DEEP DIVE

2022

3tentos

May 2022

EQUITAS

SUMMARY

1. Brief case overview

3tentos brief overview

3Tentos is a service provider to mid/small grain producers in the two main soybean production areas of Brazil. The company provides consulting services through a specialized sales force of around 140 agronomists and sells agricultural inputs to its customers through a retail network composed by 50 stores. Besides selling seeds and other inputs, 3tentos has a verticalized operation, where it purchases part of its clients' crops, processes soybean to produce and commercialize oil, soybean meal and biodiesel. It also extend credit to its clients though barter transactions.

It started as an agribusiness retailer in the northwest of Rio Grande do Sul (RS), began to expand its geographic operation within the state in 2001 and initiated its soybean crushing unit in 2013. This was the beginning of what would transform the company into an ecosystem in the agribusiness that gives 3tentos relevant competitive advantages.

Today, 3tentos is the dominant player in RS, which accounts for ~15% of Brazil's soybean production. It is present in 33% of the state, with 40% market share in its influence area. The company had its IPO in July of 2021, raising R$ 1.2 billion to grow toward blank spots in RS and start an operation in Mato Grosso (MT) by opening retail stores and building a new crushing and biodiesel capacity in MT.

Integrated operations create a virtuous cycle ecosystem. Having an internal destination to grains allows 3tentos to offer barter trade in greater volumes to its clients, increasing the value proposition and, at the same time, increasing the credit guarantee since it allows 3tentos to use its client's production as a collateral for the inputs sold to them. The retail business increases the industry margins because 3tentos originates cheaper grains in retail (instead of competitors that originate in wholesale) and can also channel the soybean meal to the retail, getting better pricing.

Luiz Osório Dumoncel, currently the CEO, has intense passion for the company and together with the other members of his family, owns 77% of it.

Why we invest in 3tentos

3tentos has a rare combination of: (1) strong organic growth (25-30% per year); (2) high returns (ROIC over 30%); (3) clear moats; (4) operates within a large, fast-growing, fragmented and uncorrelated to local macro scenario sector; (5) really well managed with strong culture focused on results and; (6) compelling valuation (<10x P/E 2022E).

Due to the large (US$ 25 bi), growing (15% per year) and fragmented agribusiness retail sector, 3tentos has room to grow a lot for several years. It is now just scratching the surface since : (1) it has only a bit more than 1% market share today; (2) top 5 players have ~10% of the market against 43% in US; and (3) most competitors are small local business (70% of the agrobusiness input shops are operated by players that owns only 1 store). Besides that, the two biggest competitors are a merger of several small/medium agribusiness inputs retailers founded by private equity firms that are suffering with integration and starting to focus on divestment.

The execution and capital allocation track record are stellar: the Dumoncel brothers (highly referenced on our channel-checks) transformed a single small agricultural shop founded by their father into a dominant agribusiness player in RS. It managed to grow sales by impressive 30% per year without any equity raising until its IPO in July 2021. Their business vision led them to verticalize operations: 3tentos has its own fertilizers mixers, soybean seeds, logistic infrastructure, static grain storage capacity, crushing and biodiesel industrial plants.

Scenario of success in 5 years

In 5 years, 3tentos would be well succeeded in replicating its ecosystem in the Mato Grosso market (2x larger than the RS market) and would multiply its revenues organically 3-fold or more but would still has ridiculously low market share (2-3% in Brazil). It would do more of the same in the following years to gain a significant share in MT and would be on the verge of rolling out its strategy to other regions.

Scenario of success in 10 years

The company would be present in all of the main grain producing states and ready to roll-out its strategy to the remaining ones. Also, it would be one of the biggest players of the agribusiness retail, with the highest returns of the industry. With a market share of around 5% (coming from a bit more than 1% today), 3tentos could be more than 6 times bigger than today in terms of revenue and earnings, but still with a lot of room to grow through consolidation and development of ancillary businesses (insurance, machinery rental etc).

What could go wrong

Although the agribusiness retail in MT is more fragmented than in RS, 3tentos may not be as successful in MT as it is in RS because it is a new market for the company, with bigger farmers on average than the ones in RS. This is very relevante since almost 40% of the 3Tentos growth for the next 5 years in the retail segment should come from MT. But, more relevant than a 5-year growth plan, if the company fails in MT, it may not manage to roll out its strategy to other regions.

Approximately 40% of the industry's revenues (or 20% of the company's revenues) come from biodiesel, which is a captive market created by regulation that seeks to lower carbon emissions. If that regulation changes thus turning biodiesel economically unviable, the gross margin of this business unit (10%-20%), could drop 2 to 3 percentage points, according to our estimates. This would translate into an impact of some 15% of the consolidated EBITDA.

Crop failure in RS is more frequent than in other regions due to its unstable weather. In the last 20 years, 4 severe crop failures (yield miss above 30%) occurred in RS. When this happens, credit risk increases as the company have receivables from farmers. The last time crop failed, the effective loss of receivables was negligible (close to 1%), but it impacted retail margins (from 25% to 20% in the year of crop failure) due to a weaker financial health of the farmers in the region (they tend to invest less in the next crop due to financial restrictions). Climate change could make these events more frequent going forward.

How 3tentos fits in our portfolio

Unlike other cases in our portfolio, 3Tentos poses both particular and top-down risks that differs a lot from other cases in our portfolio which are more correlated with Brazilian economics cycles. From the macroeconomic point of view, it is almost anti-fragile since a devaluated currency benefits the agribusiness and grains prices do not relate to domestic GDP.

1.1 10 Questions

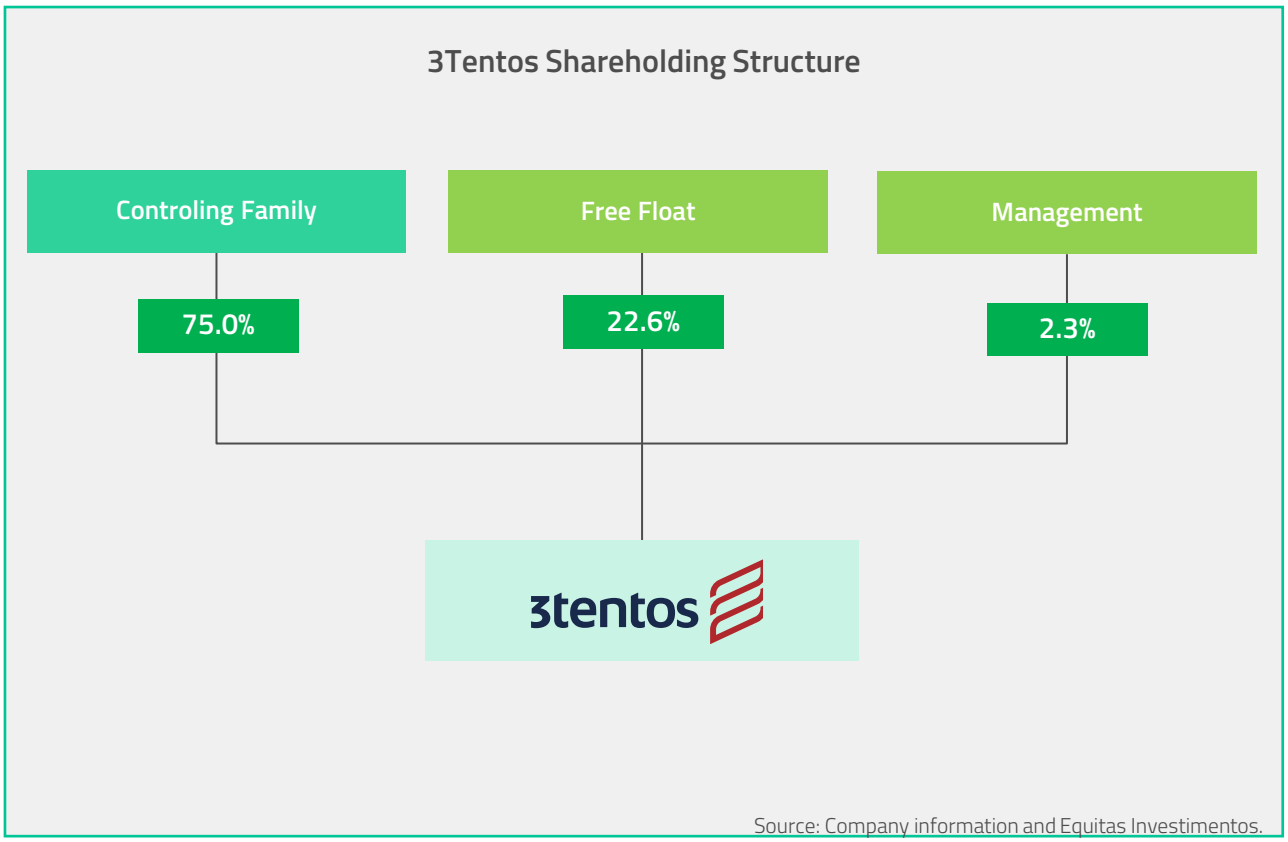
10 QUESTIONS

1. **Can Revenues double in the next 5 years?** Yes. In our base case, revenues more than double in the next 5 years due to the expansion in RS, the roll-out to MT and the start-up of the new soybean crushing capacity.
2. **10 Years and beyond?** If 3Tentos succeeds in its expansion to MT, it can roll-out to other states and may be the leader in the agribusiness retail segment in Brazil. Also, there are growth opportunities arising out of other services provided to its clients such as banking, brokerage, insurance and even machine rental.
3. **What are 3tentos competitive advantages?** Unparallel regional scale, capillarity into medium/small farmers, long history of strong relationships with its clients, given it high value proposition to them. Such features combined with its logistical infrastructure and privileged access to capital markets lead to a differentiated ecosystem, allowing it to have advantages in grain origination.
4. **Does it have a unique culture?** It has a very strong company culture focused on results. The Dumoncel brothers, who were very well referenced in our channel checks, were capable to transform a single small agribusiness shop founded by their father into a dominant agribusiness player in the state of Rio Grande do Sul.
5. **Do clients like it? Does 3Tentos contribute to the Society?** Many of the channel checks we ran confirmed that clients and business partners have sound references and relationship with the company.
6. **Are returns attractive?** Yes, ROIC of >30% and ROE > 40% in the last 5 years.
7. **Are returns expected to increase?** No. We think the base case is that returns in the long run will be similar to today's returns, but there could be pressure in the short term due to entrance in new markets and ramp up of the new soybean crushing plant.
8. **How is capital allocation?** The track record in capital allocation is very impressive. The company has sustained steady growth close to 30% in the last 2 decades with only internal cash flow generation.
9. **Can we multiply our investment by 5x in the next 10 years?** Yes. If 3Tentos succeeds in its roll-out strategy, we think it will grow in the next decade in a similar pace it has grown in the last decades, which even with multiple de-rating, should be enough to be worth 5 times more in 10 years (currently, it trades close to 10x P/E).
10. **What the market does not understand?** Our perception is that the market doesn´t fully understand 3tentos differentiated business model, along with the fact that it (1) is a new sector for the stock market and (2) currently has low stock liquidity.

2. Company Description

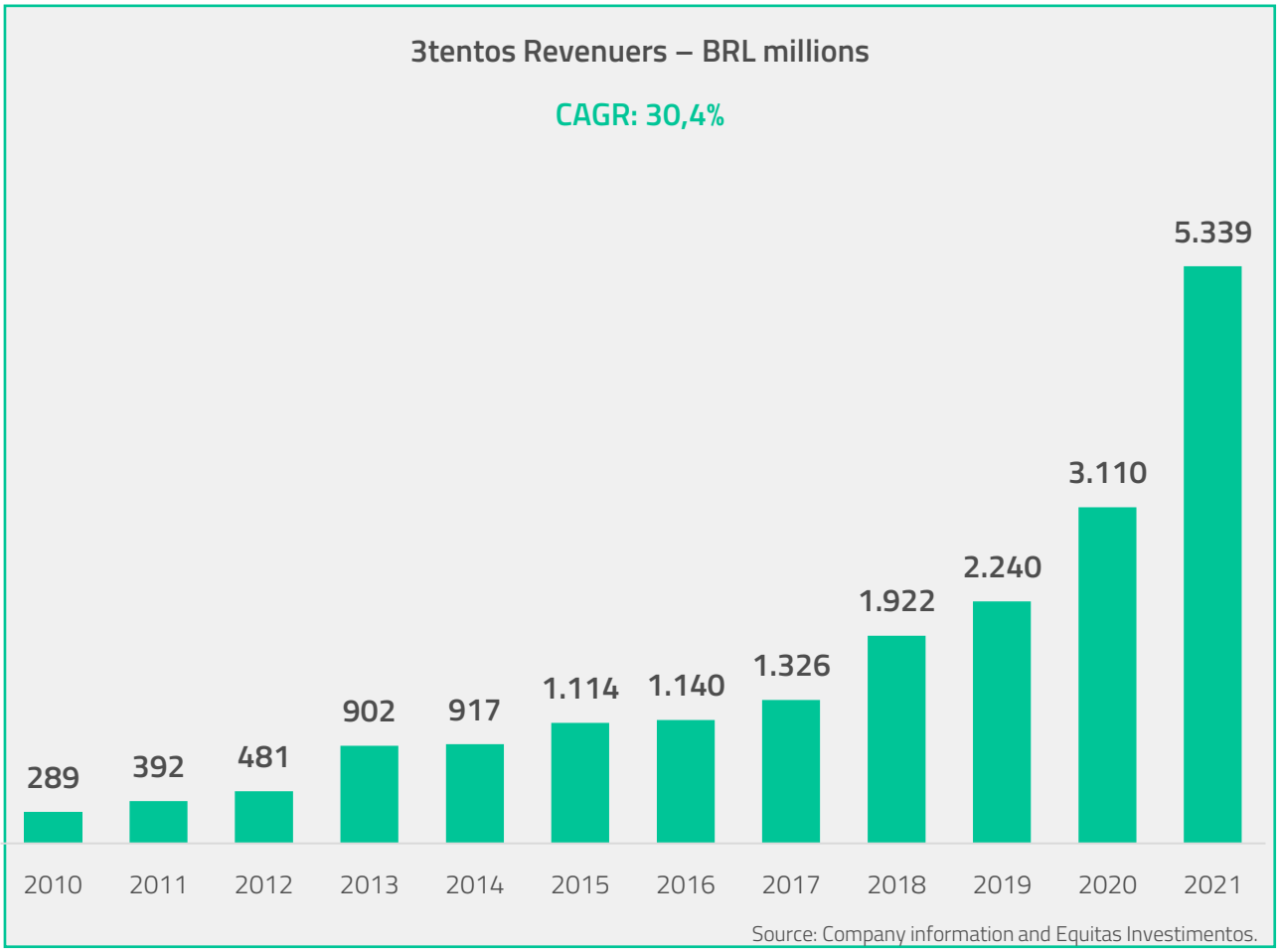
3tentos is a Family-owned business founded in the 90s. It started as an agribusiness retailer with one store in Santa Barbara do Sul in Rio Grande do Sul, begun to expand its geographic operation towards other regions within the state in 2001 and initiated its soybean crushing unit in 2013. This was the beginning of what would transform the company in an ecosystem in the agribusiness that gives 3tentos a relevant competitive advantage in the industry. Today, 3tentos is the dominant player in RS and counts on its +140 well trained agronomist specialists to offer the best agriculture inputs solution to more than 17,000 farmers in RS. Present in 33% of the state and with 40% market share on its influence area. 3tentos made its IPO in July 2021 and raised R$ 1.2 billion to grow towards white spots in RS state, start an operation in Mato Grosso (MT) and invest in a new crushing and biodiesel capacity in MT to try to replicate the business model there.

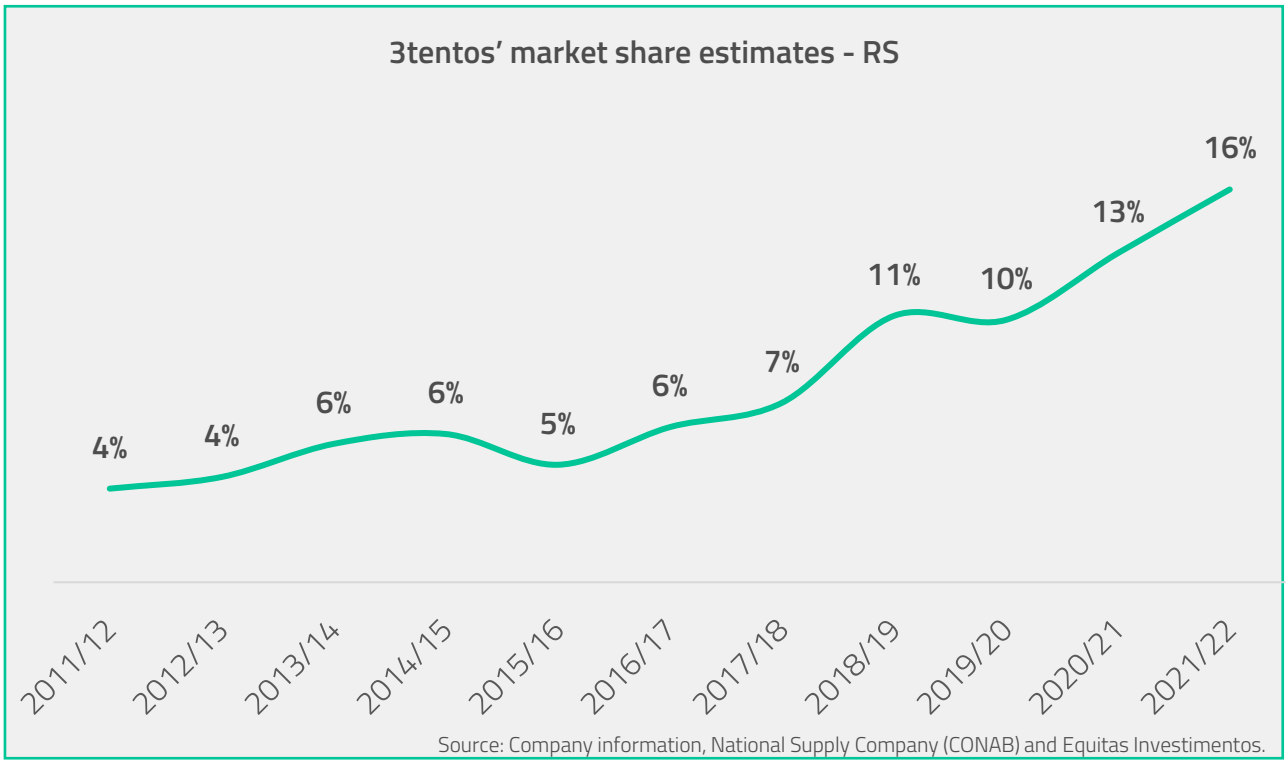
Luiz Osório Dumoncel, currently the CEO, is highly committed to the company and together with rest of the family and management, owns 77% of the business. His brother, João Marcelo Dumoncel is the COO. The fact that top management are relevant holders of the company results in better alignment to minority shareholders. There are other two members of the family in the company (Luiz Osório and João Marcelo sons). It's worth mentioning that to be able to work at 3tentos, family members must meet the following requirements: i) to have studied in a predetermined list of colleges with predetermined majors; ii) to have studied abroad for at least one and a half year; iii) to have worked in other companies in the agribusiness segment for at least 2 years and iv) to have gone through a traineeship program in 3tentos to learn every single operational detail of the company (such as how to load a truck with soybeans or operate a truck weight scale).



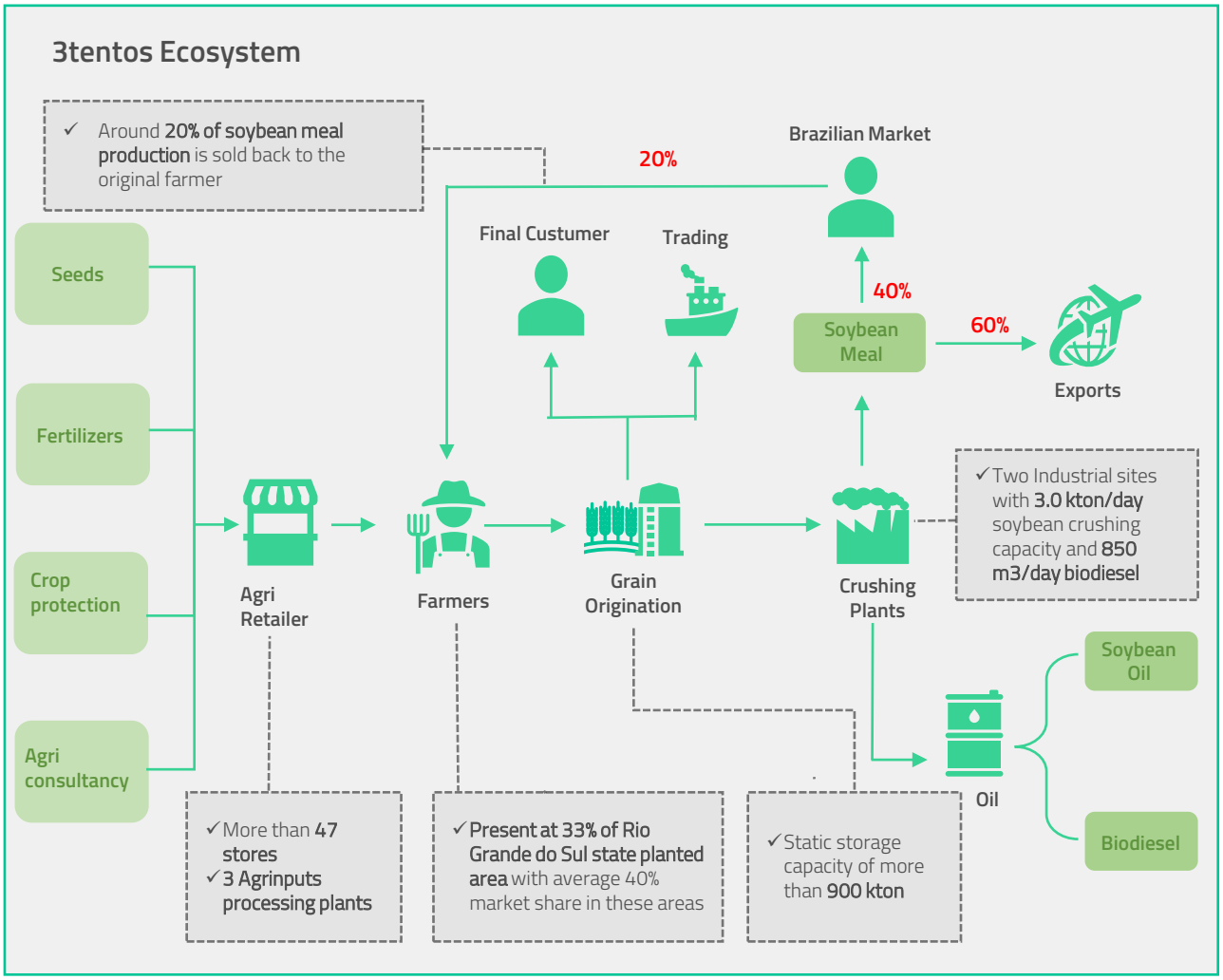
Source: Company information and Equitas Investimentos.

