

AGRO Earnings Call Transcript

Date: 2025-11-12

Operator: Good morning, ladies and gentlemen, and thank you for waiting. At this time, we would like to welcome everyone to Adecoagro's Third Quarter 2025 Results Conference Call. Today with us, we have Mr. Mariano Bosch, CEO; Mr. Emilio Gnecco, CFO; Mr. Renato Junqueira Pereira, Sugar, Ethanol and Energy VP; and Ms. Victoria Cabello, Investor Relations Officer. We would like to inform you that this event is being recorded. [Operator Instructions] Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Adecoagro's management and on information currently available to the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore, depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of Adecoagro and could cause results to differ materially from those expressed in such forward-looking statements. Now, I will turn the conference over to Mr. Mariano Bosch, CEO. Mr. Bosch, you may begin your conference.

Mariano Bosch: Good morning, and thank you for joining Adecoagro's 2025 Third Quarter Results Conference. Consolidated adjusted EBITDA during the quarter reached \$115 million, while year-to-date, it amounted to \$206 million. In Brazil, we achieved an all-time quarterly crushing record of 4.9 million tons and even produced 40% more ethanol than the previous year as we switched our production [maximization], given premium commanded over sugar. Now, cane productivity has improved as we completed the harvest of all the frost-impacted cane, thus with lower productivity. Going forward and assuming normal weather, crushing volume should improve as we have greater cane availability, leading to a greater cost dilution. In Argentina and Uruguay, the challenging price-cost scenario continues to pressure results across our businesses. In crops, we are undergoing planting activities for the new campaign, reducing approximately 30% our leased area and adjusting our crops mix to improve margins. In rice, export price of the long rice are still looking for a support level, given the greater supply. Therefore, our decision is to reduce the long grain rice and to increase the mix of varieties. In dairy, cow productivity and processing volumes have achieved a new record. We continue to prioritize the domestic market with the production of fluid milk and value-added products. In early September, we signed an agreement to acquire a 50% stake in Profertil, the largest producer of granular urea in South America. Profertil is one of the lowest-cost producers within this industry, and it is strategically located in a net importing region with access to competitively priced natural gas. It is run by a highly experienced management team and has consistently generated cash through the years. YPF, Argentina's largest oil and gas producer, owns 50% stake. And together with ACA, we will be jointly acquiring the balance. Closing is expected before year-end and subject to YPF's 90-day right of refusal. To conclude, I would like to thank all the people in Adecoagro. I know that this year has been one of the toughest, but we need to remain focused on efficiency and on being the lowest-cost producer to overcome this challenging context. Thanks to our shareholders for their support. And now, I will let Emilio walk you through the numbers of the quarter.

Emilio Gnecco: Thank you, Mariano. Good morning, everyone. Please turn to Page 4 with a summary of our consolidated financial results. Gross sales totaled \$323 million during the third quarter, making a 29% year-over-year decline due to lower volumes and prices across our different operations. Despite this, adjusted EBITDA improved versus the prior year to \$115 million on greater results from our Sugar, Ethanol and Energy business. On a year-to-date basis, sales and adjusted EBITDA stood at \$1 billion and \$206 million, respectively. Lower consolidated results were mainly explained by a combination of lower global prices and higher costs in U.S. dollar terms. Now, please turn to Slide 5. Regarding our production figures, on the bottom-right chart, we can see that crushing volume in our Sugar, Ethanol

