

Conference Call e Q&A Transcript
2Q FY 24/25 Results
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Conference Call

Phillipe Casale

Good morning everyone! Welcome to Raízen's earnings presentation. I'm Phillipe Casale, Investor Relations Director.

Let's go over the main highlights of the second quarter of the 2024/25 crop year, starting with the consolidated results. The Adjusted EBITDA for the quarter reflects three main effects:

In Sugar, we accelerated shipments with better prices, capturing the benefits of our strategic positioning. In Renewables, we have a temporary reduction in the special ethanol mix due to lower export volumes and reduced demand for bioplastics. The volatility in electricity prices also affected our margins, but we are already seeing an improvement starting in October. In Mobility, the resilience of operations in Argentina and Paraguay ensured market expansion while maintaining profitability levels. In Mobility Brazil, despite the improvement in the profitability of Otto and Diesel cycle operations, the allocation of volumes and price volatility in the fuel oil market had an adverse effect on the B2B segment this quarter.

Now let's move on to the operational highlights of each segment, starting with Renewables and Sugar. We had sequential progress in cane crop, but it was below the estimated for the quarter. This effect is due to drier weather, which affected cane yield and caused several fire outbreaks in the sugarcane fields of the Center-South region. By October, approximately 7% of the total cane to be processed by Raízen this year was affected by fires. We are in the final stretch of the production period of the crop, which should end in the first half of December, with a crushing of around 80 million tons, a 6% drop compared to the previous crop year. It is worth noting that the market estimates a 9% drop in national production, which highlights the benefits of our productivity recovery journey. The impacts of the weather and fires also reflected in the reduction of TSH and the sugar production mix, which naturally becomes more favorable for ethanol, even with the TRS of the cane higher than the 2023/2024 crop year.

Speaking of the sugar market, we continue to expand profitability, benefiting from the price fixations made for this crop. We maintain a constructive view for future fixations, taking advantage of opportunities to sustain this new level of return. In Renewables, we have stock levels positioned to capture a scenario of better prices and parity until the end of the crop, also seeking a better sales mix within the portfolio, considering (i) hydrated, (ii) anhydrous, and (iii) special. In Power, with lower crushing, cogeneration volumes were lower, while we advanced in the commercialization of electricity.

Finally, our Second Generation Ethanol (E2G): The volume produced in the accumulated crop year is almost double that of last year. We once again highlight the evolution of the E2G contribution margin, which represents net revenue minus variable costs, increasing from 14% to 52% in the accumulated year. This demonstrates the adherence of our economic-financial model to reality. In August, a structural reinforcement was carried out in one of the tanks at the Bonfim plant, and due to operational safety issues, we stopped production for 22 consecutive days. There is no adjustment or point of attention related to the plant's technology or its operational performance. The plant's operation has already been fully resumed. Therefore, we reiterate our projection of 80 million liters of E2G produced this crop year.

Moving on to Mobility: In the LATAM segment, we continue to deliver a new level of profitability, even in a challenging economic environment. The additional cash generation has been directed towards debt reduction and supporting the completion of the Buenos Aires Refinery modernization program. In Brazil, margins in the retail and B2B segments improved in the quarter, maintaining our focus on

the Integrated Shell Offer. We once again highlight the remarkable performance of our Lubricants business. However, due to the allocation of volumes and the volatility of fuel oil markets, the EBITDA margin was negatively impacted, around R\$ 22/m³, generating slightly lower profitability this quarter. We continue to aim for margin conversion levels around R\$ 150/m³ on average for the year, as projected for this crop year. As you can see in this chart, the margin for the last twelve months, both in Brazil and LATAM, remains at a healthy level.

Now, let's move on to the financial results highlights. As usual for this crop period, leverage mainly reflects sugar and ethanol stock levels. Additionally, we continue with liability management initiatives, aiming at extending the average term and stabilizing net financial expenses. Thus, the leverage ratio tends to normalize by the end of the crop year, with an average debt term of over six years. Moving on to cash flow, free cash flow to shareholders also follows liability management and business seasonality. Highlights include stock positioning for future sales with better profitability, reduction in the suppliers' line due to the Mobility supply strategy, and reduction in the customers' advance payments line. We continue the pace of monetizing tax credits at the same level as in recent quarters, above R\$ 1 billion. This quarter's financial result demonstrates our commitment to financial discipline, even in an environment of higher interest rates and exchange rate volatility.