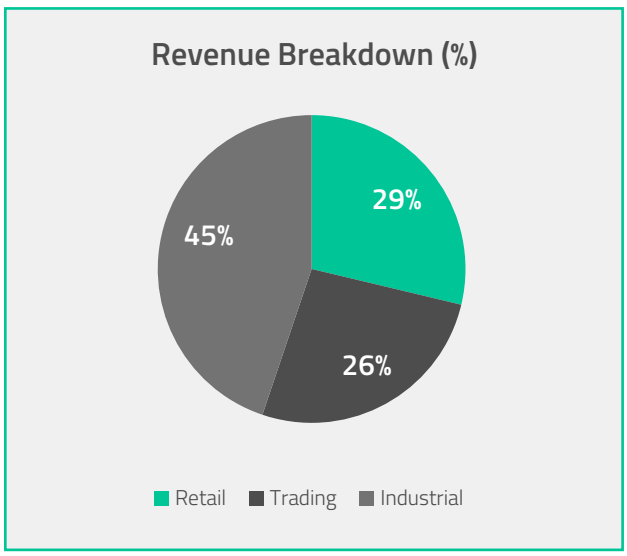
With the rollout of the retail segment, verticalization (upstream and downstream as will be detailed in this report), best in class execution and a strong company culture, 3tentos was able to scale up the business and gain market share in Rio Grande do Sul, and achieve an impressive growth and profitable track record.

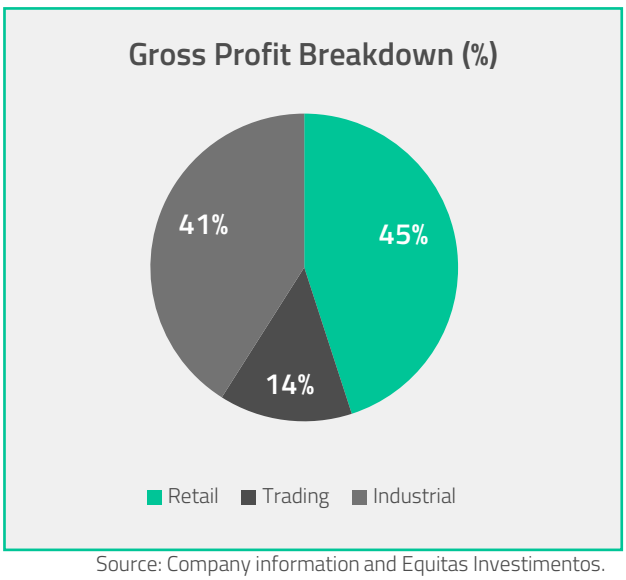




One important moat of the company was the development of what we call agribusiness ecosystem, which became viable by its verticalization and will be detailed in this report. Because of its model, the company has 3 business units: agribusiness retail, industry, and trading. All of them generate synergies with each other.







Source: Company information and Equitas Investimentos.

2.1.What is an agribusiness retailer? – business of relationship and scale

An agribusiness retailer is exactly what the name suggests. It sells every agribusiness input a farmer may need, although it is different from a common grocery store we are more used to come by daily. It resembles a warehouse, where the inputs needed in all crop activity are stored, together with an office where the sellers (agronomists) can meet with the clients (farmers). However, in terms of sector dynamics, it has some similarities with traditional retails business such as: (i) scale matters (bargain power with suppliers, density improves logistics efficiency and brand awareness) and (ii) capillarity is an important factor to increase addressable market. Given these characteristics, consolidation makes a lot of sense.

Nevertheless, the main differences compared to traditional retail segment are: (i) the selling process is very technical and expensive; (ii) the sale is frequently a kind of credit granted to the farmer (either in the form of deferred payment or barter trade) and (iii) there is a relationship of trust between the agronomist salesperson and the farmer. Small farmers do not have enough scale to justify an own exclusive agronomist, and, therefore, needs to rely on agronomists from retailers. Medium to large size farmers use this 'service' because they think every help is welcome and the more agronomists having a close look on his crop the better. Once trust is reached between parties, it creates significant switching costs to farmers.

The client needs to trust the seller (an agronomist) to be sure he is recommending what is the best solution for his needs in that moment, not what would bring the best results for the retailer. Also, he needs to trust that the retailer will deliver the product bought exactly at the moment he needs. Usually, a farmer closes a package for the crop, but the exact moment he will need the input depends on a series of unpredictable factors (weather and pests' emergences, for example). He must trust that in the correct moment, the retailer will have the product stored and will delivery it fast. Moreover, this is actually a value provided by the retailer that a farmer cannot get through direct sales. In a direct sale between an input producer and a farmer, the latter must have inputs storage capacity in the farm to stock the inputs to use it only when needed. Also, there is a security issue since these products are expensive and in-farm storage facilitates thefts. Adding to that, there is always ad hoc necessities during a crop (soil correction, herbicides, pesticides, specialties products, etc...) that a direct purchase cannot address.

In the case of the seller, he extends the farmer a credit. He must know who deserves credit and who doesn't. Therefore, it is very common for farmers to view the agronomists as longtime friends. People and company culture are important moats in this industry.

Also, since the farmer sees the retailer's agronomist evaluation as a service to help him generate more profits from the land, it is a differentiation in this business to be in the vanguard in terms of agribusiness technology. This way, a retailer can offer to its clients the best solution available all the time (the best seed, defensive, chemicals and fertilizers quantities for each land plot). In the long run, the only way to gain the farmers' confidence is by being aligned with his interests. Being in constant pursuit to be updated with cutting edge technology available in the market is an essential part of business.

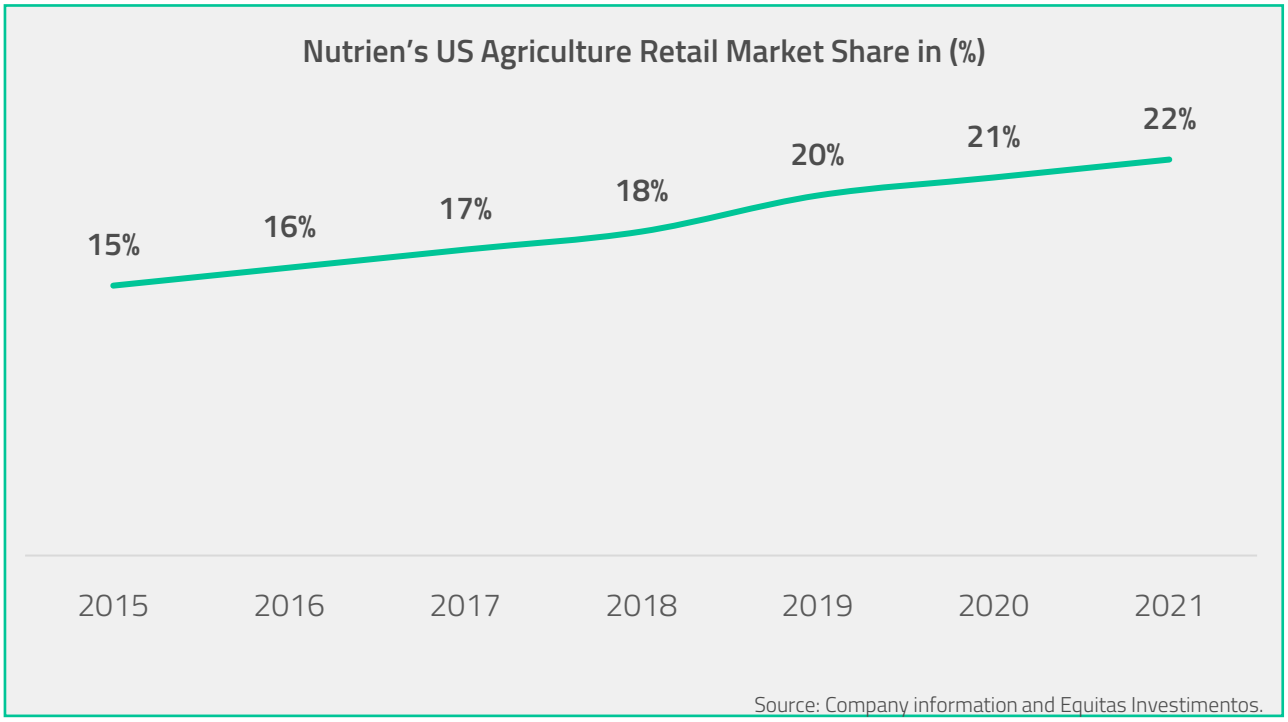
Another characteristic of this market is the fact that, in general, investments in fixed assets are almost irrelevant (not in the case of 3tentos due to its verticalization, which will be detailed later). However, the investment in working capital may be relevant in some cases. Small and medium farmers are usually short in liquidity because of their tendency to invest every penny they make on the purchase of new land. So, most of them need

working capital finance to buy crop inputs, which is usually provided by suppliers. Hence, the retailer has three options: sell in cash (decreasing value proposition), sell with deferred payments (via barter or not) funding it with its own balance sheet or funding the deferred payment with large agro input suppliers (big chemicals, trading and fertilizers companies). The latter is usually the strategy pursued by small retail chains that don't have the capital required to back the operation themselves. Typically, the loan from retailer to the farmer has an implied 1,5-2,0% monthly interest rate while the rate paid by retailers to get finance in their purchases from suppliers ranges between 1,2 -1,5% monthly. However, if the retailer is well capitalized, it can mismatch receivables and payables, granting working capital for small farmers, and increasing its value proposition. At the same time, the capitalized retailers don't need to finance themselves with the big chemical and fertilizers companies, which increases the value they capture in the operation. Moreover, if the retailer makes a good job of choosing the creditworthy costumers, it will increase the gross margin without compromising provisions for non-performing loans. That's why knowing the clients well with a close look in their everyday business and track record, having well trained and aligned sellers is crucial to understand the quality of the company's receivables. At the same time, not having strong balance sheet, financing the operations with suppliers while granting loan to the wrong costumers can wipe a player out of the business. The consequence is that there are small retailers dying and being born all the time.

Lastly, guarantees obtained on the loans granted to farmers differ a lot among retailers. The best guarantee a retailer can get on deferred payments is the issuance of a physical CPR ("Cédula de Produto Rural", which translates into Rural Product Bill). It works similar as a bond title granted by the farmer to creditors, that gives its holder rights toward a stablished physical amount of the crop output. It is easily enforced in case of delinquency, having an extensive jurisprudence on that front. It's like a mortgage financing, where the guarantee is readily arrested by creditors in case of borrower's delinquency. When parties agree on a barter trade, a called physical CPR is issued, guaranteeing the transaction. At its issuance, the CPR is notary registered and can be negotiated in B3 (Brazilian Stock Exchange). It is also preferred by farmers without static storage capacity since it partially addresses croppers struggle to storage and define a destiny to their production during the peak of harvest as will be explained later in this report. Therefore, it poses as a less risky way to grant credit to farmers and a great way to some agribusiness retailers differentiate themselves from competitors.

3.The market today in Brazil and how it may evolve – huge, growing, and fragmented market on the verge of consolidation

Agribusiness retail is hugely fragmented in Brazil. As described in the previous topic, it is relatively easy to build an agribusiness retailer with small capital requirement. This led the industry to have a slow consolidation process, despite big advantages of scale (for example, industry rebates due to volume triggers can be as high as 13%). Typically, in Brazil, a starting retailer is founded by ex-agronomists that used to work in other bigger agriculture retail chains or cooperatives. Obviously, new retailers are welcome and encouraged by input suppliers. Making a parallel with the northern hemisphere by looking at the US and Canada markets, the consolidation process is close to 20 years ahead of Brazil. Agrium intensified its consolidation move in the 1990s and in 2016 it merged with Potash Corp (one of the biggest NPK producers in the world that at the time saw the merger as a strategic opportunity to own its fertilizer sales channel). This merger formed Nutrien, the biggest agribusiness retailer in the world, that still pursues consolidation both in its original markets (North America) and other important markets like Brazil. Nutrien reached 22% of the US agribusiness retail industry in 2021.

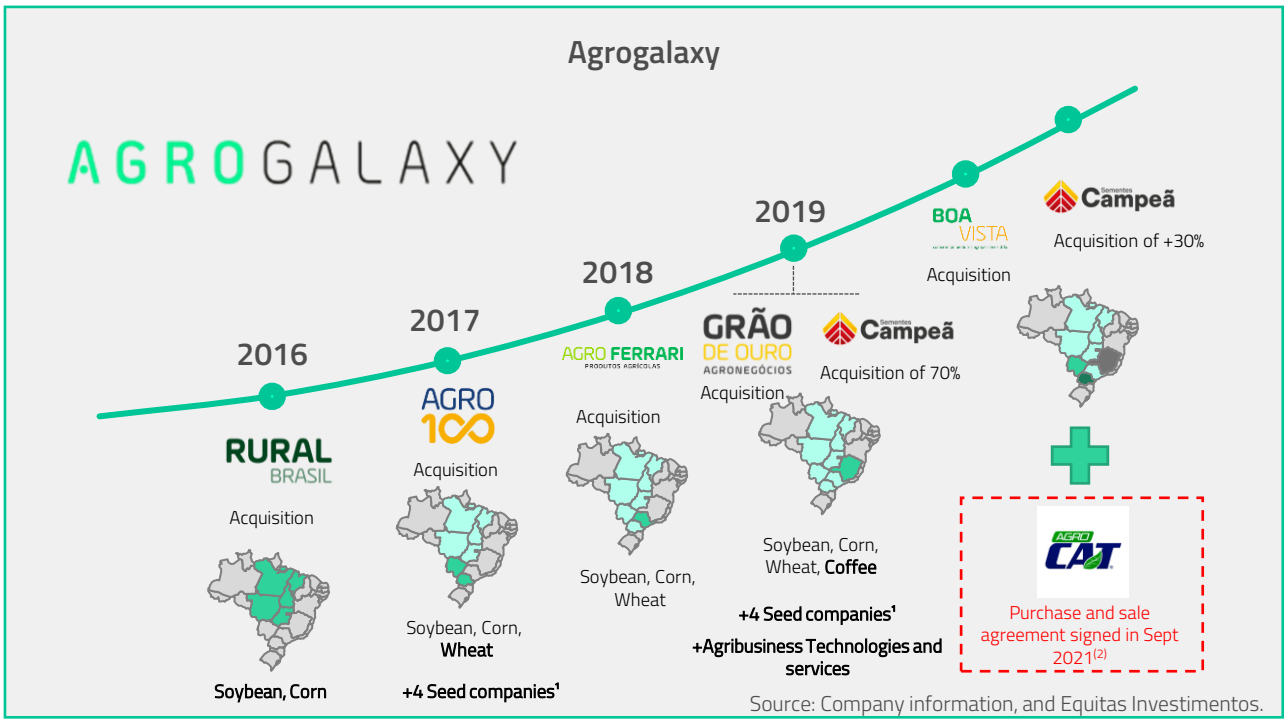


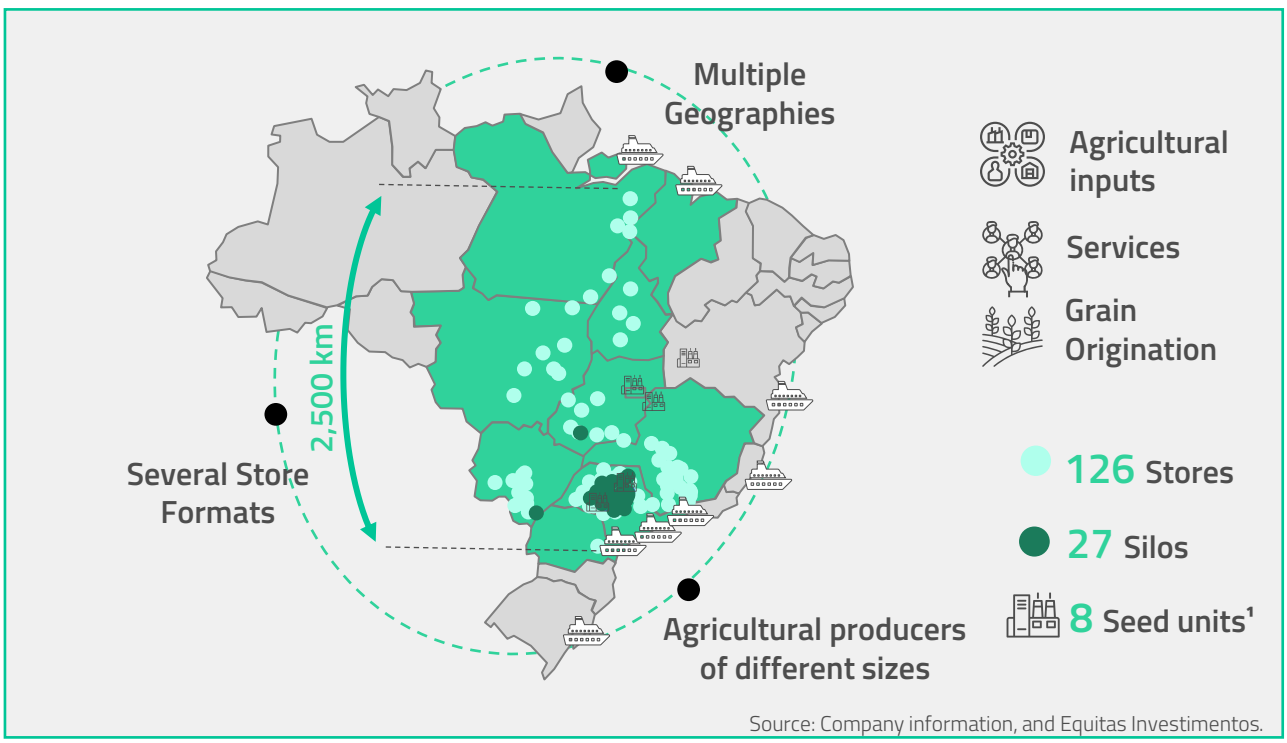
Source: Company information and Equitas Investimentos.

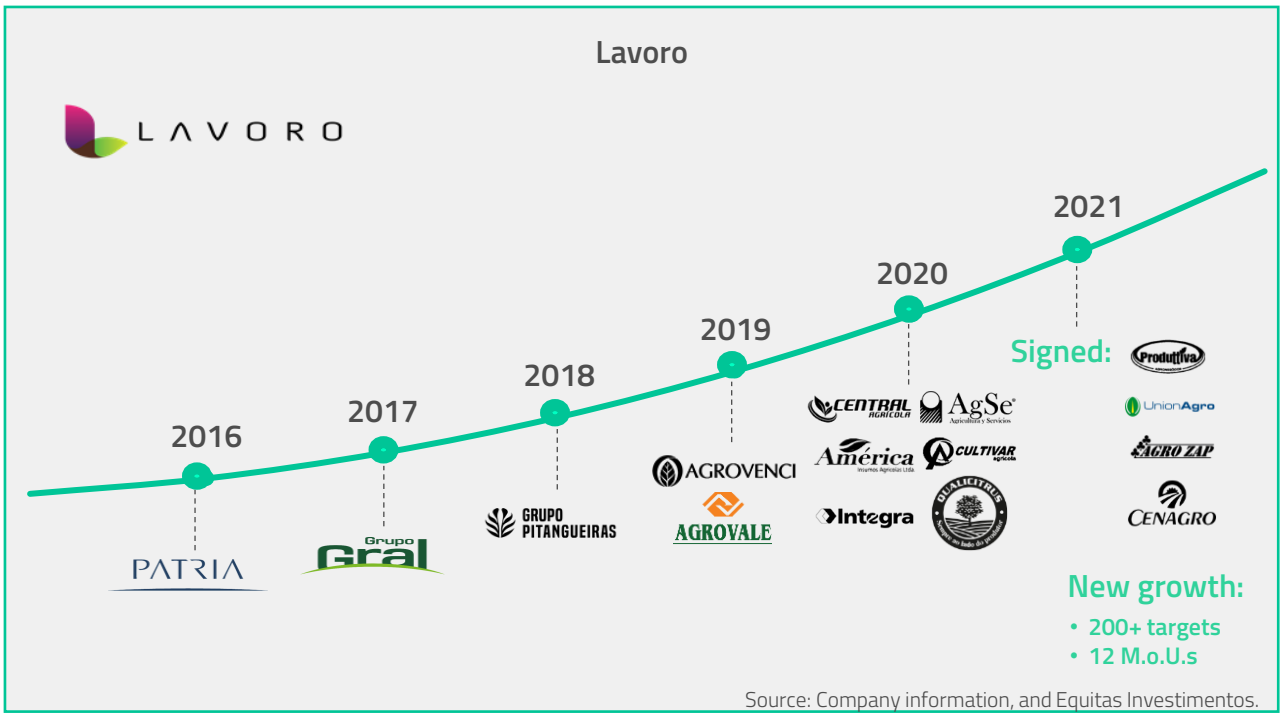
Brazil is an important market for Nutrien since it sees it as a big agriculture input consumer market with high growth rates in the coming years and a very strategic market in the frontier of global grain crop production. Since it entered the market in 2019, it has grown its revenues 5-fold (from R$ 340 million to R$ 1,8 billion in 2020, including the fertilizers business unit). That exponential growth was based both on acquisitions (acquiring other retail chains such as Agrosema Comercial Agricola, Terra Nova and Bio Rural) and organic, reaching 50 stores and 4 fertilizer mixers in 2021. Its footprint is spread in the southeast region, Goiás and Mato Grosso do Sul states and it has plans to accelerate its expansion in the region and in other production states.