and Energy business was 4% lower compared to the same period of last year. The year-over-year gap reported in the previous release has decreased by the crushing record achieved during the third quarter, which we will get into more detail shortly. In the case of the Farming business, total production saw a 13% year-over-year increase, explained by higher planted area, as well as record productivity in our rice operations. Let's move to Slide 7 with the operational performance of our Sugar, Ethanol and Energy business. During the period, we achieved a new quarterly crushing record of 4.9 million tons and a 20% year-over-year increase. This was explained by the acceleration of our harvesting pace, which in turn enabled us to crush all the sugarcane that was hit by the frost event experienced by the end of June. Our average yield and TRS content declined compared to the previous year, explained by the impact of the frost in the sugarcane harvested. On a year-to-date basis, we have already milled 9.8 million tons of sugarcane. Despite the strong quarterly performance, we concluded the period with an accumulated crushing slightly below the previous year due to the combination of dry weather, followed by rainy days experienced during the first half of the year, which consequently slowed our crushing pace. Despite this, we still foresee an annual crushing volume in line with the previous year, assuming normal weather conditions until the end of the year. In terms of mix, we switched our strategy to maximize ethanol production during the third quarter, given the better margins compared to sugar. We reached 58% ethanol mix compared to 45% the previous year when we were maximizing sugar. This clearly reflects the high level of flexibility of our mills as we maximized sugar production throughout the first semester and then switched to ethanol due to its attractive premium as lower sugar prices started to decline. Let's please turn to Slide 8, where we describe sales conducted throughout the period. Net sales amounted to \$131 million during the quarter, while year-to-date, they reached \$433 million. Despite the increase in ethanol production, lower sales during the quarter were explained by a decline in volumes sold. Throughout the period, we strategically conducted our sales to profit from better prices. For the last year, we had our tanks full and had to sell our daily production. Ethanol sales were 8% higher year-to-date, thanks to our commercial strategy to sell our 2024 inventories once prices recovered. Regarding sugar, the combination of lower prices and the decline in production, given the lower crushing and switch in mix, were the main drivers towards the decline in sales. In the case of energy, the increase in sales was driven by higher selling prices year-over-year as we comply with our long-term contracts, as well as profit from the peaks in spot prices. Regarding carbon credits, we sold over 560,000 CBios at an average price of \$9 per CBio, reaching \$5 million in revenues. Please go to Page 9, where we would like to present the financial performance of the Sugar, Ethanol and Energy business. Adjusted EBITDA amounted to \$120 million during the third quarter, making a 20% year-over-year increase. This was mostly explained by year-over-year gains in the mark-to-market of our biological assets, given an improvement in yield, coupled with gains in the mark-to-market of our commodity hedge position. On an accumulated basis, adjusted EBITDA reached \$218 million, 16% lower than the same period of last year. Now, we would like to move on to the Farming business. Please go to Slide 11. By the end of October, we concluded harvesting activities related to our 2024-'25 harvest season, reaching 1.2 million tons of agriculture produced. Now, we are in the middle of planting activities for our 2025-'26 campaign with 52% of the total area already seeded. As you may have seen, we reduced our planting plan by 22% compared to the prior season as we decided to diminish the amount of leased hectares, prioritizing the farms with higher productivity potential and therefore, maximizing the margin per hectare in each of our crops. In rice, the decline in planting area was driven by the challenging price scenario of the commodity as global prices continue to decline, given the worldwide oversupply. On the other hand, we are increasing our mix of premium varieties over long grain white rice to offset the lower prices from the commodity type. In the case of dairy, not only did cow productivity improved versus the first semester, but it even achieved a new record at 39.1 liters of milk per cow per day during the quarter. At the industry level, we continue to maximize production of UHT milk for the domestic market, a product that offers the highest marginal contribution. On the following Page 12, we present the financial performance of our Farming business. Adjusted EBITDA for the Farming business totaled \$1 million during the quarter, whereas year-to-date, it amounted to \$19 million. Starting with our crops segment, lower results were explained by lower international prices and higher costs in U.S. dollars, both of which continued to pressure margins during the period and mainly for our peanut production. In rice, the decline in adjusted EBITDA during both periods was driven by