We are halfway through the crop year and, despite the challenges mainly related to lower cane availability, we have good opportunities in the commercialization of sugar, ethanol, and energy, expansion of Mobility margins, maintaining a focus on expense management, in line with what we have seen in the first half with a 13% reduction in expenses compared to the previous quarters. That said, we reiterate the Adjusted EBITDA guidance for the year, with moderation of total Capex, considering the macroeconomic environment.

Thank you all for your presence, and we now move on to the Q&A session, with the participation of our CEO Ricardo Mussa and CFO Carlos Moura.

Q&A Session

Lucas Ferreira, JPMorgan:

Good morning. My question is, what is your take on the sugarcane quality evolution with regards to the rainfall that has been happening from October to this moment? Are you seeing an improvement in the TCH levels? And I know it's early, but if it continues to rain in this way, do you have an estimation on the quality of the season next year? The droughts that happened this year, what impact could they have on the next crop year? And some prospects for crushing as well.

My next question, if I may, is regarding the sale of sugarcane you have made thus far. My question is, do you see other opportunities to make such divestments? And any comments on the divestment agenda in other portfolios? Is it still a project that you are focusing on?

Ricardo Mussa:

Lucas, thanks for your question. First, with regards to crushing, we do welcome this rainfall. The period really calls for this rain, especially now in October and until February, this is when the sugarcane plants grow. So that was a major relief for us in terms of what we have been experiencing thus far. So, we welcome this rain.

We are really optimistic for the next season because it's raining at the right time when it was supposed to. As far as the resiliency of sugarcane, we have roughly 6 million to 7 million hectares that were burned this year, and the quality of the sugarcane fields remains preserved despite that fact.

We are not getting into the guidance for next year yet. We are still focusing on the current moment. We are struggling with crushing in the short term due to the high rainfall. So, you have less sugar production, you have lower ethanol production in the short term as well, which goes to show that we should have better prices. We should have some constructive prices for ethanol and sugar moving forward in the off-season, which is a major indication as far as this rainfall season, which is above what we expected.

As far as asset recycling, it's absolutely a priority. So, you might wait for some other news in that regard. From a power perspective, we have some assets that have already fulfilled their role, so to say. We are continuing to move forward within this divestment strategy. And from a sugarcane perspective, we are also channeling that production to other plants. So this is a hibernation, if you will, that will bring about a reduction of cost in 2 of our plants. And with that, we were able to monetize. We have some plants that are not as synergistic, being that they are smaller, and they do not really have a second-generation ethanol plant. So they do not have enough volume for that. But we do keep an eye on everything with regards to our portfolio as far as lower profitability. Yes, we pay attention to that to reduce our leveraging. So yes, this is a focus, and not only from the S&E perspective, but also from a Power perspective, we are definitely paying close attention.

Isabella Simonato, Bank of America:

Thank you. Good morning. My first question is regarding the mobility segment. So, you did mention two margin detractors for this current quarter. I know that fuel oil and diesel are part of that picture. So if you could maybe give us some color as far as what really happened with the fuel oil, and why should we think of that as a one-off? And maybe if you can shed some light also on the diesel market and how that has been playing out? So that would be my first question.

And then my second question, if I may, moving forward, when I think about this yield prospect for sugarcane being so positive, can we still look at crushing in the mid- to long-term as being above the 80 million tons for the Company? Do you think that these are the numbers we will be looking at? What is your take on the current sugarcane field crushing capacity at the current moment? Thank you.

Ricardo Mussa:

Thank you, Isabella. First, as far as the fuel oils, well, that's a new business that we were just venturing into. We did not have a great quarter. We had reduced some contracts that were not victorious, but these are one-offs. So, there's nothing extra down the road.

That was a new attempt. We were taking a stab at a new market, and it was not properly executed. I have to be honest, that happened with fuel oil, and it's due to exportation issues more so than the local market.

As far as the diesel market, we are looking at a market that is currently tighter. When you have lower availability of products and when you have a closed product arbitrage, you see a more positive market overall, you see better prices. We do not really see the availability that we used to have for products in the 1Q. So, if you remove those effects, including fuel oil, this is a positive quarter for us compared to the previous one. And we do not see a change in the scenario moving forward.