Bunge and Syngenta are two other multinationals that are trying to participate in the consolidation of the Brazilian market. Bunge acquired 30% of Agrofel in 2019 and 33% of Sinagro in 2022. Transaction prices were not disclosed. Agrofel has 20 stores in Rio Grande do Sul while Sinagro has 30 stores spread across Mato Grosso, Mato Grosso do Sul, Góias, Bahia, Tocantins, Pará and Minas Gerais. Syngenta acquired Dipagro, which has 4 stores in MT, in 2021. With these big pockets trying to consolidate via M&A, the best players are M&A targets for certain.

Besides the multinational companies, there are two other competitors trying to consolidate this highly fragmented market via M&A, Lavoro and Agrogalaxy. Both companies were founded by private equity firms (Patria and Acqua) in a roll-up strategy. They are the merge of 19 and 12 companies and their footprint accounts for 148 stores and 126 (in Latin America) respectively. The constitution of both businesses is shown in the exhibit below:







Source: Company information, and Equitas Investimentos.

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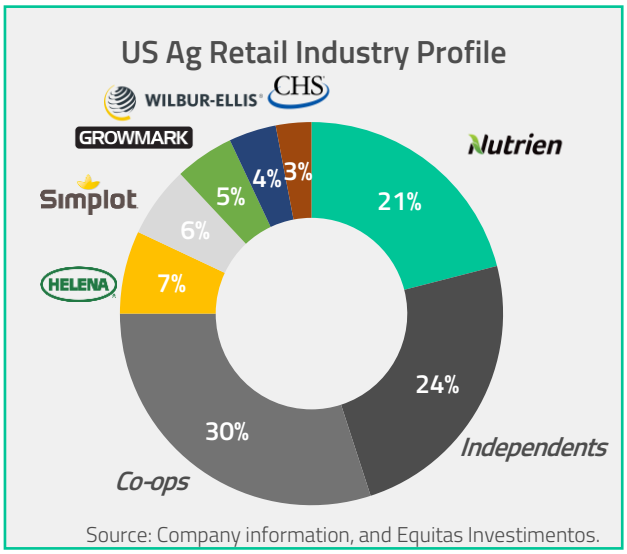
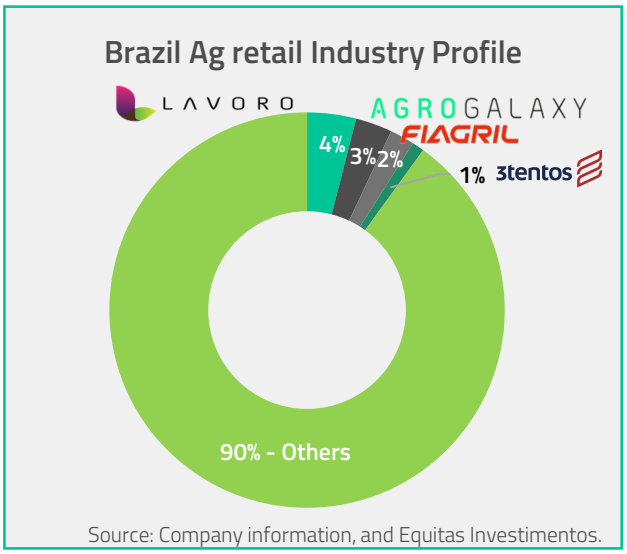
We don't have much information on Lavoro since it is still a private player. What we know from our channel checks is that they are suffering a lot with team turnover due to cultural mismatches and a slow integration process. We had access to some p&l kpi's that will be shown latter in this report in a comparative chart. Agrogalaxy is also suffering with turnover, but with much less intensity according to our sources. The private equity firm Acqua is already trying to divest from Agrogalaxy, since the first investment was made 6 years ago. It tried a secondary offering in its IPO but was not successful. Agrogalaxy has 2,3 ND to EBITDA leverage (3tentos is 1-time net cash as a comparison). More information about both companies will be described further ahead in this report.

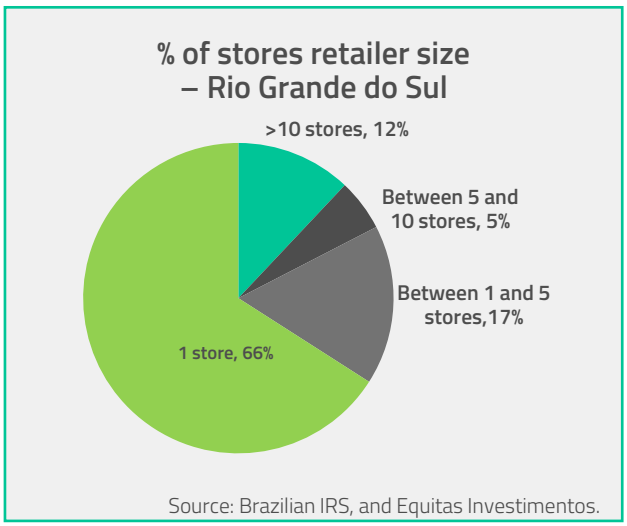
It is also important to mention the cooperatives. They own a 29% slice of the agribusiness inputs market. There are two types of cooperatives: open and closed cooperatives. In the close ones, members must make every transaction within the cooperative. Every single input must come from a standard pack of products set by the cooperative and every output must be sold to the cooperative. It is easy to imagine that this kind of rigidity is not the ideal world for an ample and complex business with a lot of unpredictable variables like growing grains. Also, according to the players we interviewed, they are technically less prepared than agronomists from private retailers. In the open cooperatives, members have some flexibility, although still a lot more rigid than market driven farmers and retailers. Moreover, cooperatives are not allowed to refuse any client, thus suffering from an adverse selection. In the cooperative system, the residual earnings at the end of the period are distributed between all the cooperated producers. Since it rarely has a single controller, it faces the classical principal-agent conflict of major corporations. The crucial misalignment between management and producers is once again exacerbated, many times leading to above market compensation to executives and lack of performance accountability. Cooperatives are also known for having solvency issues from time to time due to bad management or even management corruption. The only reason why most cooperatives survive is that they enjoy tax exemptions. However, our channel checks suggest that cooperatives are the biggest donor of market share in the business.

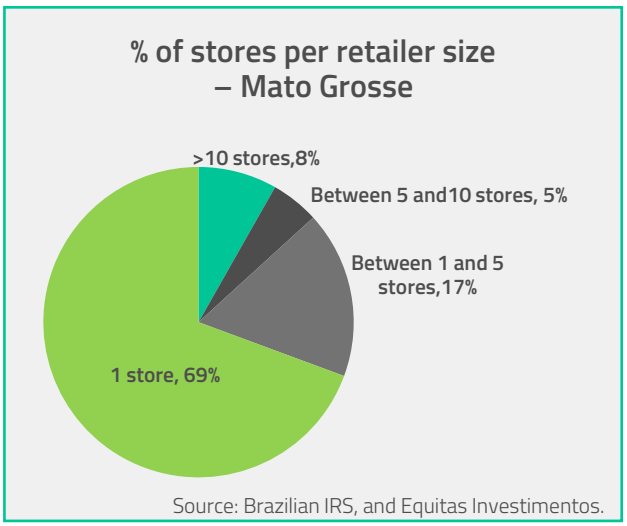
And then, there is 3tentos, the biggest regional player and now focused on organic growth in other regions beside its original. Below there is a chart comparing the major competitors market share in Brazil and USA. In Brazil, top 5 players represent only 10% of the market compared to 43% in US.





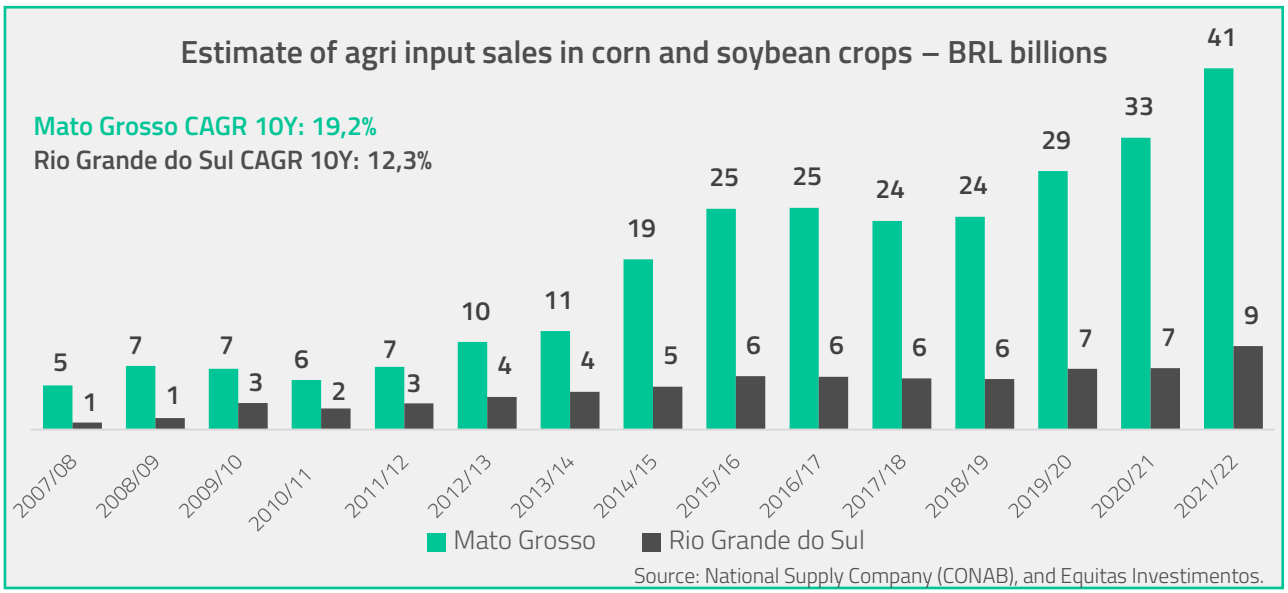
Even in RS, which is one of the most mature markets, only 12% of the stores belong to retailers that have more than 10 stores and 66% of the stores belong to retailers that have a single one. In MT, the biggest grain producer, and the fastest growing state, only 8% of the stores belong to retailers that have more than 10 stores and 69% of the stores belong to retailers that have a single one.

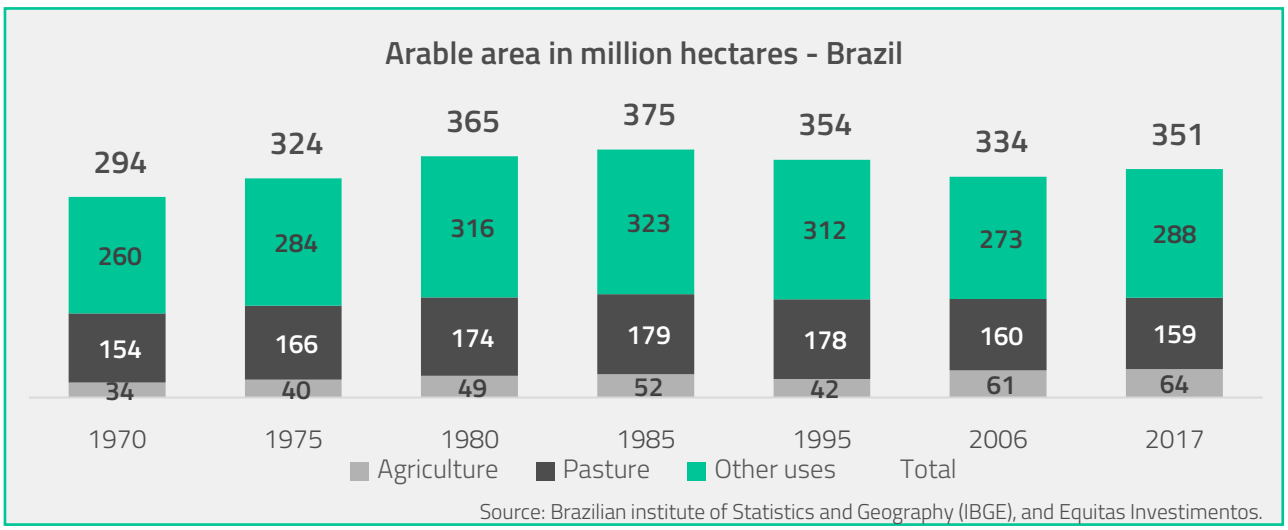




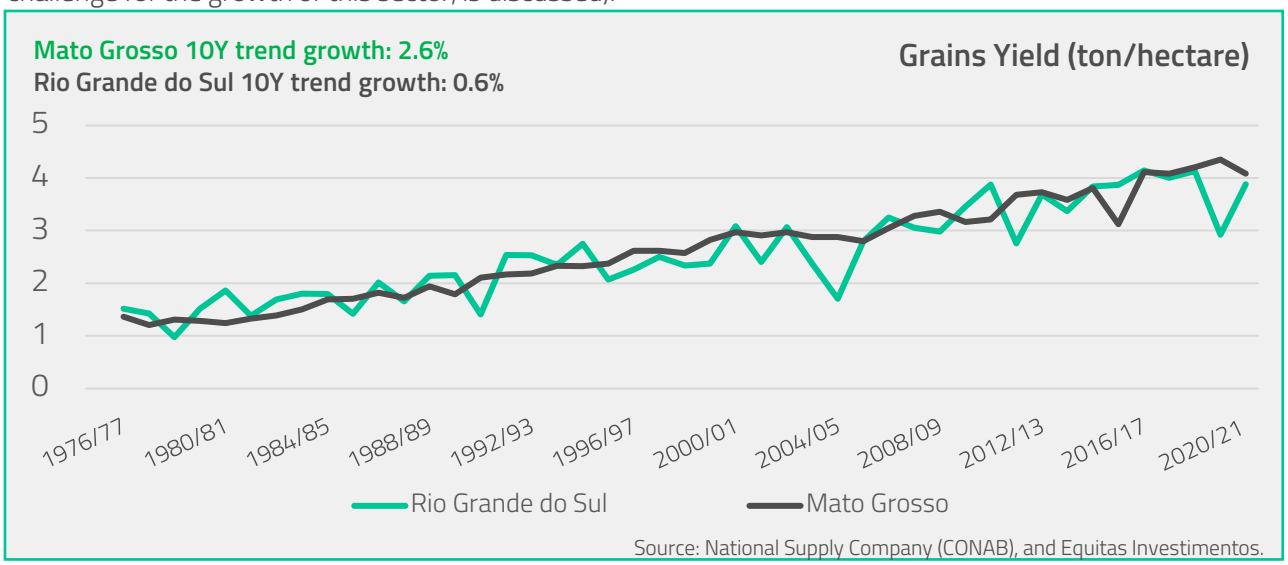
Agriculture inputs is a huge market in Brazil. It is the second biggest market in the world and one of the fastest growing. Brazil is well known for its comparative advantage in agribusiness and its opportunities to growth grain production. Today, around 45% of the land available for agribusiness in Brazil is used for cattle grass feeding with an average of only 1.35 heads of cattle per hectare. There is clearly room to increase carrying capacity (density of heads per hectare) and then convert grazing land to crop, preventing the opening of new areas for crops and at the same time meet the increasing demand for food in the world. In the last 10 years, 15 million hectares were transformed from pasture into grain production areas. According to the "Atlas da Pastagem" (Atlas of Pasture in Portuguese, an NGO sustained by the Federal University of Goias), almost 60% of the Brazilian pasture has some degree of degradation by 2018 due to low investments and technical inefficiency (inadequate soil, plant or herd management). Degradation means low density of biomass per hectare, and this is the main reason behind the low productivity. According to EMBRAPA (Brazilian Agricultural Research Corporation linked to Ministry of Agriculture) and some other academic papers[1], the recovery of degraded pasture is one of the best opportunities to capture GHG from atmosphere in Brazil and, at same time, releasing area for crop due to increase in carrying capacity. More details about agriculture GHG emissions will be detailed later.

[1] Inverting the carbon footprint in Brazilian agriculture: an estimate of the effects of the ABC plan

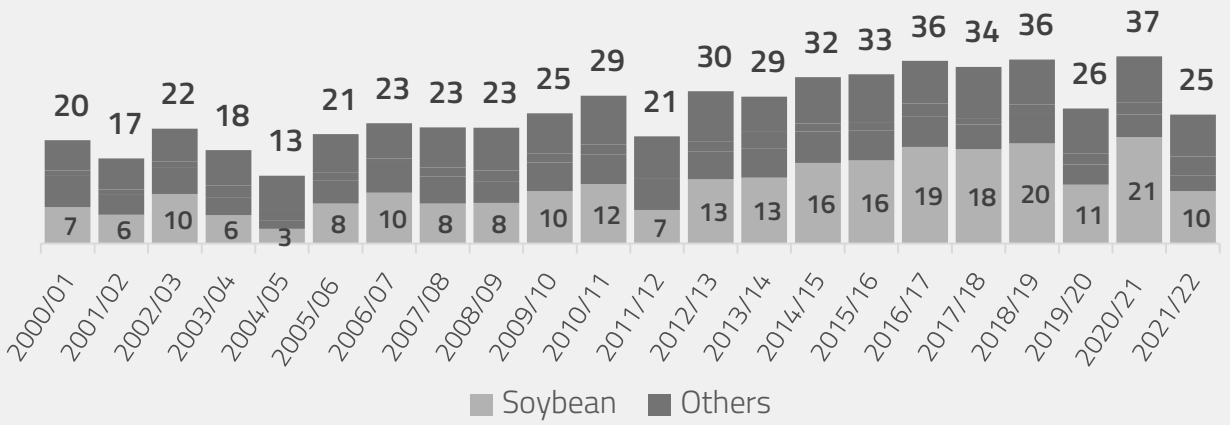




Besides the growth in land for grains, the increase in productivity is also a driver of growth. The bigger the production per hectare, the bigger will be the biomass and, therefore, the need for inputs. Besides that, more productivity also entails more technological inputs that leads to higher prices of these products. All these drivers are secular trends linked to continuing increasing global food consumption, a trend that is hard to picture reversing on the foreseeable future (in the next topic, the agriculture carbon footprint, which is a challenge for the growth of this sector, is discussed).

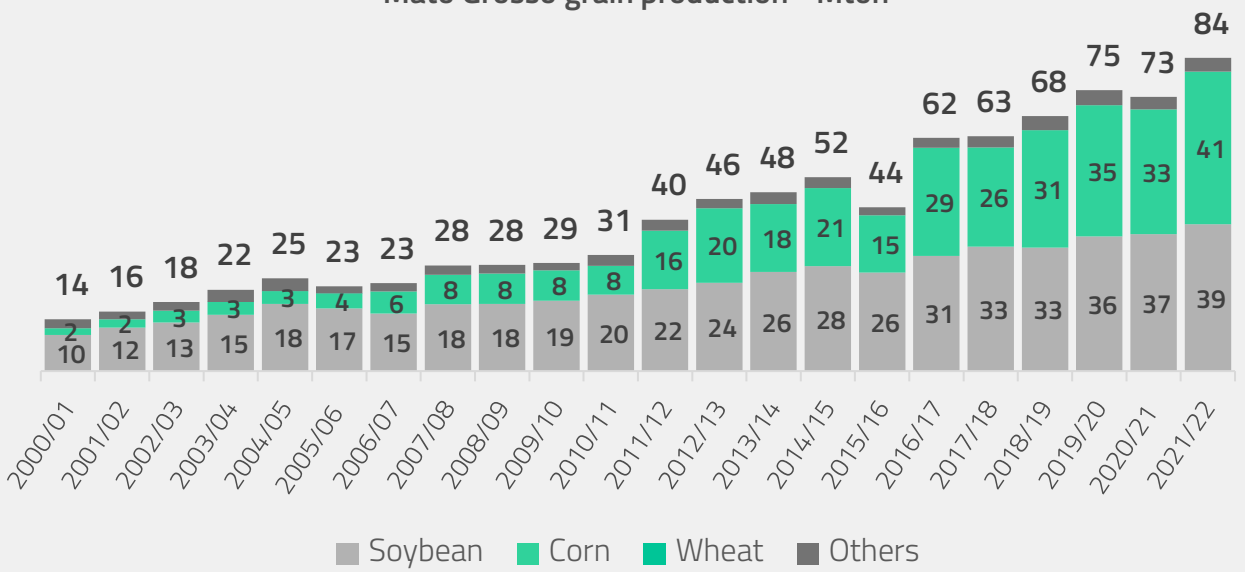


Rio Grande do Sul grain production - Mton



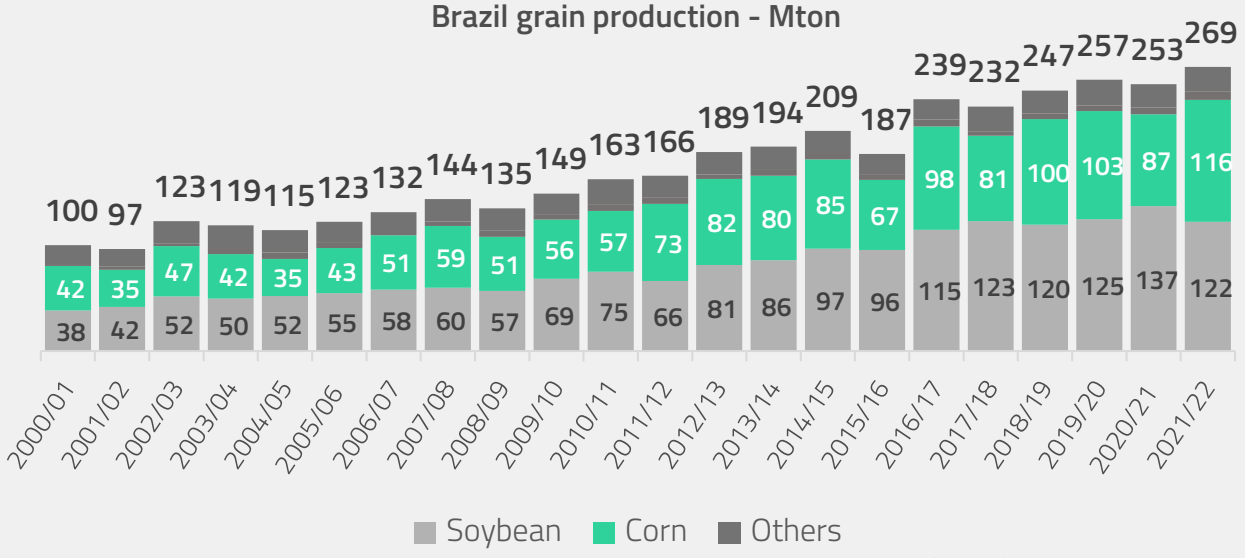
Source: National Supply Companhy (CONAB) and Equitas Investimentos.