lower sales, given the outlier prices reported the previous year, coupled with higher costs in U.S. dollar terms. Lastly, adjusted EBITDA generation in our dairy business was impacted by higher costs and a mixed performance in prices despite the increase in volumes sold mainly from fluid milk for the domestic market. Please turn to Page 14 with a broader view of our CapEx program. Expansion CapEx, excluding inorganic growth, represented \$32 million during the quarter and \$85 million on an accumulated basis. In Brazil, expansion CapEx was mostly allocated to increasing our sugarcane plantation size and the expansion of our biomethane production. In our Farming business, our main CapEx program consisted of the acquisition of agricultural machinery for our rice operations, together with marginal investments in our Morteros milk processing facility to expand our product portfolio. Now, please turn to Slide 15, where we would like to make a reference to the acquisition of Profertil. On September 8, we announced the market that we signed an agreement to acquire Nutrien's 50% interest in Profertil, the largest producer of granular urea in South America, through an 80-20 partnership with Asociacion de Cooperativas Argentinas. The transaction was valued at approximately \$600 million, out of which \$96 million advanced payment was made against the sign-off. The remaining 50% stake of Profertil is owned by YPF, Argentina's largest producer of oil and gas, who, as of this date, continues to hold the right of first refusal to purchase Nutrien's equity on the same terms and conditions. This right expires at the beginning of December. Once and if the closing conditions are met, we will provide more details. As Mariano commented earlier, we firmly believe that by acquiring this state-of-the-art asset, we will be reducing the volatility of our results, while diversifying operations across other value chains within the agro-industrial space, where we have shown a well-proven track record. On the following slide, we describe our debt evolution. Net debt amounted to \$872 million, making a 35% year-over-year increase due to the lower consolidated results, together with the \$96 million advance payment made for Profertil acquisition. Consequently, our net leverage ratio increased to 2.8x compared to the 1.5x reported in the same period of last year. Going forward and once we conclude the acquisition, we intend to reduce our leverage ratio as we implement cost-saving initiatives across all our operations, together with a revision of our capital allocation strategy and expected operational results. Despite increase in leverage, our liquidity ratio stood at 3.2x, showing the company's full capacity to repay short-term debt with its cash balance. Let's now turn to Page 17, where we would like to present our shareholder distribution program. 2025 shareholder distribution amounted to \$45 million. We repurchased \$10 million in shares under our buyback program, equal to 1.1% of the company's equity. In addition, \$35 million were distributed via cash dividends with the last installment being paid in a few days on November 19, representing approximately an annual dividend per share of \$0.35 and a dividend yield of 4%. With the second final dividend payment, the company concludes its distribution policy for the year 2025. Thank you very much for your time. We will now open the call to questions.

Operator: [Operator Instructions] Our first question came from Matheus Enfeldt from UBS.

Matheus Enfeldt: I want to think a bit about the upcoming year and the upcoming crops. I mean, your crushing volumes, despite of the challenges in weather, were relatively okay. And I was just wondering how is the outlook for 2026, if we could still see some crushing growth in sugar and ethanol and sort of get closer to the 40 million tons capacity and how you see cost advancing for the upcoming crop as well? And then, my second question is, when you think about CapEx, particularly for next year, but I think for the next 1 to 2 years, which we might see some pressure in earnings, given the weak pricing environment that we are seeing right now. You were doing around BRL 250 million, BRL 300 million of CapEx per year. Outside of M&A, which I assume there's still some installments for Profertil, what's the level that we could see moving forward for next year given the compression in cash generation due to prices? Those are my 2 questions.

Mariano Bosch: Okay. Thank you, Matheus, for your question. I'm going to answer the CapEx, and then Renato will answer regarding our crushing expectations and costs there going forward. On the year CapEx, as we are mentioning, we are having this more compressed EBITDA and EBITDA margins. And so, we are revising all the different CapEx in each one of the segments that we have today and also taking into account with the potential acquisition of Profertil, we are reducing this at the maximum level. So we are only doing the organic CapEx that really, really makes sense and has a lot of synergies. And so, you can clearly expect a relevant reduction in terms of the growth CapEx coming in each one of our 4 business segments. That's for 2026. And then, Renato, can you take the question

regarding the crushing expectations and costs?