So even fighting illegality, it's a much better scenario now. We are still looking at a low parity scenario for ethanol, which makes for a better price in the off-season as well, which is really positive for Mobility. We are also fighting illegality, and I think it's the best moment for that in the industry. The agencies are definitely doing their job. We also see greater alignment at the moment, even when it comes to RenovaBio, which had so many measures going around to try to compensate and those measures were just back and forth. We have had a change in process, and we got great jurisprudence for that.

So, in other words, we do have some good news with regards to fighting irregular or illegal trade which should preserve our margins. And again, we are very constructive when it comes to our margins. And by the way, there's always volatility because here's a market where the readjustment that Petrobras has made has been less frequent, which definitely makes for more volatility in our supply. But as far as what we are seeing now, we are seeing a tighter market, and we are seeing more margin constructive markets, especially with regards to regulatory.

Now focusing on biodiesel, we have many companies that are not making the mixture. Biodiesel is at a much higher price now. And this becomes suddenly, a focus of the industry, to fight that process of non-mixture. So again, I think that if you look at the last few months, if you look at the current situation, we still see a very positive trend for our margins here in Brazil.

Speaking of yield, of course, you are always going to have some exceptional years as far as the climate. This year has been really tough due to the wildfires. So, when you look at regular years, more normal years, weather-wise, after we adjust for the fourth, fifth and sixth cuts, we are looking at over 90 million tons in our capacity even with this hibernation we are going through. So yes, we are estimating more than 90 million with a year of regular climate. So, we do hope to have better weather than last year. At this moment, we are estimating a more normal year for the next crop.

Leonardo Alencar, XP:

Good morning. I would like to talk about E2G. It has been a good evolution in the past six months for the operations, we saw the contribution margin. Now, given this expansion, what is the ramp-up that you expect here? What would be a large scale here? If you have any stoppages, does it have an impact on these numbers for good or bad? Do you have any gains because of enzymes? Because you did have a plan to have this production in facilities. So please, talk about E2G, especially with facilities 3 and 4 going into operations. Given these results, should we expect acceleration for the projects ahead of us? Any changes in this sense? So, this is my first question.

And I would love more details on ethanol. I understand that your mix was not as good as expected, and we can take into account the reduction of special ethanol contracts. But can we really call it a one-off? Is there going to be a catch-up for this quarter? Is there an opportunity to recover some of the contracts from the previous quarter, or is this something that we are not going to recover, but that's going to be normalized from now on? I just wanted to understand ethanol a little bit better, because it was a big driver of revenue, and it created frustration when it came to results. Thank you.

Ricardo Mussa:

Great questions, Leo. For E2G, we are starting with facilities 3 and 4, Univalem and Barra. They are going to go into commissioning in the beginning of November, they started in the beginning of November.

So, if you look at this year, the yield from the Costa Pinto plant, our smaller facility, we were focusing on better costs, but not better in production. So, Costa Pinto is having a huge year, a great year in the reduction of enzymes. We had an almost 30% reduction in the use of enzymes, but we got the same yield as last year. Now Costa Pinto is testing new lines for cost reduction.

For Bonfim, we are starting a plant up. We had a stoppage there. And this had nothing to do with technology. We had an intermediate tank, and we had to stop it. But we saw very stable technology.

But going beyond that, this year, the amount of liquid that we get from sugarcane bagasse is what scientists designed 15 years ago. It's the first time we were able to deliver on these forecasts by scientists. So, from a technological standpoint, we are doing great.

At Univalem and Barra, we are doing a few things differently. We had learnings at Bonfim when we ramped up its plant. So, we are now implementing those learnings. So, we expect to have better performance at Univalem and Barra because we learned some lessons. We are implementing all these lessons in our new facilities.

Now Leo, E2G has a minimum guaranteed price. So, price is not a risk here. This is a product with a very high EBITDA margin. It is a big cash generator. Next year, we will have plants that are basically going to be full. We are going to have four plants in operations next year, and they will be generating cash for the Company.

So, our peak investment for E2G is behind us. We are going to have a big reduction in CAPEX, and we are going to focus on cash generation so that we use these assets, and these plants produce increasingly more.

So, thinking about production and productivity or yield in these plants, it's going to affect their profitability in the upcoming months. This is major now for us to be able to prove that we can generate cash with what we have.

We are very optimistic about the results with Bonfim and Costa Pinto with the reduction in costs, and we also learned lessons when we started up Bonfim, and we are now using that for Univalem and Barra. I think this is a very, very good scenario. I think instead of consuming cash, this is going to generate cash, and we are going to have better leveraging for the Company.