Mato Grosso grain production - Mton



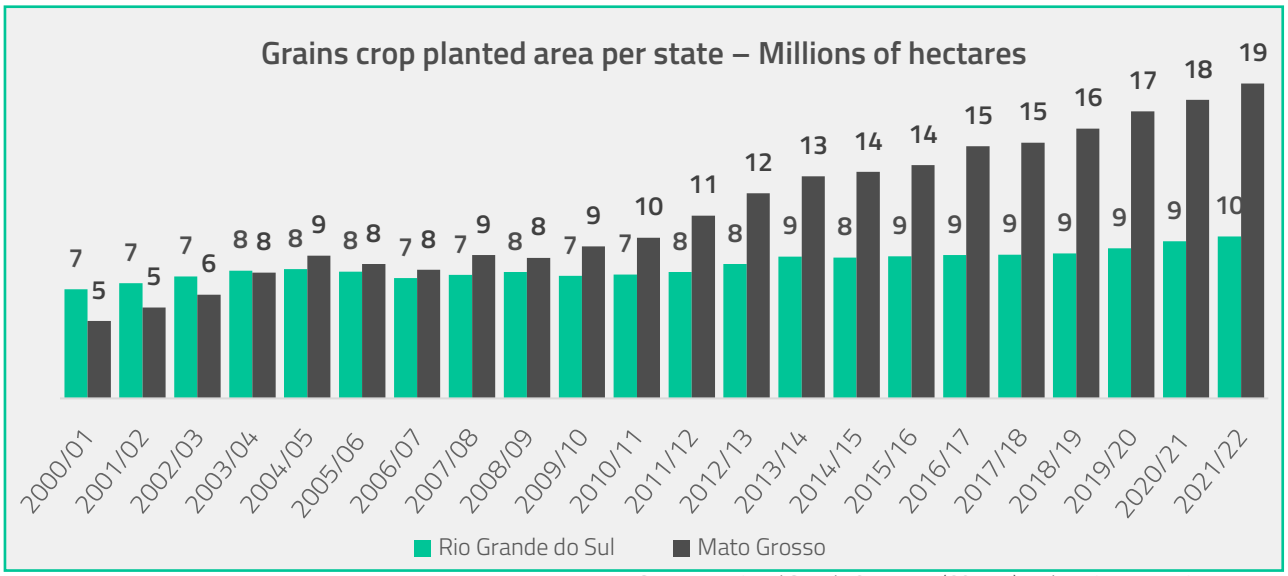
Source: National Supply Companhy (CONAB) and Equitas Investimentos.

Brazil grain production - Mton



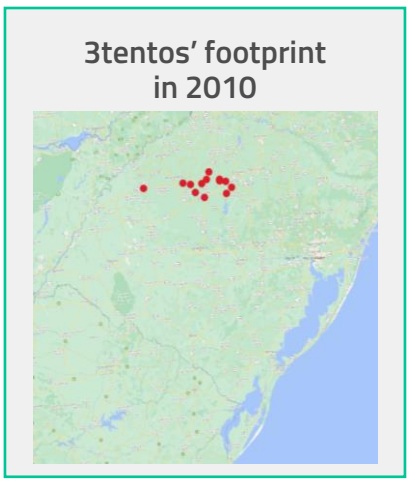
Source: National Supply Companhy (CONAB) and Equitas Investimentos.

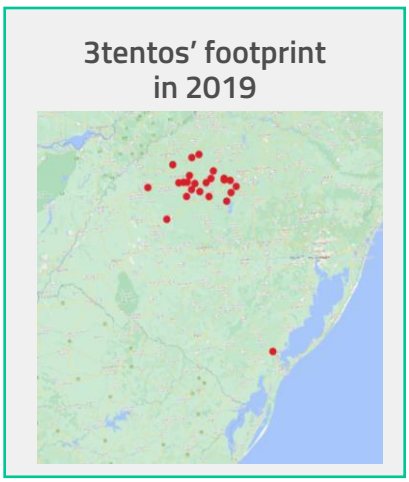
Although grain land has had a steady growth in Brazil, there are differences between regions. Rio Grande do Sul, 3tentos home state, is a more mature market while Mato Grosso (due to distance to consumer markets and lack of logistics) is a more frontier market. Nevertheless, the state quickly became not only the biggest producer in Brazil, but also the fastest growing. A crucial factor that explains this, is the second corn crop that MT developed in the recent years. It essentially doubled the potential land usage in the state. During late January and February producers in the state harvest the soybean crop while simultaneously planting the corn seed that will be grown by April and early May. That is a unique capability that allowed MT to become one of the fastest growing grain production regions in the world. It still lacks much of the logistics infrastructure as of the regions closer to the coast, like RS, but this evolved well in the last two decades (grain export trough the northern corridor increased from 1.4 mton in 2001 to 43 mton in 2021) and should evolve even more in the future (government railroads authorization concessions to be auctioned in the region are already in advanced discussions). As a result of the substantial logistic gap and the distance to consumer market, the grains negotiated in MT are priced at around 10% discount when compared to the ones negotiated in the ports of Brazil.

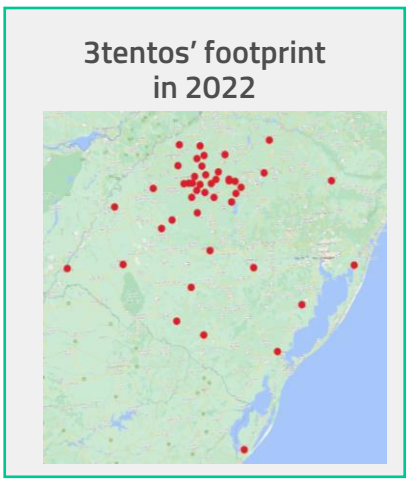


Source: National Supply Company (CONAB) and Equitas Investimentos.

RS is a more mature and a more consolidated market. It is in that environment that 3tentos became the leading retailer, reaching a share in the state like no other input retailer has achieved in any other state in Brazil yet. It has approximately 16% market share in the RS, but in the influence area it is currently present, its market share reaches 44%. During our research and interviews, we couldn't find any other company with that kind of dominance in its addressable market. Today 3Tentos covers around 33% of the arable land in RS, mainly concentrated in the northwestern region, but in more recent years, began its expansion towards other grain producer areas of the state. It is fast rolling out its operations to the south and southeast portion of RS. It opened 7 new stores in the state in 2021 only.







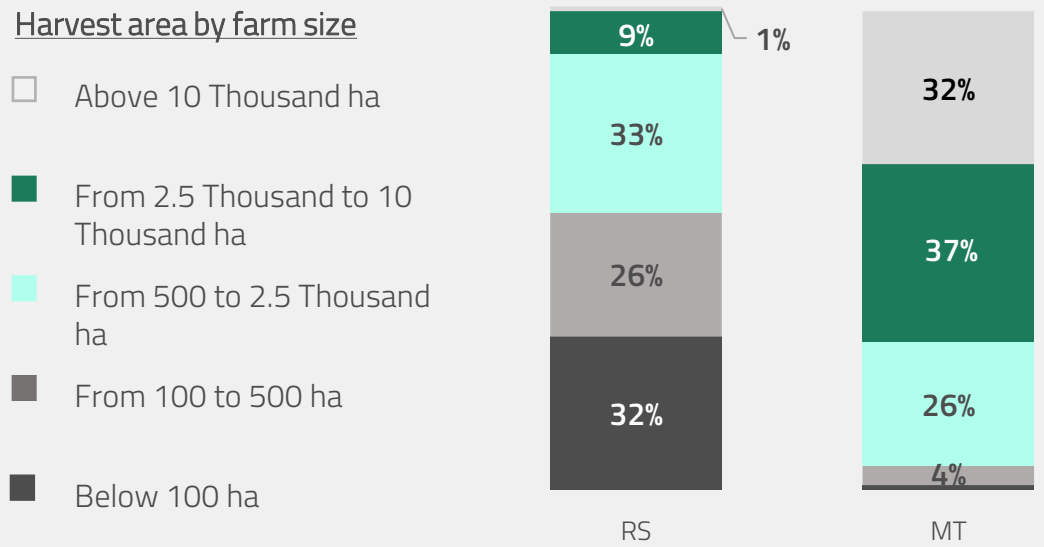
Source: Brazilian IRS, Company Information and Equitas Investimentos.

As can be seen on the maps, 3tentos has just started to occupy some areas in RS. The company plans to open other 15 stores in the state. It seems feasible and the market share could evolve from 16% today to 23% in 2025.

3tentos is the only independent relevant player in the region. Agrofel, which has 20 stores, is the second player (Bunge has a 30% stake in the company). Besides these two players, there are only cooperatives and small players. If any other big outsider company intends to enter this region, there are not many targets to acquire. It would have to slowly try to build its own retail chain in RS, which seems difficult, in our opinion, given all the hurdles it would have to overcome to gain share in the state (i.e. scale of incumbents, established relationship with producers and existing grain infrastructure).

Another difference between Rio Grande do Sul and Mato Grosso is the average size of the farms. Mato Grosso was pioneered mostly by Gaúchos (how people born in RS are called). A lot of them sold expensive land in RS in the past to buy bigger and cheaper areas in MT. This is what is behind the farm size differences. In RS, farmers tend to be small while in MT they tend to be larger. This is relevant for the market because not only may farmer's bargain power increase over the retailer, but also it may have scale to purchase directly from suppliers. According to some players we interviewed, it starts to make sense for farmers to buy some inputs directly from the industry above 8,000 ha or 10,000 ha. As described in the "what is an agribusiness retail" topic, it is not only a matter of being able to directly call the suppliers, but to carry out direct purchases, farmers need to have the logistics infra structure for that. Also, the first product that starts to make sense buying directly is fertilizers because it is a commodity, the time window for applying is wider and the same "sku" is bought in high volumes (in the case of seeds, for example, the farmer may buy a variety of them for each land plot). It is no coincidence that fertilizers are the product with less margin for the retailers. Another point is that the lead time for inputs to reach more remote places is higher, which increases the value of an advanced stock for inputs that the applying timing needs to be more precise.

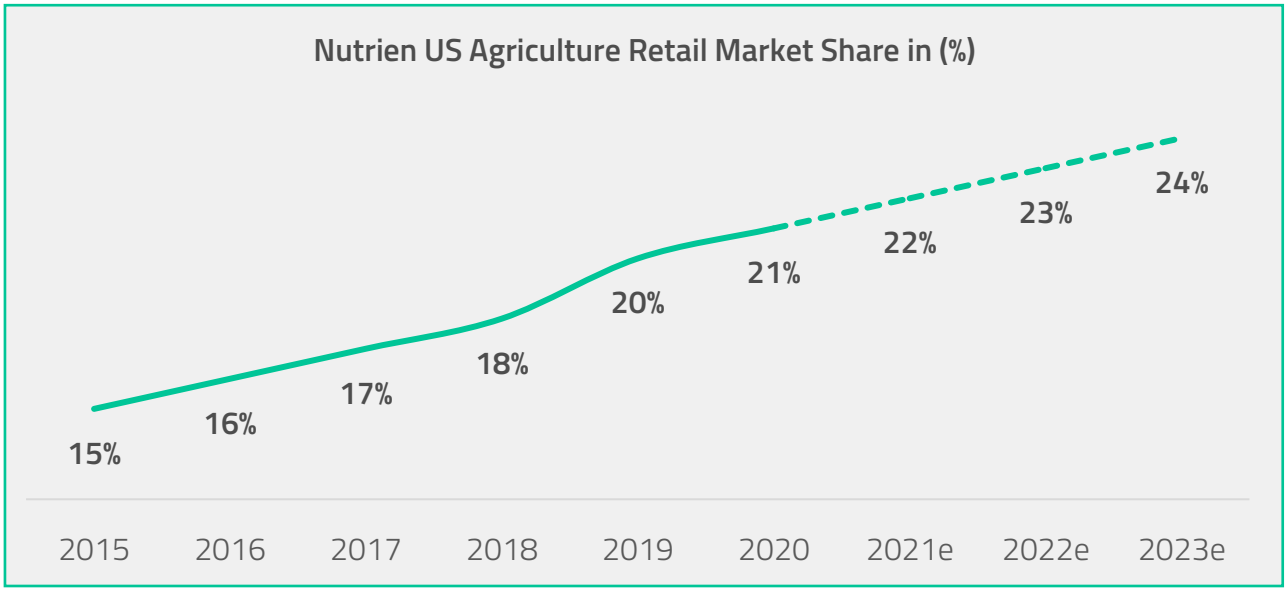
Harvest area by farm size

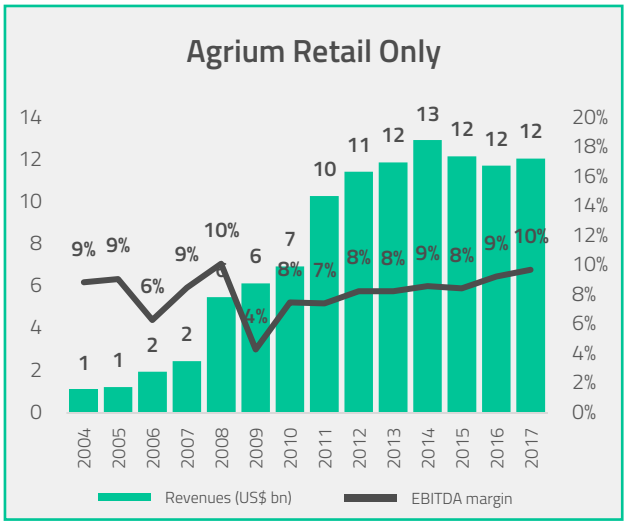


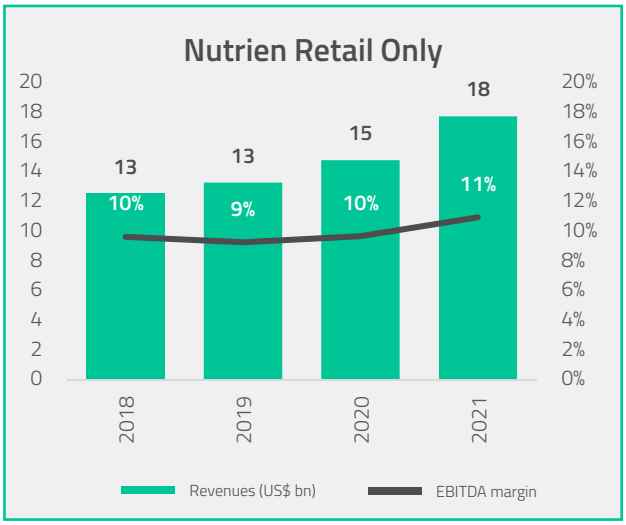
Source: Brazilian Institute of Statistics and Geography (IBGE) and Equitas Investimentos.

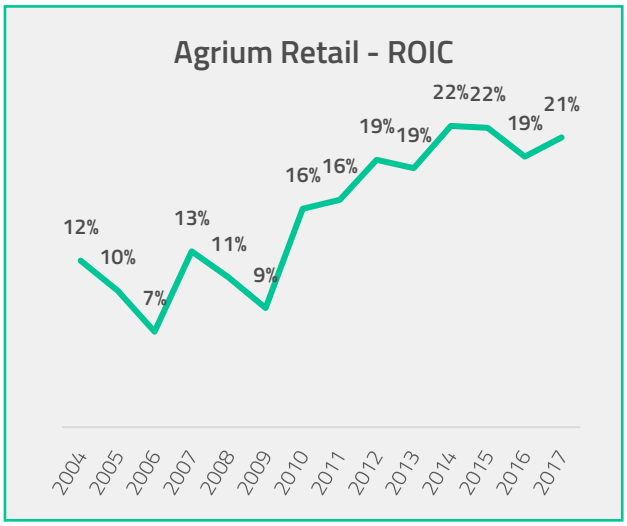
Thereby, it seems a fair assumption that farmers up to 10,000 hectares most purchases are made through a retailer (confirmed in our channel checks). Although one third of MT land area belongs to farmers that own more than 10,000 hectares, the two thirds remaining is 35% bigger (and growing) than the entire RS.

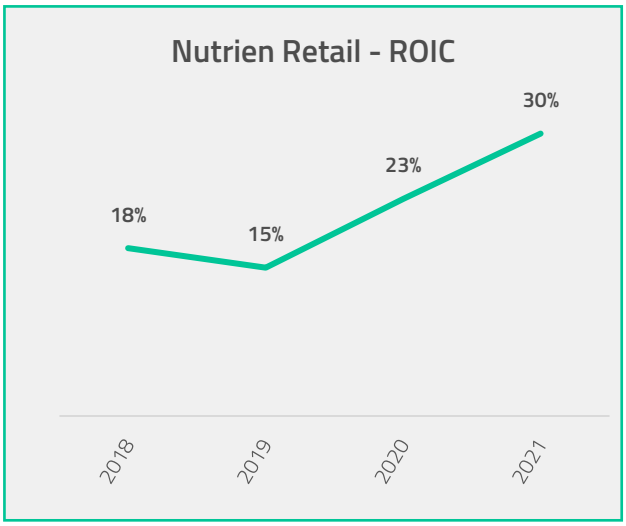
After understanding the players in Brazil and the regional differences, let's go back to the US to try to have a proxy of how things may evolve. Unfortunately, only Nutrien has public numbers. Until 2017, Agrium was a standalone company and as the market share increased, the ROIC evolved very well. This evidences that this is a scalable and profitable industry.











Source: Company Information and Equitas Investimentos.

4.Agriculture greenhouse gas emissions (GHG) today and how to meet increasing demand for food emitting less GHG in the future

According to some sources[2], agriculture, considering the entire life cycle analysis (LCA), is responsible for something between 12% and 18% of all GHG emissions globally. LCA includes the emissions of every input (production and transportation) and the emissions of the delivery to destination. Since agriculture is the source of food, we think the future lies on improving techniques that mitigates its carbon footprint and prevent the necessity of opening new areas for crops (or even releasing available areas for reforestation) and not on capping the sector growth. There are a lot of techniques that can be implemented today and are already economically viable, but we think an economic incentive may be necessary through carbon credits for producers that reduce GHG emissions to achieve near zero carbon agriculture. EMBRAPA is currently working on the development of a certificate of low carbon soybean. Highly efficient producers in terms of GHG should seek certification and if a global tradable market is developed, those producers may have a way to monetize carbon credits, creating the economic incentive for lower GHG emissions.

Although there is a lot of uncertainty and variation in the literature, it is well accepted that N2O is the single largest contributor to GHG emissions by far (calculations vary from one to two thirds of total emissions[3] in CO2 equivalence). This is so because nitrogen fertilizers consume a lot of energy to be produced (the majority is produced using gas as a source of energy) and due to N2O released by the soil (nitrogen available in the soil turns into N2O). Nitrous oxide has almost 300x more power in terms of global warming (the calculation in CO2 equivalent mentioned in the beginning of this paragraph already takes it in consideration). Therefore, tackling nitrogen emissions is of the highest relevance. Soybean has an advantage over other crops because it has a symbiotic relationship with a bacterium called rhizobium. This bacterium is abundantly present in the soil and it nodules itself on soybean roots and fixes nitrogen in exchange for carbohydrates, reducing to almost zero the necessity of adding nitrogen in the soil. However, the lower productivity of that plant compared to corn offsets part of that benefit. There are studies that show that soybeans are almost neutral due to its high biological nitrogen fixation[4] and there are studies that show that soybean crops release almost the same as corn due to the lower productivity[3]. There are other bacteria to be artificially added to other crop seeds under study, which would help a lot mitigate GHG emissions. While this is not yet viable, there are alternatives to reducing the fertilizers need today:

1. Organic fertilizers are a mixture of the traditional NPK (nitrogen, phosphorus, and potassium) with organic waste. This helps in the absorption of the nutrients, releases the nutrients at a slower pace (mineral alone become available almost instantaneously which increases the chance of losing part of it by leaching, erosion, and evaporation) and, in the long run, increases the soil life, natural fertility and water availability. After a few crops utilizing organic fertilizers, the NPK necessity may be cut by half.

2. No-till farming is a technique for growing crops without soil tillage. This has similar benefits of organic fertilizers since the stover and straw from a previous harvest is not removed, covering the soil with organic material. The organic waste that would be removed in a conventional technique is usually burned. With no-till technique, the soil quality is increased over the years, the straw is a natural source of nutrients and, additionally, carbon is captured and deposited permanently on the soil (300kg/hectare/year of CO2 equivalent[5]). This technique alone mitigates around 10% of crop GHG emissions. The percentage of adoption of no-till in Brazil is a matter to be addressed, but according to EMBRAPA, less than 60% apply it properly.