Renato Pereira: Okay. So regarding the crushing, I think it was mentioned here that we had an excellent third quarter in terms of crushing. So we finished all the low-yield sugarcane, especially those canes that was -- were affected by the frost. So we pushed the cane that otherwise would be crushed in the third quarter for the last quarter with much better yields. So the yields for the final quarter should be much higher than the average of this year. And it puts us in an excellent condition for next year, especially in the first quarter that we're going to have an intensive first quarter in terms of crushing and of course, take advantage of price of ethanol that should be high at this moment. And we have a potential to crush during this year, I would say, 5% to 6% more than we are going to crush in this year here. So '26, 5% to 6% more than '25, thanks to the conditions of the sugarcane. So we don't think that we're going to have a problem of sugarcane availability. The crushing, of course, depends on weather conditions. And so, it's not only the availability of cane, but the availability of cane, we think we are fine. So regarding the costs, we expect a reduction of cost for next year, I would say, a reduction between 15% and 20% of the cost. This is mainly a consequence of the volume, both the crushing volume and the yields that should be higher next year, diluting our fixed costs and also the Consecana price that is lower, so the raw material is lower for next year. And also, we have been working in a lot of efficiencies, both in the agriculture and the industrial operation. So we think that we are going to decrease our costs because of those efficiencies that we are getting.

Operator: Our next question comes from Isabella Simonato from Bank of America.

Isabella Simonato: I have 2. First of all, you mentioned in the press release, right, that you guys are going to pursue a couple of actions to reduce leverage, right? I understand that, as you just said, reducing CapEx is one of them. But if you could give a little bit more color on what other actions are you thinking about or what your expectation or eventually a target, right, to be reached in 2026, I think that would be quite helpful. And the other question is regarding the decision, right, to significantly reduce your area of crops in the next season. I think it's the first time that you take such a drastic reduction, right? And just if you could give us a little bit more -- sorry, I think I got muted. So the rationale to go with this decision and eventually the economics, right, that are driving it, I think, would be interesting.

Mariano Bosch: Isabella, thank you very much for your question. I'm going to take the second -- your second question and then ask Emilio to answer the first question regarding the debt level. So, on explaining the reduction in the crop area, I think it's important there that since we started this new campaign that starts in August, where we start planting, and the old campaign, the numbers that we are reporting today that are so negative in the crop business is what we've been harvesting since April until September. So now, we are starting this new campaign. In this new campaign is where we started reducing the cost of leasing. So cost of leasing is one of the main costs in crop production in general, and that's what we are reducing. And because of reducing the cost of leasing, many people didn't want to lease to us. So we've reduced the area. On top of that, we are only securing the farms where we have high productivity levels and the level of return that we are asking and the level of risk that we are running are more important that we are asking more returns for each one of the farms. So the consequence is that we are reducing this. On top of that, we are reducing the structure to manage these farms. And on top of that, we are reducing the cost of planting, the cost of all what we are doing at the farm level. That is in the crop business, including the peanuts that is where we have the highest decrease in prices. Then, on rice that is part of our crops, we are also reducing area. We are reducing like 25% or 30% the long grain production of rice, but we are increasing the special products of rice. As we've been telling you some years ago, we have been developing special varieties that some of our clients need, and that is how we've been able to maintain certain level of prices. Just for you to have an idea, the reduction in the price of long grain rice was around 50% comparing to the previous year. So the 50% reduction in the price of rice is very relevant, and that's why we are adjusting making all this adjustment, including reducing part of the total area. That's the reason why we are doing it. And because of this is that we are more optimistic in terms of the levels of EBITDA that we can expect for next year comparing to this particular level to this year, all this assuming today's prices of all the different commodities that we are having today. We are not assuming to go back to the other levels. That's what we are -- where we are working, and that's why the consequence is the reduction of the area. So thank you for this part of your question. Then, Emilio can get into more details on our debt

levels and what are we thinking about it.