With ethanol, things are different this year. It was not as competitive for exports, and it's always been very competitive for exports. In the 1H of the year, we did not export as much ethanol. We had big clients in the south of Brazil who were affected by flooding. We had very good margins from them, and we did not in this case. Now what we see is a 2H of the year, which is going to be very fruitful. There's the rain and we have low parity. So, we have high consumption, a very strong consumption at the endpoint.

When we compare prices to last year, we see a much more constructive, much more fruitful scenario for ethanol prices in the 2H of the year. Of course, we are looking at our strategy, we are getting ready for that, but we do not have as many opportunities when it comes to exports. In the U.S., they had cheaper prices, too. So we did not have as many opportunities to have good exports this year.

Gabriel Barra, Citi:

Good morning. Thank you for answering my questions. I have two follow-up questions and one new question; or maybe two questions and one follow-up. For capital allocation, we were talking about sugarcane. But something we may not have touched upon is something that I would like to pick your brains on about the operations of fuel distribution in Paraguay and Argentina. How do you see this business within Raízen's portfolio? Can we see divestments in the future? Do we have any possibilities for cash allocation here, or capital allocation?

We were also talking about fuel reductions. Mussa was talking about this, and lots of people talked about fuel regarding informal activity. I think we saw some relevant progress. We saw companies closing their doors, and they were noncompliant with market practices. Do you have any notes on that? Anything important that we should follow? Are there any conversations regarding this in the Congress? We have also been discussing carbon credits, and we have an important conversation going on about RenovaBio. So what is something that we should expect in the short term?

Finally, regarding leveraging, we saw debt for the business this quarter, sometimes it's seasonal, but when we look year-on-year, there has been an increase. So even if we ignore seasonality, there is leveraging here, maybe because of higher investments in sugarcane, E2G and other things. You are now closing the cycle, it seems like you are getting close to the end of it, but I would like to hear from the Company if you are worried about it. What do you think about it? When should we reach an optimal level here? I think it's important to understand that so that we get a gist of what you think about it.

Ricardo Mussa:

Thank you, Gabriel. We have in Argentina a big asset, and we are ending a cycle of investments there. Since the acquisition of Argentina, we had R\$3.5 billion to R\$4 billion in investments in Argentina. Now we are ending this investment cycle for this asset, and it's going to start generating cash.

It's a very healthy business. I was looking at it yesterday, it's still really good. And the country is doing even better than what we anticipated. So this business is generating lots of cash. The country is headed towards improving its institutional environment, so it's healthy. We continue working with Argentina.

This asset went through a big investment cycle that is going to be over by March of next year. We are going to finish all these investments in Argentina by March, and then it's going to start generating cash with lots of stability. And we are focusing on institutions.

When we talk about capital allocation, of course, we are not going to talk about everything. We are deleveraging right now. We will look at the assets that are not as strategic for the Company. And of course, we consider the possibility of someone being interested in buying them. This is something that we talk about daily with our Board to understand how we can accelerate our deleverage.

So, what I can tell you is that, yes, this is still a priority. I am not going to mention which assets we are considering for that. We cherish our assets, and if one of them is not as strategic and somebody is interested and they are willing to pay more than what we think it's worth, then yes, we would be focused on making some divestments.

And you mentioned some very important things about informality. Our biggest Achilles' heel is still ethanol. It's the biggest product for which we have lots of informal activity in Brazil. We want to have a monophasic operation for ethanol. And we have been discussing how to make this happen earlier, maybe with the PIS tax, maybe with the COFINS tax. This is a conversation that our institutions and ourselves are always talking about. We talk about it with Congress because we want to have a better, more competitive environment here.

There are things that have been discussed by Congress for many, many years. The government is talking about reducing expenditure as well. We need to get these measures approved.

And you mentioned RenovaBio specifically. I forgot the bill that is related to this. It's to be approved by the Senate. According to this bill, not complying with RenovaBio would be an environmental crime. And since it is an environmental crime, or if it becomes an environmental crime, then they will not be able to pay bail. It makes things much more serious. So, there's lots going on in Congress and in other agencies regarding this kind of informal activity. So, we should take that into account. I think RenovaBio is our backdrop to fight illegality, to fight unlawful activity.

When you talk about leveraging, what we see here, Gabriel, is that most of our investment was made on second-generation ethanol, biogas and the Argentina plant. These are the biggest pockets where we were investing. We also had lubricants, which is an acquisition.