[2] https://ourworldindata.org and https://www.wri.org | [3] Energy Use and Greenhouse Gas Emissions from Crop Production Using the Farm Energy Analysis Tool | [4] Inverting the carbon footprint in Brazilian agriculture | [5] Bayer et al., 2006 (Carbon sequestration in two Brazilian Cerrado soils under no-till)

3. A field study[6] carried out by the Federal University of Santa Maria in Rio Grande do Sul found that using some forage crops between main crops may reduce nitrogen fertilizing needs to almost zero. Forage crops are used to cover the soil between harvests to reduce nutrients evaporation and rich soil erosion and leaching. After planting a certain type of legumin forage crop that naturally fixes nitrogen (blue lupine was the best performer), and then planting the main crop with no-till (corn was used in the case of the study), no difference of yield was noticed between land plots fertilized and not fertilized with nitrogen.

4. In precision agriculture, one of the technologies is the variable rate of fertilization. This technique consists of establishing a map of the land plot to determine exactly the amount of fertilizer needed in each plot. The map is a combination of satellite imagery, soil scan sensors, soil testing and previous harvest information (yields, amount of protein in grains etc. in each land plot). This can reduce 5-7% of fertilizers but can increase yield 10-30%[7] .

There are also initiatives that can contribute to a better environment other than reducing fertilizers utilization. For example, the variable rate of herbicide use. SLC (a benchmark grower in Brazil) is rolling out this technique that can save up to 90% of the herbicide use. Although herbicide has a small contribution to GHG, this helps the environment as it reduces the herbicide leaching. Another example is a not saline potassium fertilizer. Typically, potassium is added to the soil in the form of a saline (potassium chloride) that reduces the number of microorganisms in the soil that capture carbon from the atmosphere.

Of course, there are initiatives other than the listed above that can mitigate GHG emissions. However, the main opportunity to capture carbon from atmosphere in Brazilian agriculture according to EMBRAPA is through recovery of degraded grazing land. Degraded grazing land is the worst land use possible in terms of greenhouse gas emissions since the soil biomass in such degraded areas was exhausted almost to the level of desertification. Besides that, exposed soils increase the "evaporation" rate of nitrogen fixed in the soil to the atmosphere in the form of N2O, erosion and leaching. As said above, almost 60% of the pasture in Brazil has some degree of degradation. A study published by Fundação Getulio Vargas, EMBRAPA and the Federal University of São Carlos[8] concluded that recovering 75% of the degraded pasture and implementing integrated crop-livestock systems (ICLS) and/or integrated crop-livestock-forest systems (ICLFS) in the remaining 25% of degraded pasture would save 1.8 billion ton of CO2, equivalent in 10 years compared to status quo scenario. This is a yearly save equivalent to around one third of Brazilian current GHG emissions. In that scenario, 0.7 billion ton of CO2 equivalent is avoided compared to the status quo, while 1.1 billion ton is captured. In addition, 29 million cattle units would be added due to increased productivity (around 15% of the current herd) and the projected growth of grains supply could be met without opening new areas for crops. EMBRAPA claims this is a conservative estimate, since it only considers the benefits of the adoption of better techniques in very degraded areas (less than 0.7 animals per hectare).

Pasture recovery captures carbon as biomass comes back to exist in a land that was totally exhausted and because the soil cover decreases the soil emissions. Also, regular no-till planting pasture has layers of organic material accumulated over the years. There is an impact on cattle emissions as well: healthier pasture is easier to be digested by ruminants due to lower fiber content, then less methane is generated, and the animal can be slaughtered at a younger age since it reaches the ideal weight faster. Methane is a gas that has 20-30x more global warming power than CO2. Bogaerts et al. (2017) found 35.8% less emissions (kg CO2eq/kg carcass) on farms with an intensive production in recovered pastures when compared to farms with degraded or non-intensive pastures. According to EMBRAPA, the reduction is 40% with commonly used techniques but could be even higher with more advanced technology.

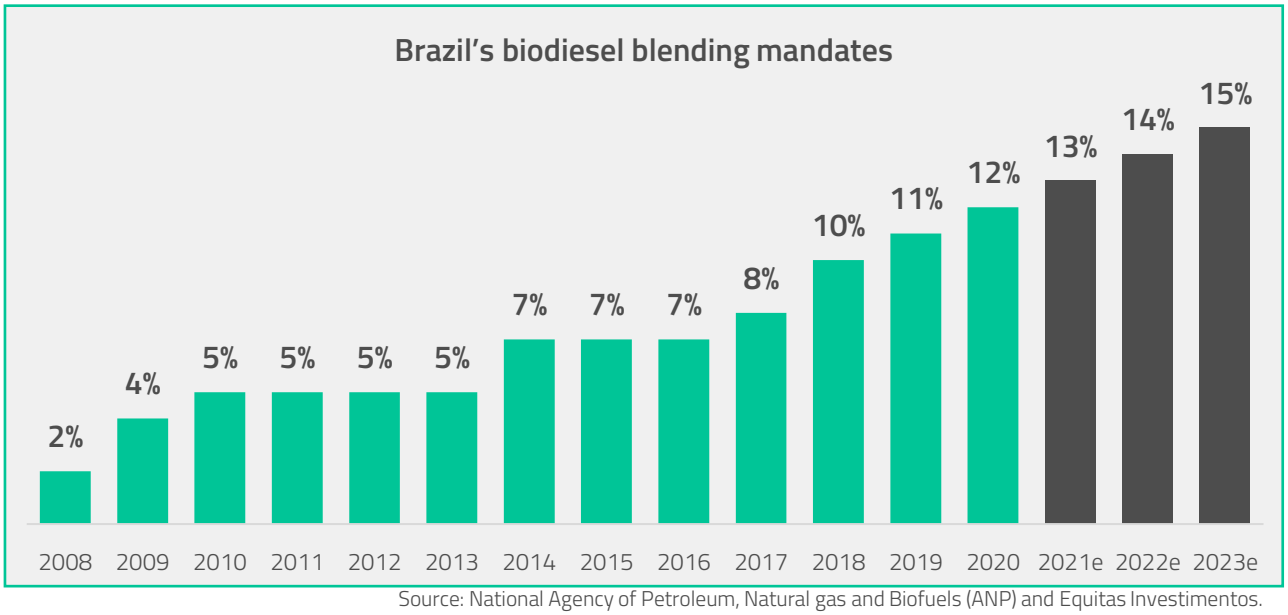
In the case of integrated crop-livestock system, there are other benefits on top of the pasture recovery. This integration is being popularly called third harvest. It consists of planting grass together with the second corn crop. After corn is harvested, grass are available for the ruminants. The forage crop and cattle manure increases the natural soil nutrients. Also, again, the soil stays covered for longer and one more layer of organic material stocking carbon in the soil per year. It is a cheap feed for the animals and also increases main crops productivity. It is a symbiotic win-win situation.

[6] PLANTAS DE COBERTURA DE SOLO COMO FONTE DE NITROGÊNIO AO MILHO https://www.scielo.br/j/rbcs/a/BZQcV9WcnqJVK53MbzRL3ZF/abstract/?lang=pt#:~:text=arvense%20(L.),pousio%20invernal%20(plantas%20invasoras). | [7] https://www.croplife.com/precision/making-your-variable-rate-technology-pay/ | 8 Inverting the carbon footprint in Brazilian agriculture

In conclusion, there is a lot to be done in the global warming front in agriculture. It is far from being an easy task, but we think adoption of already existing techniques and technologies, the development of new technologies (like the revolutionary biological nitrogen fixation for crops other than soybean) and economic incentives for reducing GHG through carbon credits can lead to a much greener agriculture (maybe close to zero emissions?) without capping the so needed growth in food supply.

5.Biodiesel market in Brazil

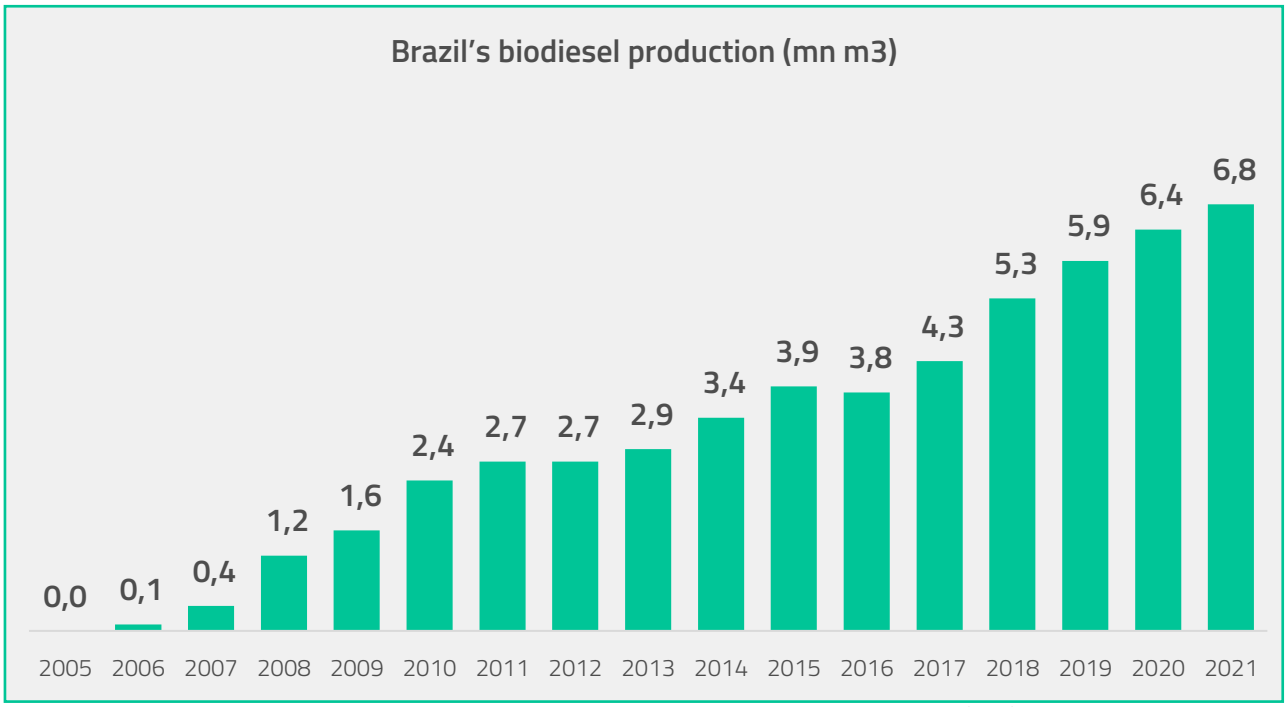
Brazil is one of the countries with the cleanest (less carbon-based) energy matrixes in the world. It has a successful policy of ethanol blending in gasoline (27% of ethanol in gasoline at the pump, the highest in the world) and the biggest flex fuel light vehicle fleet in the world. Brazil is also one of the early adopters of biodiesel. A law approved in 2005 created the biodiesel market and, since 2008, ANP (National Fuel Agency) and RenovaBio Committee (which is responsible for setting long term targets of biofuel adoption in Brazil) have established a policy of minimum blend mandates of biodiesel with common Diesel. The policy was intended to create the non-existing industry while also promote regional development. It all started back in 2008, with an 2% compulsory minimum blend, and the target is to reach 15% blend by 2023.



Source: National Agency of Petroleum, Natural gas and Biofuels (ANP) and Equitas Investimentos.

That have led biofuel production in Brazil to grow substantially from the previous period to today. However, it is important to note that the law that regulates biodiesel blend grants to CNPE[9] (National Council of Energy Politics) the power to lower the blending to 6% at the discretion of the Council. Due to inflationary prices of diesel and biodiesel and political influence at the Council, CNPE have interfered in the blending mandate sometimes in the past. Last year, in one of such events, the blending mandate was reduced from 13% back to 10% as a palliative measure to stop the sharp increase in retail fuel prices. It is worth noting that around ~70% of Brazilian biodiesel is derived from soybean grain (which has been on a consistent rise since early 2020), placing biodiesel price above the regular diesel and triggering such discretionary measure. In any way, those periodic changes were not enough to stop the strong increase in biodiesel production. The market kept steadily growing as can be seen below and average returns of the biggest and more professional players are considerably high.

[9] CNPE is composed by Minister of mining and energy, Ministry for the civil service, Ministry of Foreign Affairs, Ministry of Economy, Ministry of infrastructure, Ministry of agriculture livestock and supply, Ministry of science and technology, Ministry of environment, Ministry of regional development, Ministry of Institutional security office of the Presidency of the Republic and the President of Energy Research Company.

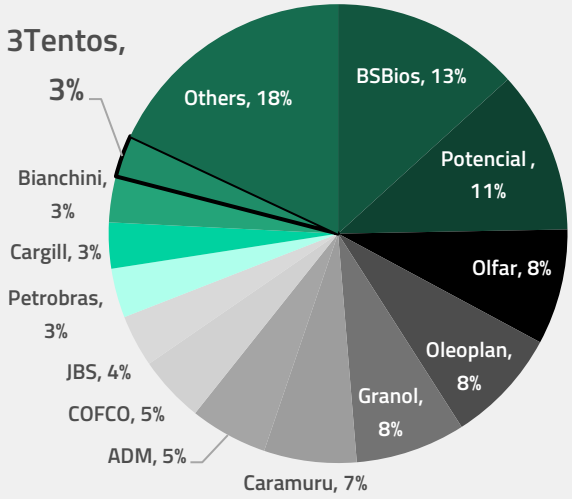


Source: National Agency of Petroleum, Natural gas and Biofuels (ANP) and Equitas Investimentos.

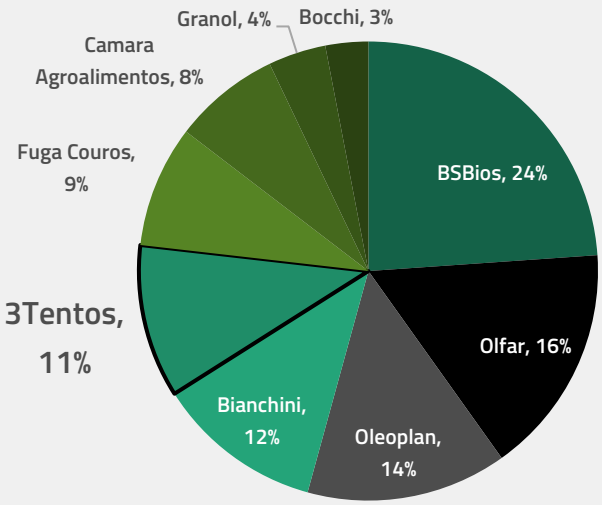
Being a regulated market since the beginning (with demand guaranteed by government policy), the transactions were, until the end of 2021, determined by public auctions coordinated by ANP bimonthly. On the supply side, participants of these auctions were composed by authorized suppliers (industrial players such as 3Tentos) that checked specific quality and operational criteria previous established by the regulator authority. Also, in 2021 was introduced a market reservation for small players (one third of every auction volume should be addressed by small producers). On the demand side, it was formed by fuel distributors that had to bid the offered biofuel to comply with the blending mandates required by law. Petrobras served as a last resource guarantor of supplier's payment. Producers had the discretion to offer any quantity they pleased (until the maximum of authorized capacity) in each auction and place the asking price wherever it wants up to the cap price. Biodiesel is a cost-plus business because someone will only transform soybean oil in biodiesel if there is a positive spread on the table. The spread varies over time, but it must be positive for the ones on the left of the cash cost curve. Exactly like the soybean crushing business. The auctions model was halted in 2021 and thereafter volume and pricing have been negotiated by free market dynamics between roughly the same participants (with exclusion of Petrobras intermediacy).

The biodiesel industry today in Brazil is very fragmented and heterogenous at national level, although in some states it is less so, and the concentration has increased in the last years as can be seen in the top 5 market share evolution below. The industry is fragmented because it is relatively cheap and simple to transform soybean oil into biodiesel. But building a soybean crushing plant has higher capex (10 times higher) and one needs also to deal with soymeal. Soymeal is considered food and, hence, it requires sanitary care that soybean and biodiesel do not (only soymeal is supervised by ANVISA, the National Food Agency). This results in a lot of fragmented capacity with small unsophisticated players that are not verticalized. We think that with the end of the auction system, the market may concentrate even more due to the end of market reservation for small players, distributors seeking more quality products and professionalized companies to deal with.

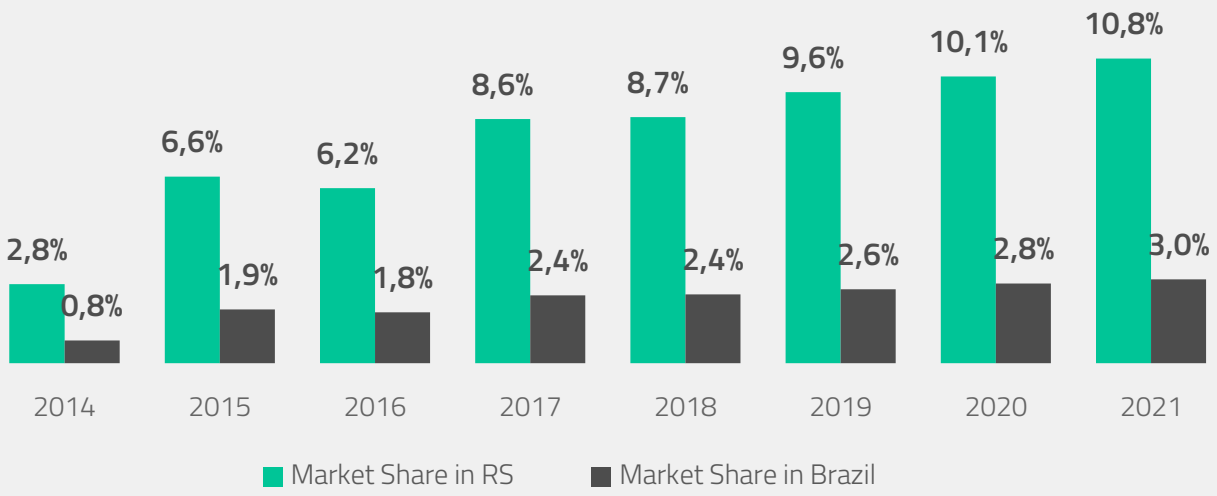
Biodiesel Market Share - Brazil



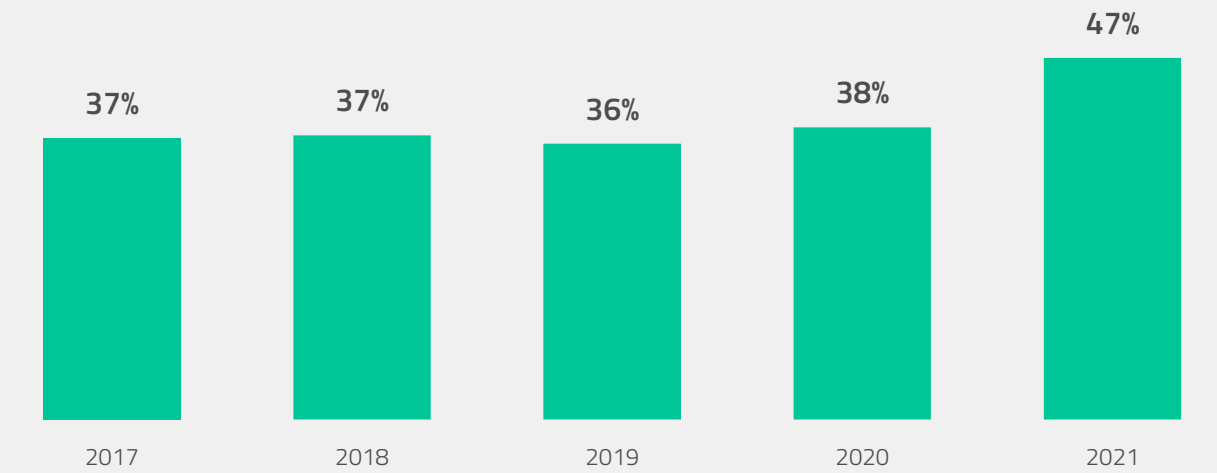
Biodiesel Market Share - Rio Grande do Sul