Emilio Gnecco: Yes. Sure. Thank you, Isabella. Thank you, Mariano. Well, let me start. If we take a look back at our history, you can see that we have been very disciplined with our debt ratios. And this is not an exception. We always said that if we encounter an opportunity that today we have in hand, we would incur an additional debt, and rest assured that this opportunity would contribute to our results in the coming years and therefore, become accretive to our shareholders. And although we would finish the year with debt levels above 2x, 2.5x, this debt is very well structured in the long term with an average life of 4.5 years and also at very competitive prices. Now, at the same time that we do this, we are revising all our capital expenditures, and namely, our distribution policy, we're discussing that for the coming years within management and our Board. The CapEx programs, as we said in the previous question, we are revising all the CapEx programs for each of our different businesses that will definitely -- is expected to be significantly lower in the next years. And as part of a specific plan, we started on the implementation of additional cost savings and additional enhancements in each of our businesses. And last but not least, and this is something that has been very vocal in our previous calls, we are having conversations with our controlling shareholder exploring potential capitalization structures in the company. All of that, of course, will contribute to bring down, in the coming years, the net debt ratios of the company.

Isabella Simonato: No, that's very clear. Just a quick follow-up, Mariano. As you mentioned, right, you are reducing mainly leased area to save costs. But how that shape you for 2027? I mean, how easy is for you to plant more again in 2027? How that changed planted area in the midterm?

Mariano Bosch: I think there is no problem there. This is a market where you can decrease or increase from 1 year to the other. For us, the key is the efficiency and the return. So that's our focus. And the area is a consequence on the return or the return that we are asking, the return that we are willing to have. So we don't see any problem on growing again in terms of the leased area.

Operator: [Operator Instructions] Our next question comes from Julia Rizzo from Morgan Stanley.

Julia Rizzo: Can I explore a little bit more Profertil acquisition? You still have some debt to take. I would like to understand what are the rates and how you expect that to be in terms of financing, time to pay, average cost. Also, in your best guess or in the last years, how much Profertil was able to deliver or distribute in terms of dividends but that would be the base case for 2026 distribution for Adecoagro coming from Profertil if the M&A; gets concluded?

Mariano Bosch: Julia, thank you very much for your question. On Profertil, in general terms, as we explained in the specific call that we did talking about this, we are very enthusiastic. We think this is a very attractive deal, and this is very accretive to what we have today. So we are very enthusiastic and keen to be able to close it by mid-December, as we just said. For that closing, it's all financed. 100% of the financing is already in place and at the same levels that Emilio just explained that are long term and very good rates. So there's no issue there. But in order to get into more details, et cetera, I think it is important to wait until we can make this final closing. And in terms of how we report and how this company has been giving dividends, you can see in their own financials that they've done a lot of dividends during every year, and they have already sent more than \$1 billion of dividends in the last 5 years. And regarding our accounting, as we have already mentioned, the accounting is going to be on the equity method.

Julia Rizzo: Yes. Okay. So you think it's too early to ask for opportunities within the business, [how we] explore eventually Vaca Muerta supply, how you see that dividend -- or expectations for 2026 in terms of how that could help to finance the cost of debt? Is that too early or you can give us a guidance on that sense?

Mariano Bosch: No, I think it's too early to get into all the details. Again, we are very optimistic. We think that Vaca Muerta gas production is growing a lot in Argentina that you've all heard about, all the possibilities that Argentina has in order to produce gas. We are going to take advantage of this natural condition that Argentina has, and we can be the local producer of urea. So there's a lot of expectation on that going forward. But in order to get into all the details, we prefer to talk once this is something real.

Operator: This concludes the Q&A; session. At this time, I would like to turn the floor over back to Mr. Bosch for any closing remarks.

Mariano Bosch: Thank you. Thank you for coming today, and hope to see you in our next call.

Operator: Thank you. This concludes today's presentation. You may disconnect at this time, and have a nice day.