So, if we look at E2G and biogas, we are going to start generating cash from now on. And what's interesting is that there is no price risk, and no volume risk entailed. So the future cash generation for these businesses depends on our ability to operate these plants, and we are confident.

So, we should see a reduction in the volume that is allocated to growth CAPEX, and at the same time, we are going to have a better cash flow for these investments. These were big investments that are going to be concluded in this crop year. So, we are going to reduce CAPEX and increase cash generation from these investments. So, this could accelerate and this should accelerate our deleverage.

We also have other investments in our portfolio. We see our G&A going down 13% year-on-year. And this is the kind of revenue that's going to deleverage us more quickly. I think now, it's no longer time to sow, we need to harvest what we sowed in the last few years. Everything should work, and we should bring deleveraging down very quickly.

Carlos Moura:

Let me add something. Gabriel, during this crop year, we were working on stabilization and a later reduction of expenditures overall, whether that's related to our operational margin or to financial expenditures.

This is why we headed towards liability management. We are working with the average term of our debt. If you look at the past six months of this crop year, we have had a significant allocation of capital in accounts receivable, especially from foreign operations because of sugar trading, R\$3.5 billion in capital. We were also able to reduce advance payments at around R\$3 billion. We also had the impact of inventory allocation. It's around R\$7.5 billion. What we see with the market is that it's around R\$10.5 billion.

So, if you realize what comes from inventories and what comes from accounts receivable, we are actually looking at the end of the crop season, but it has always been according to our commitments for our capital structure, 1.8x after managing our debt, which is something for the end of October.

So, September is still a bit contaminated here. It does not consider the settlement of these debts and the issuance of debentures in October, which is happening between October and November. So again, this reduces interest regarding our economic situation.

Thiago Duarte, BTG Pactual:

Good morning. I have two questions. First, let's go back to talking about the recycling portfolio, more specifically, the portfolio for sugarcane mills. Yesterday, you made an announcement. So, you have 35 facilities. Of course, not all of them are active and one of them is going into hibernation.

But I would love more information on how big the opportunity is to optimize your facilities and your crops. Because the truth is that you have a very heterogeneous portfolio when it comes to the plants, with an average radius for your crops, especially in the Midwest and South. So, when we compare productivity and costs between plants, sometimes I am under the impression that some of these 35 plants are dragging your average down, and I think the one that's going into hibernation is most likely one of them. Am I right in assuming that? First, that you have heterogeneity in your cluster of plants and crops, and how much could you optimize this?

I would love to understand the size of this opportunity. Of course, one is not going to make a difference. But how much should we expect regarding optimization of this? That's my first question.

Here's my second question. When we looked at the release, we did not see much information about your guidance for this year, both for EBITDA and CAPEX. Of course, you changed the crushed sugarcane, and I want to understand the impact that we are going to have when we think about your range for EBITDA.

And, CAPEX. In the last quarters, you mentioned the possibility of being closer to the bottom of your CAPEX range. Is this going to change now that we have wildfires, for instance? Because I can imagine that this could maybe have an impact on your crops. So please talk about your guidance for this year, and the volume changes. Thank you.

Ricardo Mussa:

Thiago, excellent question. First, you went straight to the point. When we look at our portfolio, it is absolutely heterogeneous. I am looking at a spreadsheet where you have plants that are super profitable, some of them not as profitable, different sizes, different distances to the ports and to the sugarcane fields.

So, the difference in profitability always comes down to doing an analysis and also fixing the fields. Because if you decide, if you made a decision in the past, you do away with some assets, I mean if

you have not done your homework in the first place, now with our fields with this level of profitability, with this level of yields, it becomes way more evident where the opportunity lies.

So just to shed some light on that journey, it starts with recovering our fields. With that, you will get a clear picture on where each plant is and how far they can come, whether it's potential for E2G plants or biogas plants, et cetera, and then it becomes very clear what we call tail mills, which does not make sense.

In other words, we have a very active discussion at the moment. I cannot really disclose the details, but it is a huge opportunity. We do have some strategic matters to discuss, but we are having this conversation, and it does make sense, as long as the price is feasible.

In this case of UMB, it was crystal clear. If you have the sugarcane field with a buyer, it would make much more sense from a buyer's perspective for the logistics. That's why we got it at a good price.

So, with that, you can even channel some of the sugarcane to other plants that will produce some benefits. It's not only the R\$380 million. You will improve profitability in a very significant way.