3Tentos biodiesel market share

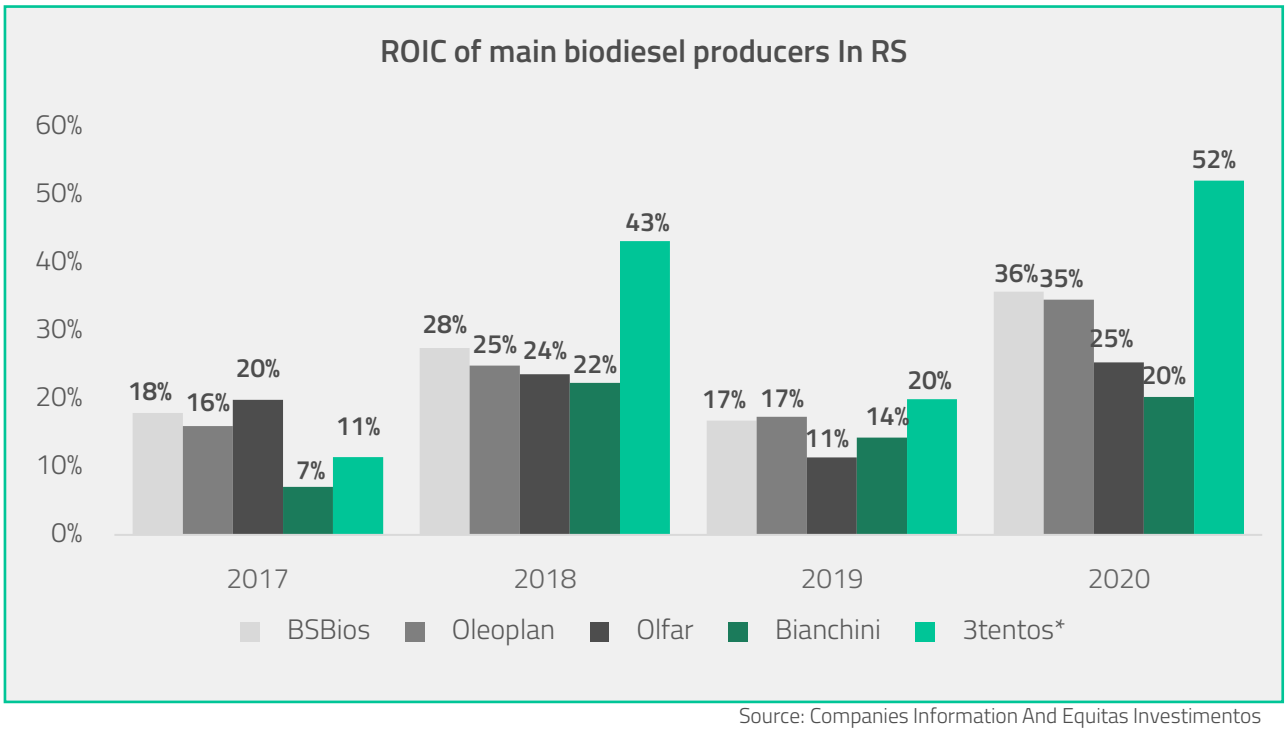


Top 5 Biodiesel producers market share (%) - Brazil



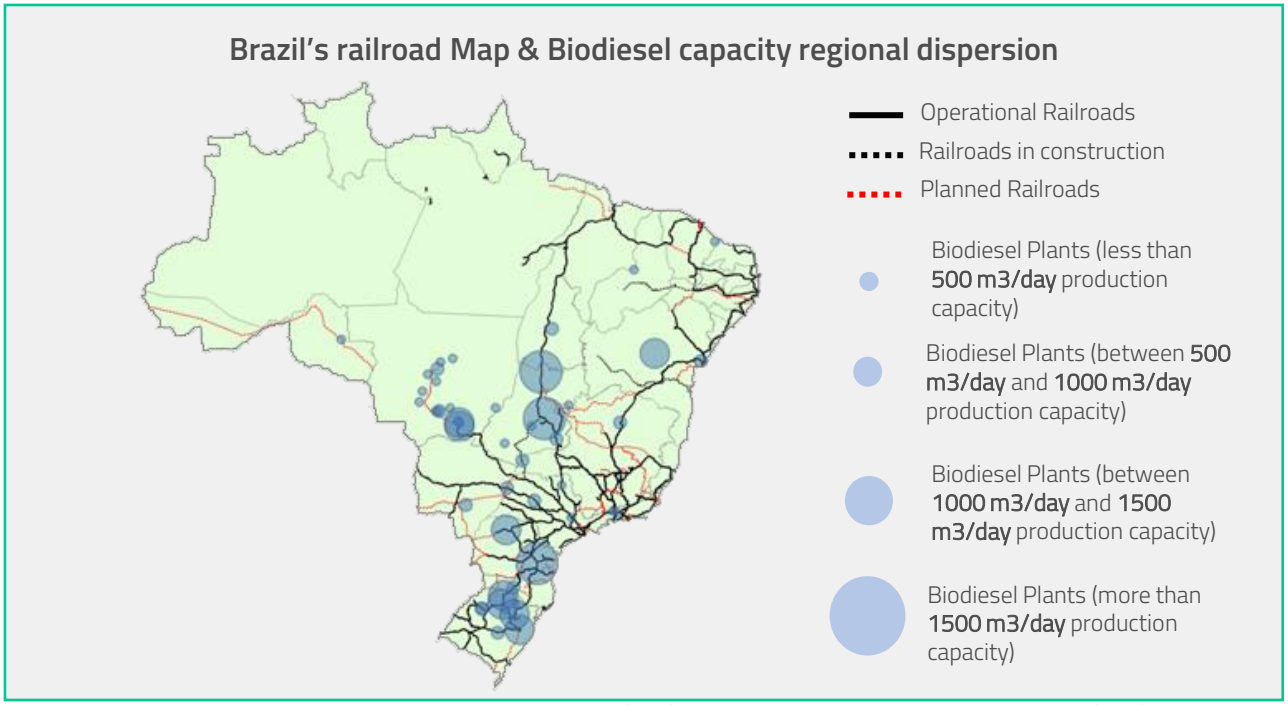
Source: National Agency of Petroleum, Natural gas and Biofuels (ANP) and Equitas Investimentos.

On the chart below, we can see the ROIC of the top 5 players in Rio Grande do Sul.



Source: Companies Information And Equitas Investimentos

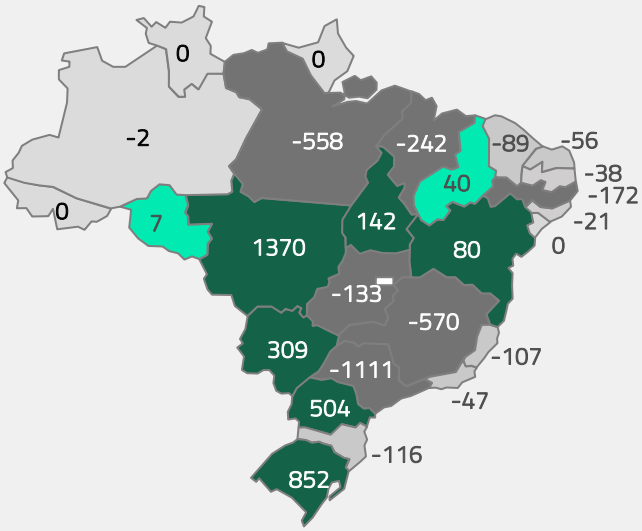
The main competitive advantages for the most efficient players in the industry are (i) good grain origination; (ii) efficient logistics infrastructure; (iii) industrial scale, (iv) verticalization on production steps and (v) efficient industrial process. Since not all players that use soybean oil as input crush the grains themselves, the ones that do, have a great advantage. On bad pricing environments for biodiesel for example, they can offer more soybean oil instead of biodiesel and improve their invested capital return, since they are always running the industry. In addition, the option to stock the grains give some players the advantage to decide when to crush their grains, better adjusting to market fluctuations. On the grain origination subject, one can easily see that in such a tight margin business any advantage in feedstock origination gives a producer an edge versus the competition in terms of profitability. On the logistics infrastructure front, it is often the case that most industrial capacity is located near to operational railroad lines or planned lines that are to be auctioned in the next years.



Source: National Agency of Petroleum, Natural gas and Biofuels (ANP), Brazilian Institute of Statistics and Geography (IBGE) and Equitas.

In the map below, it is possible to see that the biodiesel production is close to the soybean crops and, consequently, far away from the consumer market (typically close to the coast in Brazil). Hence, the biodiesel needs to travel a lot and the proximity to transportation infrastructure is very important.

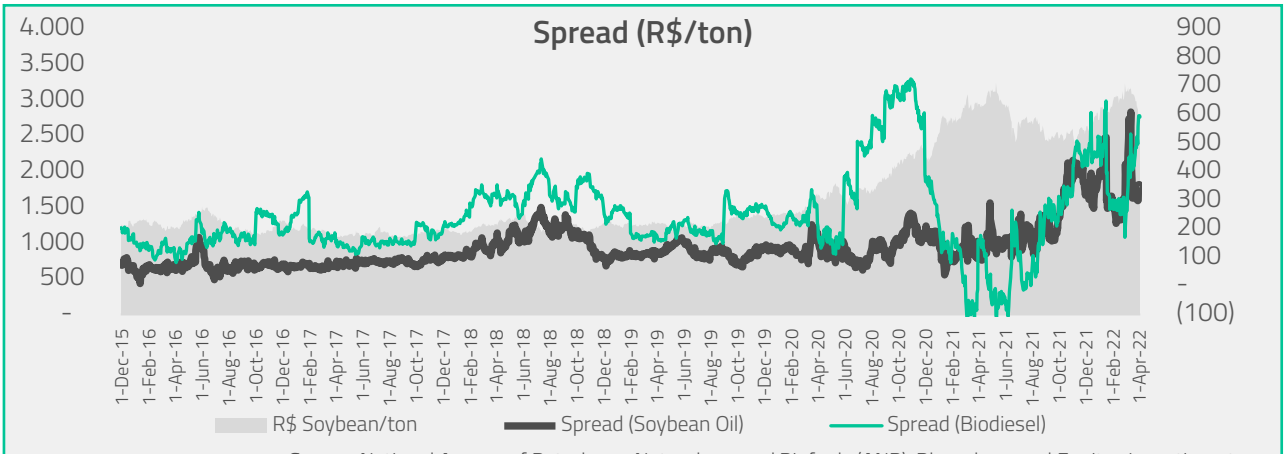
Market balance by state (Production – Demand) – million liters



Source: National Agency of Petroleum, Natural gas and Biofuels (ANP) and Equitas Investimentos.

Lastly, an efficient industrial process is a crucial differential for the most profitable players. One important KPI is the amount of oil extracted from the soybean. Since soybean oil has a higher pricing point than soybean meal, crushers that can maximize oil extraction from the grain can enhance profitably. As an example, the national average of soybean oil output per ton of soy crushed stands around 19%, but highly efficient plants (like 3Tentos plant in Ijuí) can deliver a little more than 20%, which is even more relevant, considering soybean from RS has more protein than average (hence, should yield less oil and more soymeal).

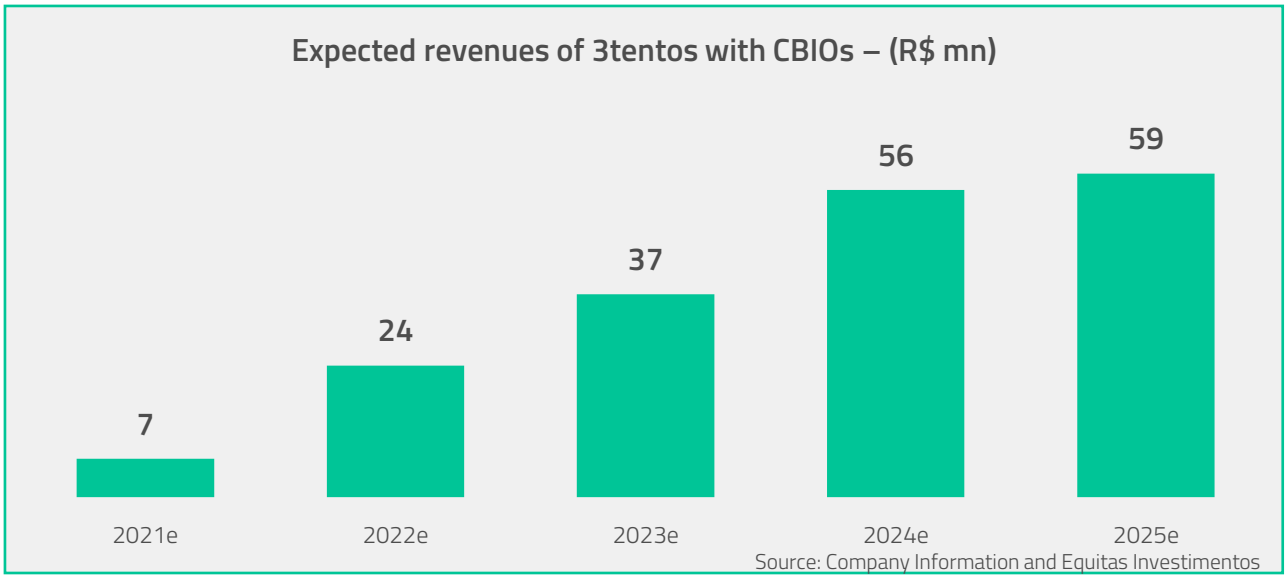
As said before, there are players that crush the soybean and produce their own soybean oil and there are players that purchase oil and only transform it into biodiesel. The smaller players are non-verticalized and their profitability is more vulnerable to the blending policy. For the verticalized ones, biodiesel production is like a cheap option. After making a capex for a soybean crush plant, why not increase just around 10% the budget to have the option to sell biodiesel when it is favorable? The spread below shows that from time to time, there is a lot of money on the table for transforming oil in biodiesel. Hence, the last line of the industrial plant that produces the biodiesel is a no brainer decision. That is very clearly illustrated on the chart below where we can see big opportunities in biodiesel from time to time. It is worth noting that this chart is a function only of the commodities prices, both input and output (soybean, biodiesel, soybean oil and soybean meal). Therefore, there are other costs involved that are not captured in this calculation. Consequently, it gives a very good notion of trend, but when the gap between the two spreads is low, the one with higher spread is not necessarily the best option.



Source: National Agency of Petroleum, Natural gas and Biofuels (ANP), Bloomberg and Equitas Investimentos.

It is also worth mentioning that policies of blending biodiesel are being adopted world-wide. In the US, biodiesel came from zero in 2003 to 2,8 billion of gallons in 2019 (10,5 million of m^3). This is equivalent to 1,5 times the Brazilian market. In the European Union, biodiesel consumption came from zero to approximately 15 million of m^3 (more than 2 times the Brazilian market) and around 10% of it is imported. Only the EU imports represents more than 20% of the Brazilian market. Exporting biodiesel from Brazil is already being considered by some players and 3Tentos is applying to be authorized to export to Europe and USA.

Looking at more recent developments in the green fuel initiatives, we can observe several opportunities that might lay ahead in close time horizon for biodiesel players. These new alternatives pose as potential upside to our 3Tentos investment case. One good example is the newly born carbon credit market instituted by the RenovaBio program in Brazil. It essentially gives economic incentive to renewable fuel production in the country by giving approved biodiesel and ethanol plants its deserved carbon credits (CBIOs). The amount that each producer receives in CBIOs is derived from the carbon emission reduction score they can get from government regulators inspections of their industrial sites. That score seeks to convey the amount of pollution these biofuels are substituting and can later be commercialized at a controlled marketplace to other polluting players that are out of their scope clauses targets. Just as an example, currently 3Tentos has 66% of its biodiesel plant certified to issue CBIOs, which gives them the ability to issue 1,246 carbon credits per cubic meter of biodiesel produced that are later sold in the market. CBIOs represented R$ 7 million as of 2021 revenues (already net of taxes). Moreover, CBIOs market is still very incipient in Brazil, with carbon credits negotiating at a considerable discount if compared with other developed markets such as Europe and US. If at anytime in the future an agreement is signed between Brazilian authorities and European Union and/or United States making it possible to neutralize the emission throughout these regions, the price of carbon credits these players generate could multiply by 20. Anyway, we think it is very positive to have an ESG stamp in the investment case.



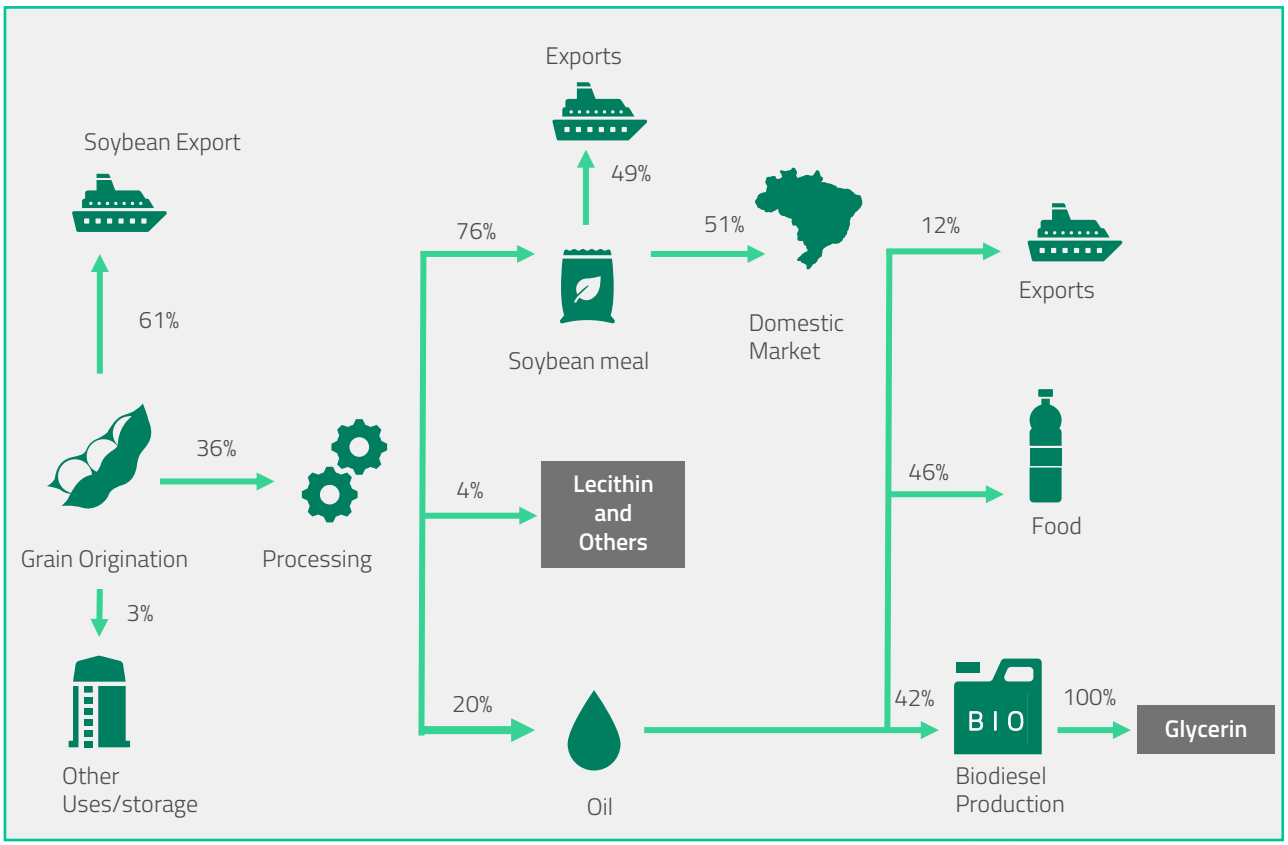
Source: Company Information and Equitas Investimentos

Biodiesel is not the only green fuel that can substitute diesel. Another interesting green fuel initiative is the HVO diesel (Hydrotreated Vegetable Oil). Currently almost non existing in Brazil (and barely anywhere else in the world), HVO stands as an even better alternative to oil derived from diesel than biodiesel in terms of environmental impact. Theoretically, it could replace regular diesel at 100% in an internal combustion engine. That is not the case for biodiesel because it is not chemically identical to regular diesel (biodiesel is actually an ester, not a hydrocarbon). Due to that, there is a technical cap to the blending. There is a discussion worldwide if the technical cap is 15% or 20%. Another technical issue is biodiesel relatively high crystallization temperature (around -2°C for vegetable oil derived ones and +16°C for animal fat based). As for HVO, since it is chemically identical to regular diesel, it could completely substitute oil derived diesel, reducing even more carbon emission compared to a B15 or B20.

Like biodiesel, HVO is originated from vegetable (grains) oil or animal fat, but it has to undergo hydrotreatment process which blends hydrogen with the bio-oil at high temperature and under elevated pressure to originate a fuel with identical technical characteristics to the fossil diesel. Nevertheless, today it demands much more expensive capex investments to implement an industrial supply chain. Also, the hydrotreatment itself is a costly process if compared with the transesterification process of the biodiesel today. Just as an example, hydrogen (used in HVO production) is around 10 times more expensive than the methanol (used in biodiesel production process) and, besides that, hydrotreatment requires much more energy (both more expensive and also dependent on green energy to be a greener fuel). Today, only Petrobras (the biggest state-owned company in Brazil and one of the largest fuel players in the world) has an HVO plant currently at trial stage. However, it is possible that as the industry evolves, those high costs of production will drop and the fuel might get economically viable somewhere in the future. Some private players have plans to implement the first market driven projects in South America. It is the case of ECB (controller of BSBios) on the Omega Green Project. The plant, to be located in Asuncion – Paraguay, is expected to produce around 3.1 thousand m3/day with a total capex of US$ 800 million (or US$ 251,572 per m3/day capacity). Just as a benchmark, 3Tentos green field project in Mato Grosso that includes soybean crushing unit, grain silos and the biodiesel processing plant is expected to cost R$ 450 million (around US$ 85 million) and will have the capacity to produce 850 m3/day of biodiesel (around US$ 100,000 per m3/day capacity) with the capacity to produce soymeal in an amount that will represent half of the company's total and help dilute this capex per /m3 even more. Also, HVO may not substitute biodiesel completely. Being cheaper, it could continue to be blended up to the technical cap (15 or 20%) while the remaining could be HVO. Besides, HVO creates a demand for vegetable oil that verticalized biodiesel producers could supply to HVO producers.

Biodiesel is just a fraction of the destination of soybean production. Soybean oil, which represents about 20% of soybean weight, has the following destinations worldwide: approximately 70% goes to the food industry (margarines, frying oil, chocolate, etc...), 7% to industrial uses (paints, plastic, cleaners) and the remaining 20% goes to biofuel production. Soymeal, that is responsible for around 80% of the soybean weight, goes to animal feed (97%) and as input for human food products (3%).

Brazil processes approximately 36% of the soybean it produces. It exports 50% of its soymeal production and 12% of the oil production. The chart below shows the soybean destination in Brazil.



