel Setas:

Yes, I can talk about that. During CCR Day, we tried to be very clear about our strategy for airports. So we want to limit our exposure to that mode. So our strategy is to focus on the 20 airports that we have. We have some CAPEX to execute and we have been doing that in phases A1 and B -- new routes for airports, and that's what we are focusing on.

Considering our competition and how the market is doing, obviously, we are keeping an eye on those opportunities and what's happening in Latin America, because as we have already communicated, we think that it's possible to have partnerships, and that will allow us to increase our footprint and will allow us to have more profitable airports with benefits.

So not only from the regulatory perspective, but we are also looking at, for example, the situation in Mexico. But capital allocation as we said in CCR Day is being done that way.

Operator:

That concludes our questions-and-answer session. We will now turn it over to Mr. Miguel Setas for his closing remarks.

Miguel Setas:

Thank you, everyone, for being here. I will be very brief. And thank you for listening to this call.

As I said when I answered the first question, we are very engaged, we are focused on a strategy that was very clear for the Company's Board. As I said, we are totally supportive for the Company's strategic next steps. That's what we are focused on.

There are 4 value drivers. We want to have sustainable growth, great efficiency, attractive returns, and we hope that we have high-quality profits. This is what our vision is. So that's what we are focusing on right now.

We are excited about the Company's future, and our commitments to you and to the market is to have consistent delivery.

So that concludes it from my side. Thank you, everyone, and we will see you next quarter.

Operator:

That concludes CCR's conference call. If you still have any questions, you can send them to the Investor Relations team through ri.ccr@grupoccr.com.br. Thank you for listening, and have a good day.