So, this is a project that will have an impact above R\$500 million in cash generation. We will see that because there will be benefits on the selling from a plant perspective, and a reduction of cost from a field perspective. You will adjust because some regions have excessive crushing with not a lot of sugarcane to go around them. So that's super important.

Other regions are different. You have some regions that are more isolated, but I am not going to get into the details. All I can say is that we do pay attention to that. There is a demand for it in the market. You have seen some transactions already. So, we are paying close attention.

With regards to the guidance of the year, here's what we see, Thiago. Our CAPEX is going to be closer to the bottom, yes, as far as what you see in the recovery on the sugarcane fields, but we are being very rigid, especially when it comes to the growth of the Company and part of our recurrent CAPEX. We are confident in delivering a CAPEX that will be closer to the bottom.

When it comes to the EBITDA, you do have a risk. That's why we are going closer to the bottom today. You have available products and a worse mix of sugar. On the other hand, you have a better prospect on the electricity market, which is good for us, and has been good in October. You also have a constructive scenario for the ethanol price and the sugar price alike, both being constructive at the moment.

As far as the fuel margins, we are looking at a scenario that is not negative. We are not seeing an increase in tax evasion. We are not seeing negative effects on exports, and also the exchange rate puts some pressure on the arbitrage, which remains closed. But we are right during the season. There's still a lot to happen, a lot of chips to fall, and we must wait and see.

And by the way, just to get into the LatAm business, it has been performing way better than what we have expected, especially Paraguay after the adjustment of the Argentinian price with the new administration there. We do not have burdensome exports to Argentina and Paraguay, which became more profitable already. So, we are doing really well. We are starting to have a record year at LatAm to offset some of the losses that we experienced due to lower availability of sugarcane.

Vicente Falanga, Bradesco BBI:

Thank you. I have two questions as well. First, if I may, I would like to get into a little bit of the details in the short term. We saw some licenses happening at COPAPE. It seems that the change in mixture has dropped a little bit. So, I would like to hear from you folks with regards to naphtha in the mixture. With that being non-operational, what is the impact?

And my second question, Mussa, you made it quite clear about the next milestones, about the next management, about reaping the benefits and leveraging, cutting negative costs. And I do know that you will participate in the Cosan disclosure call. But if you can maybe make a comment about that, what is getting you excited for the next few steps? And what are some of the main goals with regards to your attributions? Thank you.

Ricardo Mussa:

Thank you for the questions. With regards to the informality of fuels, to corroborate what you said, we are seeing a reduction in naphtha imports, which is great. So, the gasoline market is healthier, which is great for the ethanol market. So, we are optimistic in that regard.

I have been in the Company for roughly 8 years, and I have been looking at this informality market for a while. At this point, I am seeing great alignment in terms of fighting against these irregular activities. I see the Congress being concerned with that; I see the government focusing on that. I see state governments doing something about it. I have seen great alignment between producers and distributors. In both entities, I see greater alignment in producers and distributors to fight against tax evasion, to make ethanol a healthier market for everyone involved because farmers lose with that.

If you have informality, if you have tax evasion, the price of ethanol is below what it should be. I think the producing sector has united against that. I am optimistic. I know it's an uphill battle, but I am optimistic that this is going to change.

And I think it's really going to change the profitability level, not only for distributors, but resellers as well. As our resellers, they benefit from this process, the state benefits from it due to tax collection. So, it's a win-win-win situation for all stakeholders, and I see it with very positive eyes. And the indicators do show that.

I know it's hard to look at it on a monthly basis, given how volatile the market is, margins get tighter, and product goes up or down. I think you always need to look at the average over the last 12 months and see what the trend is and the potential that is coming down the pike.

What gets me the most excited now, I think the next step is having ethanol where it should be. We must wage a tougher battle because there is an important tax issue to be faced here as far as monophase, but there is this new law, this new bill of RenovaBio, which is going to definitely improve the tax situation in our view.

So, I think there are some good things coming, but it is pushing a boulder up the hill. It changes daily, but I see some great progress. And more than that, I see that a lot of people are in line with that, from the legal power all the way to the legislative branch. In all forums that I visit and interact with, everyone is talking about it and everyone is concerned, which is a good sign.

As far as my new attributions, I will leave that to the Cosan call. I am not going to mix both companies. I am excited about it. I am going to do my best. I am concluding my integration with Nelson here. It's in great hands. I am not getting into Cosan during the Raízen call. So, when we get to the Cosan disclosure call, we will get into it.