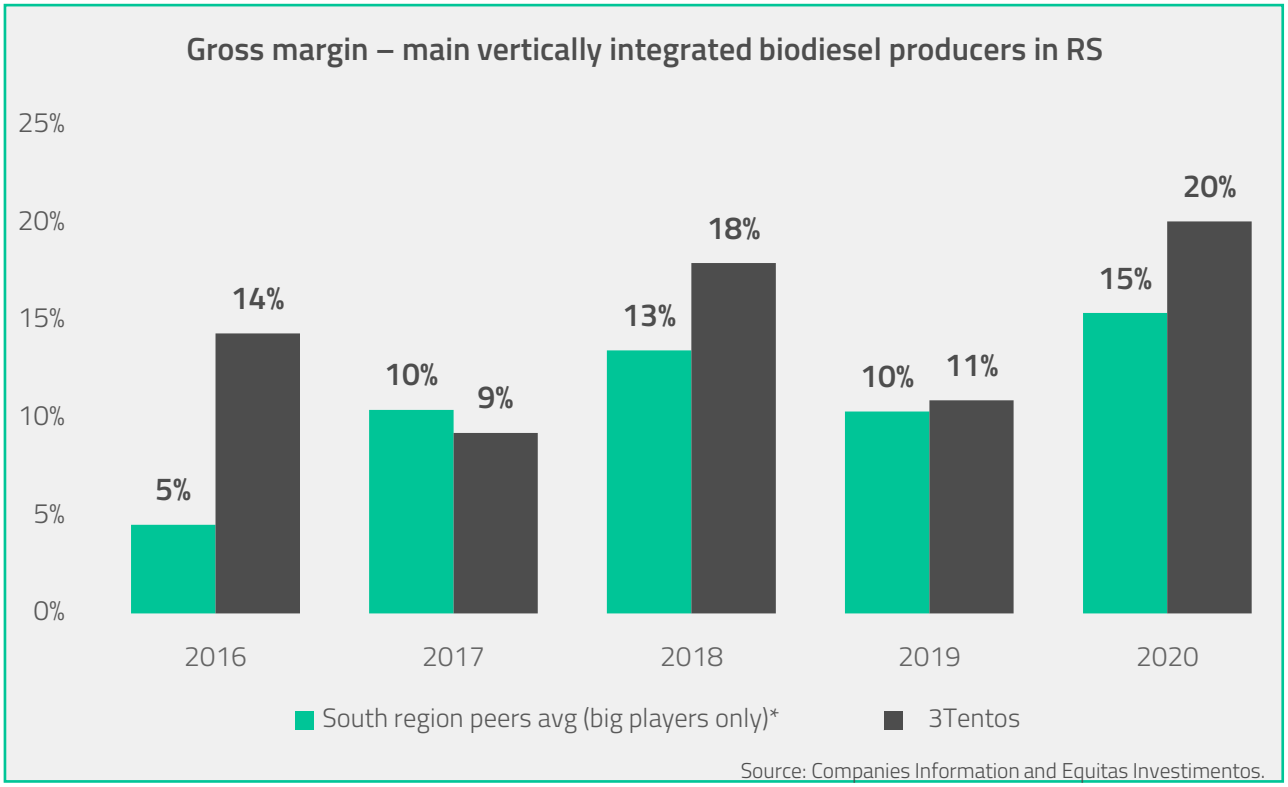
Source: National Agency of Petroleum, Natural gas and Biofuels (ANP) and Equitas Investimentos.

Lastly, to have some degree of conviction that renewable fuels may be part of the solution for global warming and that there will be demand this in the future, we made a literature review about the impact of renewable fuels in its entire life cycle. Although there is a study that says that soybean biodiesel does not save GHG (ICCT – International Council of Clean Transportation), according to the Argonne National Library (a research center of the Department of Energy of the USA), Environmental Protection Agency of USA, California Air Resources Board, ABIOVE (Brazilian vegetable oil producers association), ESALQ USP (Luiz de Queiroz College of Agriculture of University of São Paulo) and Bright Consulting, soybean biodiesel does save 60-75% of GHG emissions. The ICCT study from 2012 says that the GHG emission in the whole life cycle analysis may vary depending on a series of factors. One of them is the source of energy used to convert soybean oil into biodiesel but does not show the assumptions of energy source behind the calculation. What we know is that 3Tentos and most of the Brazilian players use biomass as a source of energy. Besides that, most of the studies (even the government funded ones) claim that biodiesel does reduce the GHG emissions significantly. Brazil, the USA and Europe are adopting biodiesel as a way of tackling GHG emissions.

6.Why we think 3Tentos is different from competitors – great moats built from vertical integration that turned into an ecosystem and strong corporate culture

The integrated business model that 3tentos has developed is unique in its industry. With the vertical integration, 3tentos can offer to its clients what no other retailer can: i) barter trade in large quantities; ii) storage of grains and; iii) be an alternative buyer for its client to grains at fair price. In our conversations, we checked that approximately 15% of Lavoro, Agrogalaxy and Nutrien retail sales are made via barter trading compared to close to 50% in the case of 3tentos. That is where we think 3tentos built one of its greatest moats. Most retailers don't make any margin on the grain originated via barter. More than that: they don't want to originate grains since static storage capacity requires high capex. 3tentos has about 1mton of static capacity and is investing in more static capacity in MT. As an example, 1 Mton of static capacity costs around R$ 300 mi to be built. Besides static capacity, 3tentos has soybean crush capacity and 2 railway terminals. As it was said above, agribusiness retail market in Brazil is very fragmented and the vast majority of players don't have the balance sheet to invest. Most of the ones that do, see vertical integration as a deviation of focus. They generally think this is not their core business and they already have decent returns without it.

Therefore, since competitors don't invest in vertical integration, all the grain most retailers originate is simply transferred to the large traders with a minimal margin. Nutrien, for example, passes through all its grains to Bunge with close to zero margin. Agrogalaxy trading margins oscillate between 2% and 5%. Big traders (like Bunge, Cargill, etc...) gross margins runs between circa 4-6%. On the other hand, 3tentos has around 9% gross margin in soybeans on average or 10% including all commodities like corn and wheat. The difference to big traders is explained by the capillarity the retail business provides to 3tentos allowing it to originate grains cheaply (on average 4% cheaper) while the difference to other retailers is explained by having alternatives of use for the grain originated. This advantage in origination puts 3tentos in better position relative to every competitor both in the industry (as can be seen in chart below) and in the trading business (as described above). The company has 3 options to monetize its grains: trade, produce soybean oil and soymeal or produce biodiesel and soymeal. At the end of the day, 3tentos is a big arbitrator and will always produce what has the highest margin at any specific moment.



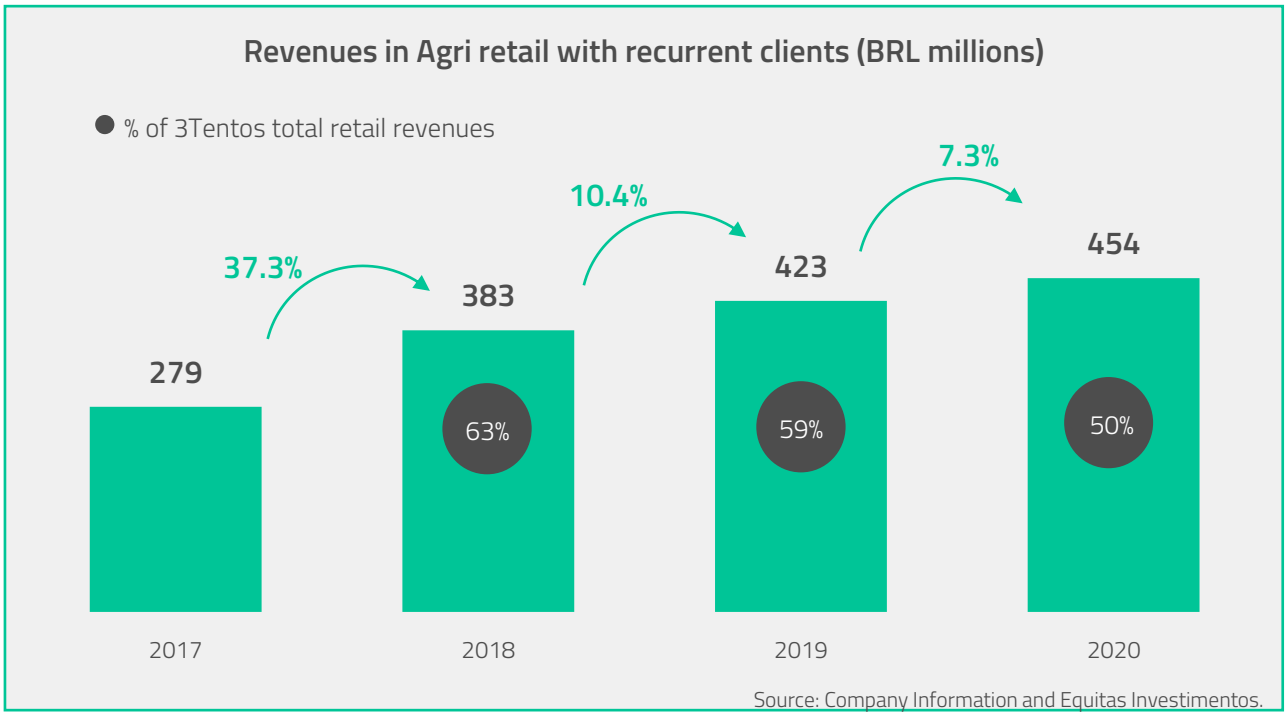
Source: Companies Information and Equitas Investimentos.

Keep in mind that in 2017 3Tentos was still ramping up its industry with only 50% of the production it has today while in 2018 it was already running 75%. It is important to mention that Bianchini was excluded from the industry average because it also has a trading operation that artificially lowers its gross margin. But we know that Bianchini is the least efficient player within the top 5, which would bring the peer group margin lower if we were to include its industrial business unit margin in the analysis above. With or without Bianchini, it is very relevant to have in mind that this average is from a very strong peer group (top 4 producers in the southern region that were well referenced in our channel checks).

Another interesting fact is that one of the subproducts of crushing soybean is soymeal, which comes very handy in a state like RS where it is common that grain producers also raise chicken. Approximately 20-25% of the soymeal produced by 3tentos is sold through its own retail channel, again capturing more margins in the value chain compared to other crushers. Hence, the advantage over other crushers is not only on the cost of grain origination, but also a better monetization of one of the main subproducts of the industry (around 60% of the revenues comes from soybean meal).

It turns out that 3tentos is a real ecosystem. A virtuous cycle where the retail segment puts 3tentos in great advantage over other crushers and the crushing and trading business allows the company to offer a better value proposition to its customers. A good definition of ecosystem in business is that participants of that ecosystem create more value collectively than they would individually. The 3tentos clients are locked in the

ecosystem, relying upon the company's solutions in many of the stages of production. The small and medium farmers have options to monetize their production but with some discount (even more challenging for the ones far from coast). They can rely on intermediates that will resell the grains to the big traders, transport to the port and sell there (with less scale, transport cost and sale price would also hurt monetization) or deliver in an open cooperative. 3tentos takes advantage of that, but also is a fairer alternative for the small and medium farmers. During the peak of the crop, small players must find a destination to their grains fast. In this period, truck shortages and big lines for loading the grains into storage (as high as 5 days in some cases) are common and opportunities arise for players with static capacity like 3tentos. Also, in that context, it is easier to understand why the company has 80 trucks. When the farmers do barter trade with 3tentos, they are hedging their costs and already solving the destination of part of their production (one third on average). 3tentos also offer free storage as long as the farmers sell their grain to 3tentos at some point in the future. This increases the value proposition for customers, turns the company account receivables healthier (the grains are backing the loans just like a mortgage loan) and, as said before, put 3tentos in an advantageous position in the other company's business units (industry and trading). It is a clear win-win situation. 3tentos competitors don't have the industry that serves as a good destination for grains, and most of them don't even have static storage capacity. This is true, even for the better capitalized players formed by private equity firms or multinational players. Agrogalaxy has less than half of 3tentos's static capacity although being 3 times bigger in the retail segment. Nutrien's and Lavoro's static capacity is almost inexistent. More than that, as per our conversation, they do not want to invest in it as they are already making decent returns without it.



On the chart above, we can see the 2017 cohort analysis evolution and how low the churn is, which illustrates how loyal and locked in 3Tentos ecosystem clients are.

Company culture is yet another strength. The feedback we got in our interviews confirms the opinion we reached after many interactions we had with top management and employees of all levels. The family members have a great reputation, and the company is very focused on efficiency and cost control. In one of the site visits, Luiz Osorio told us that during the harvest it is forbidden to have one single grain on the floor, otherwise the culprit can be fined or even fired. He said "what would you think about a bank that leaves bills on the floor? The bank is not taking good care of the money trusted by the client". The requirements that members of the family must meet to be able to work in the company mentioned in the beginning of this report is another example. 3tentos vertically integrates a lot of its operations beyond the industry. It produces its own seeds, fertilizer mixtures, has its own static storage capacity, has trucks to transport grains and has its own research center to be always updated with the best agriculture technologies. The reason behind this verticalization is that 3tentos thinks that with control of different stages of the value chain it can offer better services and with lower costs than a third parties would do.

We think this is very analogous to the view we have about EZ Tec (a very successful investment case in the homebuilding industry that we carry in our portfolio since its inception) versus other homebuilders. The EZ Tec model requires a bigger balance sheet, more work fronts, but the consequence is a much stronger business model and superior execution. The difference here, when compared to EZ Tec, is that 3tentos' business model is much more scalable, benefits from larger scale, has zero correlation to domestic cycles and has stronger moats. Off course someone can try to replicate it but is out of the plans of every single player we talked to, which gives 3tentos valuable time. Also, we think that in order to replicate, one will need a combination of local expertise, balance sheet and a long-term alignment that only a family-owned business may have. Private equity firms are close to divesting and already have made significant returns on their investments through the arbitrage of private and public valuations. Therefore, we think it is very unlikely that at this stage of their investment cycle in the industry they will change their business model towards a more verticalized one in pursue of long-term value. Also, Agrogalaxy is thinking about growing with a franchise system, a strategy that could not be more distant from 3Tentos's. Also, they now have a much more urgent problem to solve that is the integration of 10 or 12 companies recently acquired. In the case of Nutrien, a LatAm executive would have to convince global leaders that making a business completely different from what they are used to worldwide is a good idea. The payoff of that strategy may be too long and uncertain for executives, who tend to have a shorter-term investment horizon. The small regional players do not have the balance sheet. Big traders lack the capillarity and local expertise a retailer needs, but are trying to buy that through small acquisitions in the segments. It is obvious that all of that can change overtime, but we think that to replicate what 3tentos has done takes time and until then, the company will have expanded its footprint and scale.

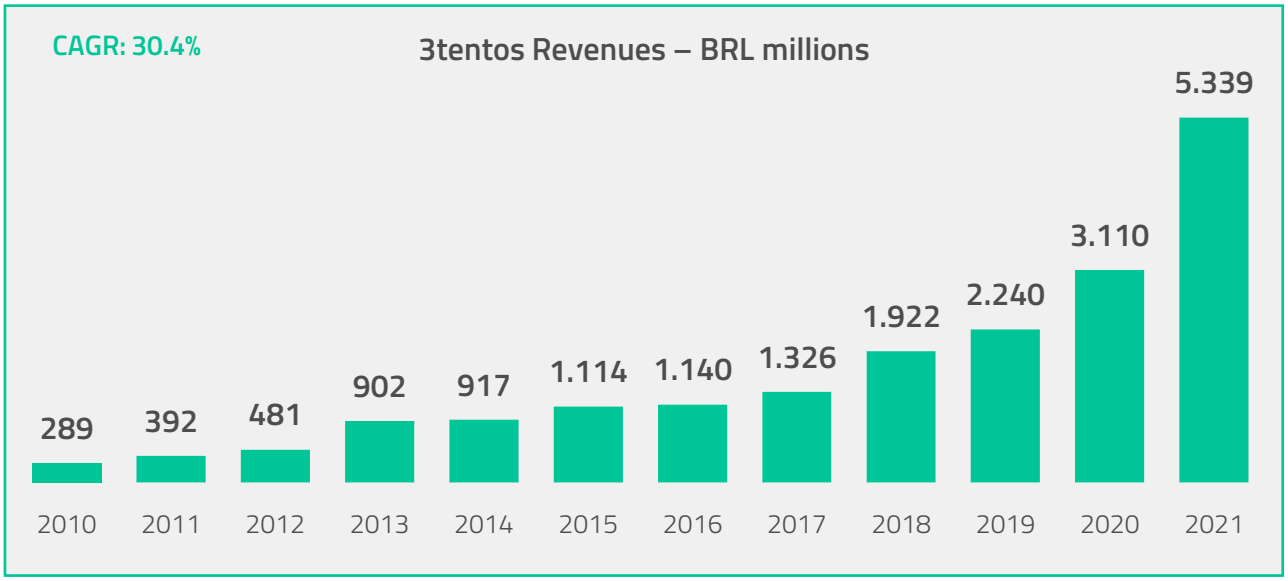
As said before, 3tentos has significant regional scale. Its benefits are clear: logistics density, brand awareness and bargain power (biggest Bayer customer in Latin America, for example). With the ecosystem, vertical integration, company culture and regional scale, 3tentos built deep moats. The company was able to grow 25% per year in the last 2 decades without any capital raise. Returns are very impressive and consistent, 3tentos has never had a net loss since inception. We think this is just the beginning since there is still great opportunities to grow, in a deeply fragmented and high-growth market.

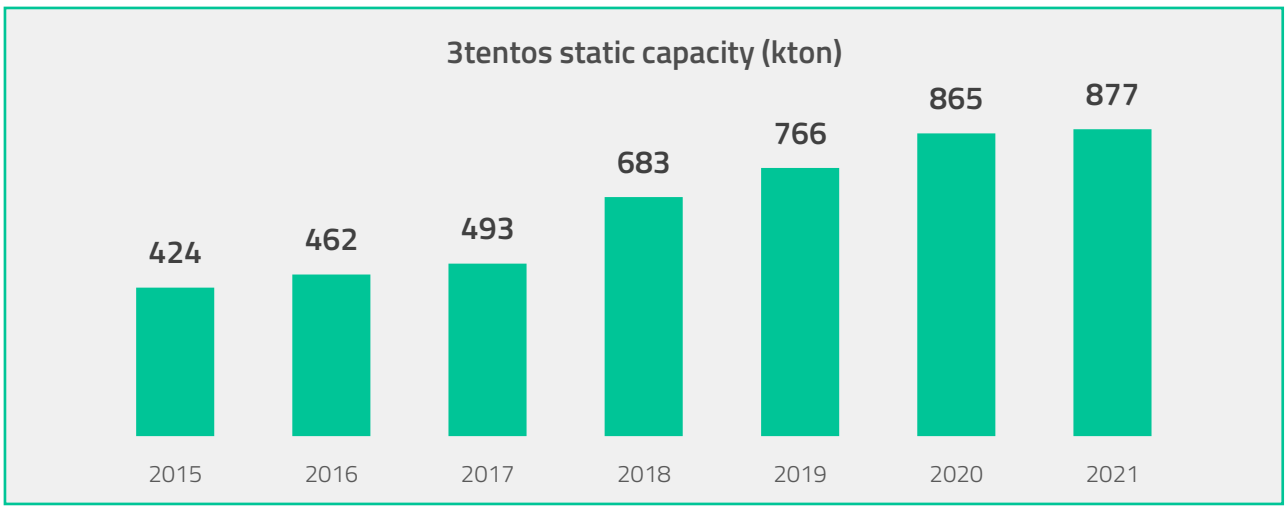
Interesting to note that competitors bigger than 3tentos are spread across the whole country. None of them are as relevant as 3tentos is in its respective influence areas. Agrogalaxy and Lavoro are approximately 3 times bigger than 3Tentos, but they are spread out in Minas Gerais, Goiás, Mato Grosso do Sul, Tocantins, Pará, Paraná, São Paulo, Rondônia and Mato Grosso (also Colombia, Peru, Chile and Uruguay in the Lavoro's case) whilst until last year, 3Tentos was only in Rio Grande do Sul. Lavoro and Agrogalaxy compete head-to-head for the leadership in MT with less than 3% market share each in the state. Considering the share only in the influence area, Agrogalaxy has 5% market share (we don't have this Lavoro figures). As a reminder, 3tentos has 16% market share in RS and 44% considering only its influence area. For brand awareness and logistics, regional scale is much more relevant than spread scale. Even for bargaining power with suppliers, in some cases, regional scale is more important. Seeds for example (that represent around one third of the retail gross profit), since the type of seed, production and replicators are regional, local density means more in terms of bargaining power. That is also the case for some specialties like biological herbicides and biological crop protection. But of course, for bargain power with fertilizers producers and the main pesticides, national scale is more important.

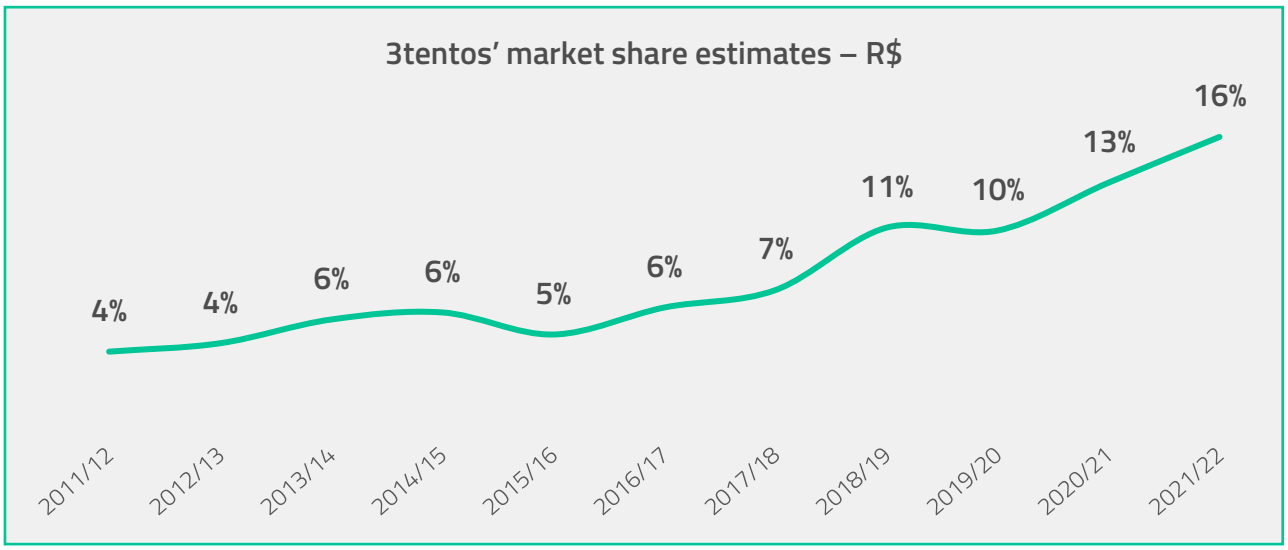
Regarding competition, we heard from Andre Dias (Nutrien's Latin America CEO), Araguaia top management (regional retailer and fertilizers mixture company in GO, MT, TO and MG) and Marino (Boa Safra CEO) that private equity firms are having trouble integrating all the small retailers acquired at the same time. They are the merger of 10 to 12 small companies in a 5-year timespan. André Dias "confessed" that organic growth is healthier. Alberto Araujo (Belagricola CFO, a regional retailer from Paraná) said that integration in their case took years. Also, during an interview with an Agrogalaxy seller in MT, he said that he noticed a high team turnover in both Agrogalaxy and Lavoro, but it was much more critical in Lavoro's case due to disproportional increase of bureaucracy. As we described before, sellers' alignment and culture are very relevant in this business. We frequently get ourselves thinking how hard it must be to integrate 12 small/medium companies at the same time, running in different ERP's and keeping this alignment and company culture. When Agrogalaxy made its IPO, not even the balance sheets and P&L were integrated. Also, they only created a credit policy and committee in the beginning of 2022 in a business highly dependent on credit analysis. We are

not saying that every M&A is bad. With the market characteristics described over this report, we think the private equity firms' initiatives have a lot of merit. We are just saying that a strategy based purely on M&A is much harder to execute. Moreover, even 3tentos studies acquisition from time to time, but it has a much more surgical approach (it is studying a small acquisition in MT).