Matheus Enfeldt, UBS:

Good morning. Three follow-ups. First, going back to the impact of fuel oil. Regarding Isabella's question, I understand that this might be a one-off, but I would like to get an understanding of the process in the Company itself. If you set up an operation that maybe had a negative output, was this an impact of a negative hedge or has this already been undone, has the Company left the woods, so to say, or was something in the process altered to change the situation from now on? I just want to understand if this is a process from the Company as far as those attempts are concerned and what the impact might have been.

My second follow-up is about the maintenance of the sugarcane fields. The Company has been at R\$6.5 billion per season roughly. So how much of that can be seen as the new recurrent levels? Or how much of that is just the higher CAPEX that you put into reforms of the Company, which now is close to a finish? So, my question is, is there room for lower CAPEX in the maintenance of the sugarcane fields below those R\$6 billion?

And the last follow-up is about the E2G contribution margin. You showed the past six months of the season, but perhaps what is implicit in this quarter is even higher than what we had in the 1Q. So how does that relate to the EBITDA margin expectations that you have of 50% on E2G? And in your opinion, can we perhaps validate that premise, as far as you are seeing? That was it. Thank you.

Ricardo Mussa:

Thank you, Matheus. As far as the fuel oil, we have a very active trading area, obviously, for fuel imports, for ethanol reconciliation. And we dropped the ball, I have to say it. We really dropped the ball in our risk assessment, even to set up the process. So, the failure was much more in the configuration of the process as opposed to the idea itself.

So, it is a one-off. I do not see this as a trend, and this has been corrected. It took a while to get some licenses, which affected us in the transaction. So that has been corrected. Do not expect to see this in the balance sheet from now on.

Now the maintenance CAPEX. Obviously, there's always pressure from inflation. What we see overall in commodities around the world is that sugar is resilient, but other commodities like soybean and corn have dropped in price.

So, you are seeing a slight drop in inputs as well. What we have seen in the last few years, we had, for example, fights against pests, we had huge infestations, and the level of ground protection application was not above normal. But there is a downward trend in our recurring costs. So, you have to look at the inputs, especially fertilizers. But today, if you look at the last four years or three and a half years, we did increase the amount of investment to recover our sugarcane fields.

And one clear example is the application of herbicide to fight against some weeds. We used to have huge infestations, so you cannot stop applying the product until that infestation goes away. And from then on, you will reduce your herbicide application. So, this is an example that we saw, especially in the region of Piracicaba, where we are normalizing our applications for next year.

So, you do have to expect a slight reduction, but it really depends on the cost of inputs moving forward. The entire planet has seen a change in the price levels for a lot of those products, not only in the ag market, but I do see a downward trend on our side with less application of some inputs. But globally, we are seeing better prices for inputs. So, I do think there's going to be a normalization, but it's not that different from what is happening here. I think it's going to be a downward adjustment.

As far as contribution margins, the main indicator for us is an indicator of how much you can run your plant, because the bagasse is there, the amount of enzymes that we have is there. So, it's really the plant uptime. It's about running the plant for a longer period.

At Bonfim, we have broken several records of production both daily and weekly, which gives us confidence that after this ramp-up, we are going to get there. So, the main indicators as far as the gas conversion into ethanol, use of enzymes per cubic meter and sustained productivity for the plants in the long run do suggest that we are on the right track. So, when you talk to the operational team, they are very confident.

But again, it's a ramp-up. We did not expect to have a problem with the tank, with the foundation of a tank, and that's our mistake, and that affects productivity. So, we have got to be sure that this will not happen and we will not make the same mistakes as we have made with Bonfim.

As far as the main indicators, Matheus, the ones that really ensure profitability and margin, we have attained them at different points in time and this must be sustained now, down the road. The price is there, right? So, we have a due price to work with, and we have a good control level in our situation. So, it's up to us to go ahead and deliver the contribution margin and generate cash. So, confidence levels are at an all-time high.

Carlos Moura:

Good morning, Matheus. I just wanted to emphasize that the Company will continue with this perspective to increase the level of financial information about this so that we can really materialize the benefits, whether it's regarding EBITDA margin vision or whether it's focusing on stability, volumes and indicators. Again, we want to focus on primary cash generation.

Ricardo Mussa:

Regarding your question as well, our spot market still has very elevated prices. Remember, we are contracting at 80%, and we have an excellent volume. So being able to produce above gives you a huge benefit to really capture the opportunity in the spot market.

For a global producer, there are still very interesting premiums to be had in the spot market, which to me, these are things that we have not included in our model as a major upside. So, the sooner we can produce, the quicker we will capture the spot market, capture the opportunity. And profitability will be visible for everyone. So, we can propagate that outside of Raízen.

Bruno Montanari, Morgan Stanley:

Good morning. I have one follow-up and one question. Let's go back to the guidance issue. When we look at the midpoint of our EBITDA, we see that you would have to grow your results by a little bit above 50% to get to your midpoint, and a little bit over 40% to be at the bottom range, which looks challenging to me. So, I would like to pick your brains on how confident the business is that this is a possible level of growth for the second half of this crop year.

My second question is, Mussa, I understand that we are going to be discussing Cosan during their earnings release presentation, but I would like to take us back to the past. In the past eight years, what do you think were the best things that Raízen was able to deliver on? And what were the things that were frustrating to you and that could have happened earlier?

Ricardo Mussa:

Thank you, Bruno. Regarding the guidance, as I was saying, this is really similar to the other question that we were answering. I can barely remember if Vicente or Thiago asked it. It's still mid-season. This is a very important point for the price of ethanol. This is why we are no longer looking at the midpoint guidance, we are looking at the low guidance.

The question here is the product that we are going to have at the end of the year after what we have seen from the weather, after the wildfire. The upside is that we are still constructive in the ethanol market. If we compare the ethanol market at this point, compared to last year, prices are really different. And the traded volume, 1.9 billion liters a month. This is a very high volume, which indicates that we are going to have price building for the off-season.

Around January, ethanol should also be more competitive. But if oil goes down, if gas goes down, if Petrobras changes things, then yes, we are going to be affected, and we cannot control that.

Fuel margins are going to depend a lot on illegality. I still believe that when we are talking about R\$150 per m³ it is in alignment with our plan. And Argentina will be above our plan, which will offset some of the product losses that we are going to have in the other operations.

But we are still in the middle of the crop year, so it's hard to talk about this. I think there's still lots of things to happen. In our next earnings release presentation, I think we will be able to give you better insights.

But right now, we do believe that we may have a few upsides. For example, the total production is already known, but we are seeing better numbers from Latin America, from Argentina, which is going to offset some of these impacts.

We can mention so many things that I was a part of. We had great acquisitions. We have this growth model for the journey of our cultural yield. We also changed our level for fuel. I do not regret much here, Bruno. I love this Company. I have been working with it for a while. I am rooting for it, and whenever we see new folks, there's always new things to be done. I do hope we keep on doing great work. We keep growing and remaining successful. So, I have no regrets, Bruno. Thank you for your question.

Operator:

Our Q&A is now over. Any written questions that may not have been answered during the earnings release presentation will be answered by our IR team. I am now going to hand it over to Mr. Carlos Moura for our closing remarks.

Carlos Moura:

First, I would like to thank our employees, from interns to Board members, executives, and my fellow colleagues. Thank you so much for everything that we have learned together and done together during these years. I would also like to thank everyone in the financial community for challenging us, for sending us questions, and for talking to us.

I believe that our business has made lots of progress in how we communicate with this market. We have also changed the way we collect our information internally, which makes decision making easier.

I wish Nelson, Rafa, and the whole Board lots of success and happiness. I hope we all thrive in this new cycle. Let me now hand it over to Mussa for his closing remarks.

Ricardo Mussa:

Wow, such a beautiful speech, Carlos. I feel the same. Thank you, everyone. We have been talking to analysts since our IPO, and we know these analysts, we know you. You are always critical and have to be, and you help us think. So thank you. Thank you for this interaction. I also hope to see you with Cosan, and I hope to build other stories with you all.

I also want to thank the IR team at Raízen. You have done amazing work. We have been working together with Casale and the whole team for years. We have been very successful in these years of Raízen, and it is with a sad heart that I announce this change. I wish Nelson and Rafa all the best. I am sure that they are going to take our business to the next level. They are going to do things that have not been done before. They are going to achieve great results.

Thank you very much, and let's keep this going.



Operator:

This is the end of our earnings release presentation for the 2Q of the crop year 2024, 2025 for Raízen S.A. Our IR team is available to you should you have any further questions. Thank you to every attendee and enjoy your day.

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