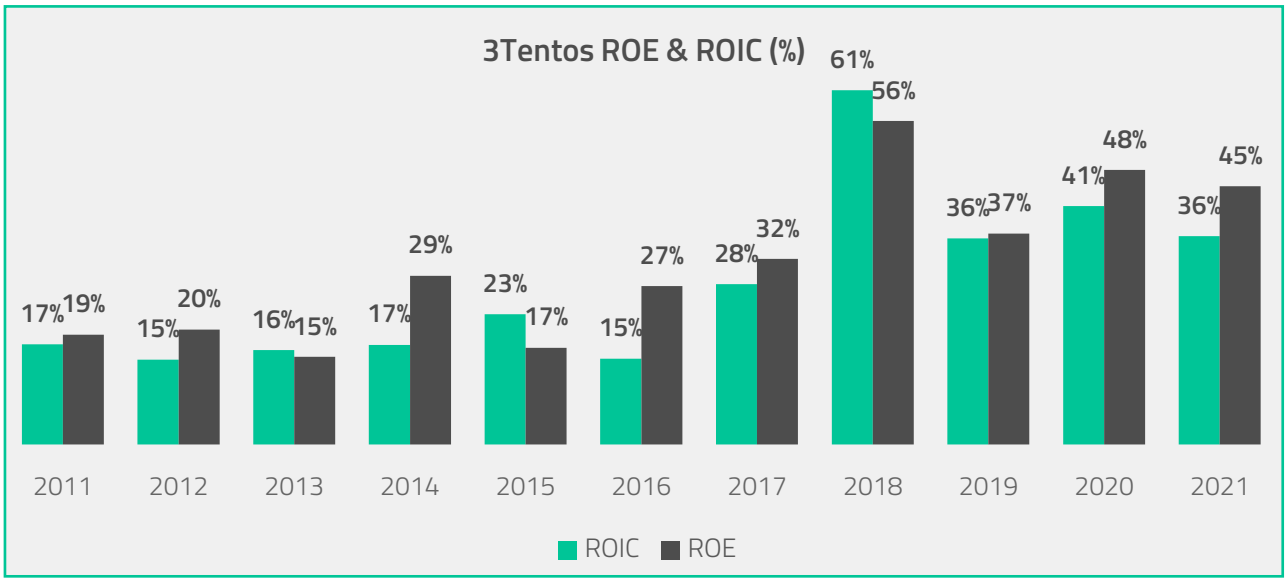
Below, there is a long 3Tentos revenues growth and returns track record. As said before, the company never had a net loss in its history. But it was in 2018 that 3Tentos accelerated its growth increasing dominance in its addressable market, ramping up of its industry and adding more static storage capacity.

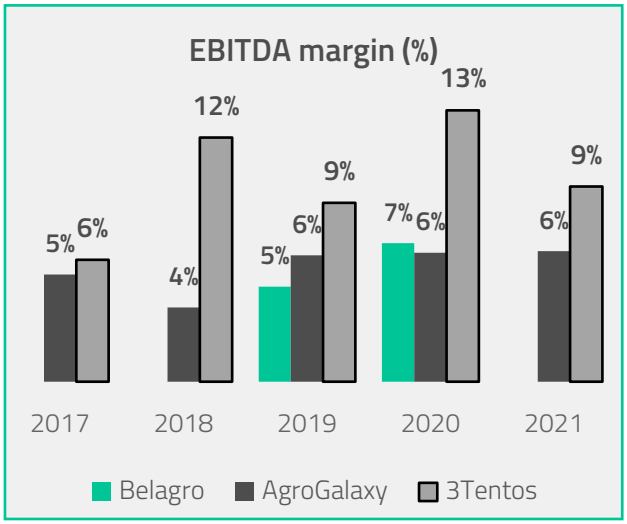


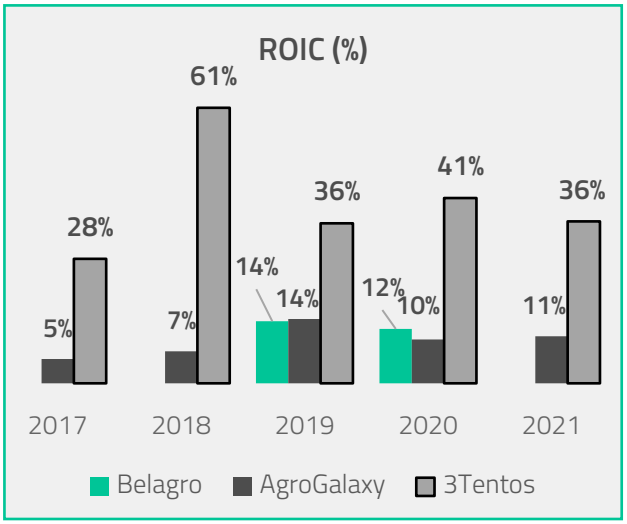


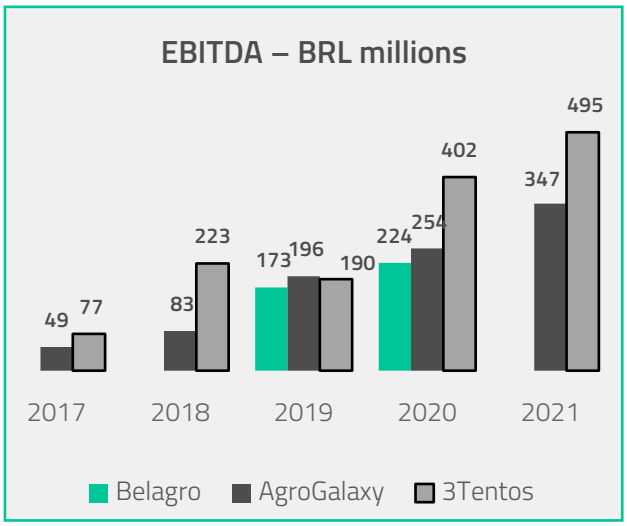


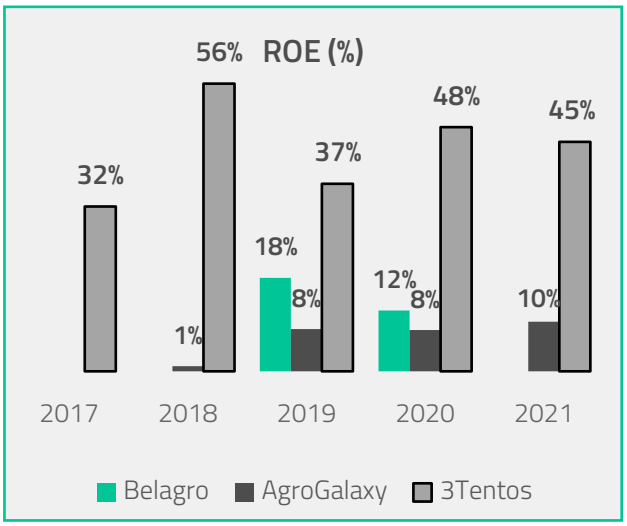
Source: Company Information and Equitas Investimentos.







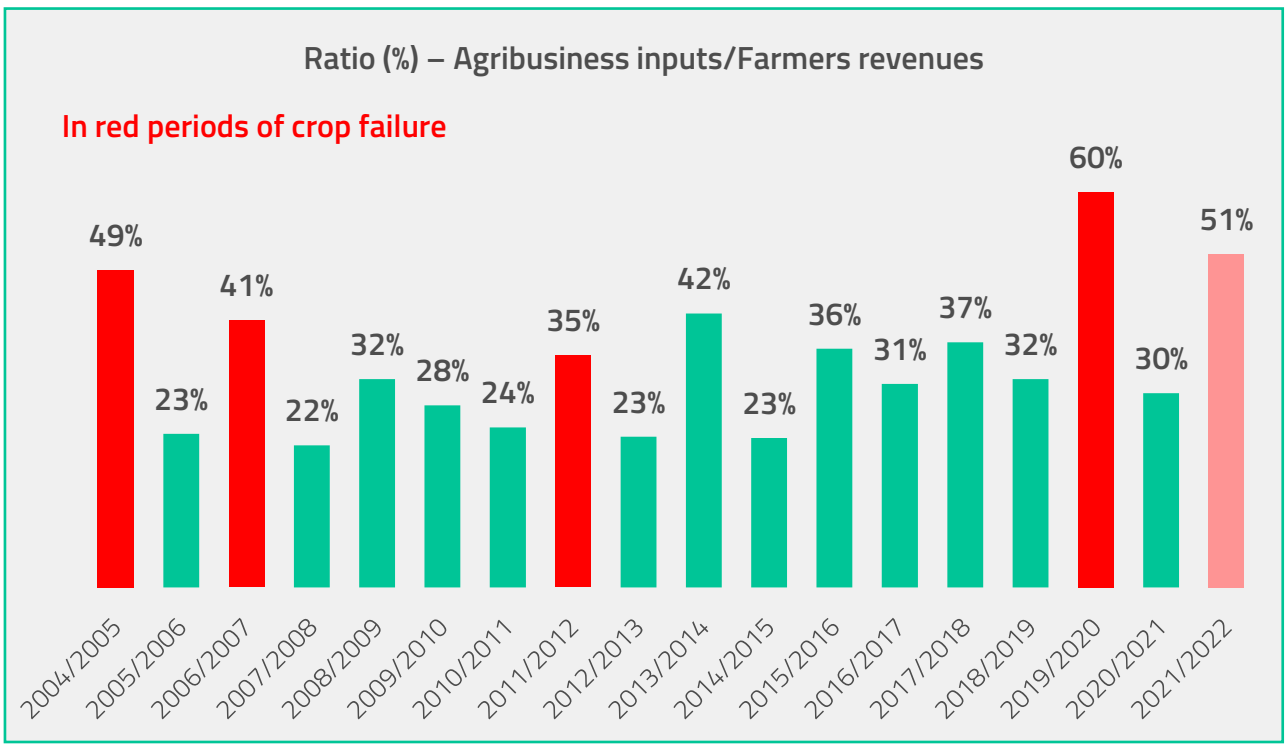




Source: Companies Informations and Equitas Investimentos.

7.Downside Risks

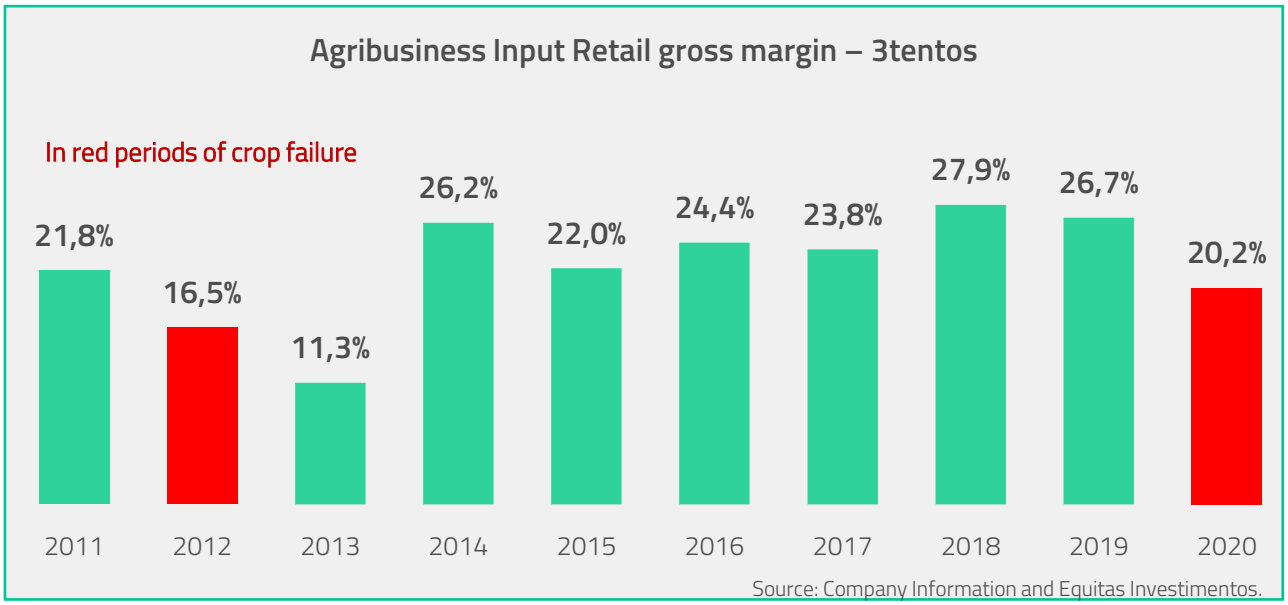
One of the main risks in 3tentos' case is crop failure in Rio Grande do Sul, which is well known for the recurrence of these events. In the last 20 years, four severe crop failures occurred (yield 30% below the long term trendline). Crop failure may affect farmer financial health and his ability to honor the payments to the retailer. The symbiotic relationship the farmer has with 3tentos, the ecosystem lock-in and the relevance 3tentos has in the region makes the decision to default harder to take. The good knowledge 3tentos has of its clients also helps mitigate this risk. Historically, one third of the expected revenue with the harvest is spent with inputs. This means that a miss in yields must be significantly high for the farmer to be unable to honor his obligations. From what we can observe in the company's historical results, the impact of crop failures tend to be relatively limited. What happens frequently in these situations is debt roll, impacting 3tentos investment in working capital. However, 3tentos charges interests that vary from 1,5% to 2,0% per month. Top management mentioned that historically, actual losses are minimal. We were only able to confirm this through the 2020 balance sheet since it was the only year of crop failure that we have detailed numbers (a year crop yield miss was 40%) and the credit loss was indeed close to zero.



Source: National Supply Company (CONAB) and Equitas Investimentos.

Provisions Balance	2018	2019	2020
Receivables provisions at BoP	(2.8)	(6.7)	(7.2)
Additions	(3.9)	(1.6)	(4.2)
recoveries of provisioned accounts	-	1.0	5.9
receivables provisios at EoP	(6.7)	(7.2)	(5.6)
% recovered of receivables provisioned at BoP	*0%*	*16%*	*81%*

Source: Company Information and Equitas Investimentos.



As can be seen on the figures above, farmers were able to honor their inputs payments obligation even during crop failure years. In the worst period analyzed, the ratio between agribusiness crop inputs purchased and total revenue hit 60% (in 2019/2020 harvest). Even during such extreme environments, 3tentos's clients honored their obligations as it can be seen on the companies Receivables Provisions Balance. Roughly 81% of provisions were recovered during the same year, and net provisions stayed around 63% of total overdue gross receivables in accordance with historical average. However, note that in the 2019/20 crop failure, an impact was felt in the 2020 retail gross margin. It is worth reminding that in 2012, 3Tentos was a completely different company.

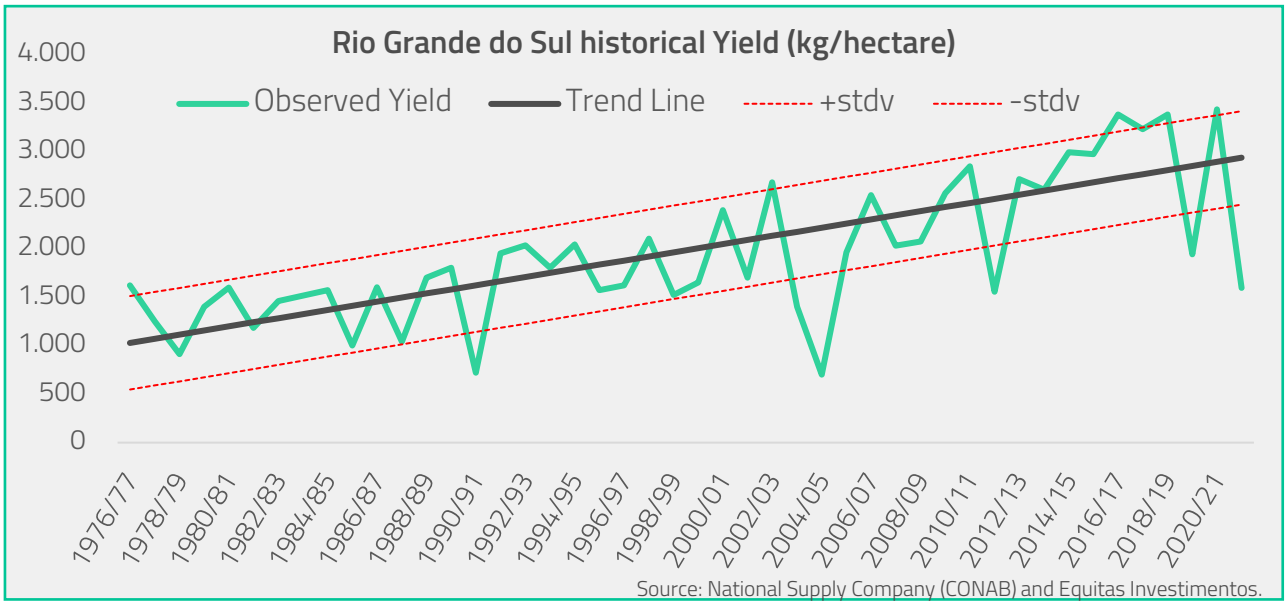
When there is a draught in RS, Argentina usually suffers together. Argentina coupled with RS represents almost one fourth of the soybean world supply. Thus, there is usually an impact in prices that offsets part of the loses. Of course, the net impact is very negative, because the lack in production in this region is shared via prices with every single producer worldwide, diluting the price upside.

In this report, we aim to describe the company, the market and how the company is inserted in it, its trends etc., not so much about conjuncture. But it is important to mention that RS is currently suffering from a severe draught. Fortunately, given the scenario of favorable commodity prices even before the draught, producers tend to hedge less to speculate. That is exactly what happened in the region. As said before, barter trade usually represents 50% of 3Tentos sales, but in 2022, although the producers are counting on the company's infrastructure to deliver their production, they have not fix yet the sale price yet and barter represented less than 20%. This was very convenient, because 3Tento's clients speculated and, by chance, got it right and now are benefiting from a price 30% higher than 3 months ago. We are not stating that this will lead to an irrelevant impact on 3Tentos results but may help offset partially.

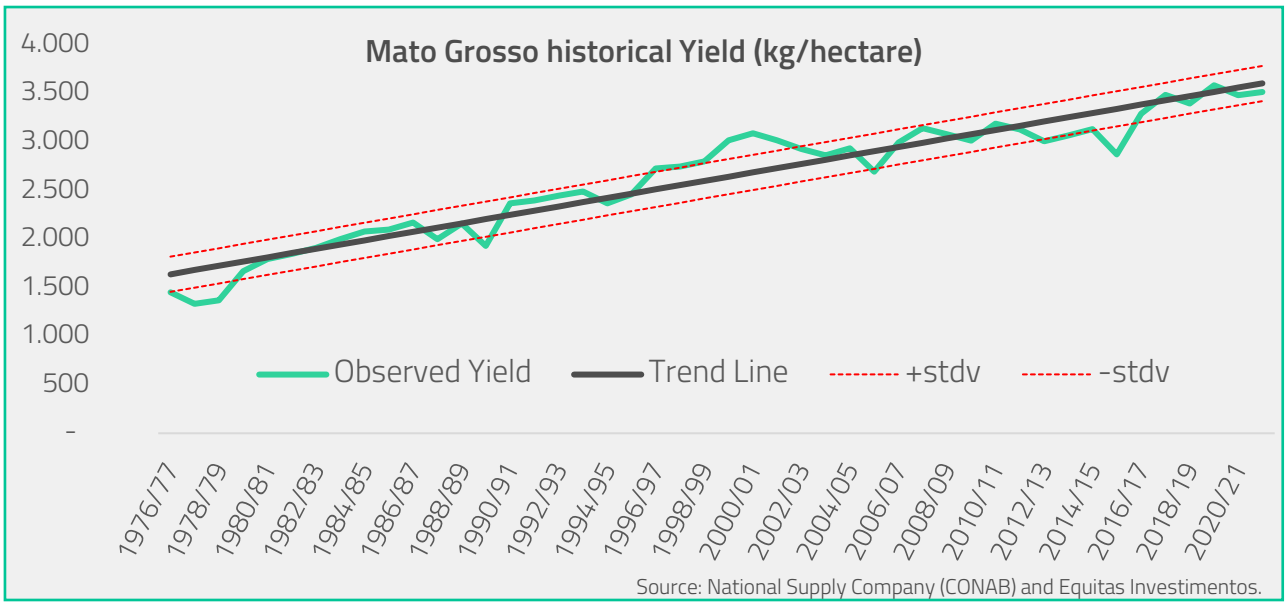
Although there are a lot of imprecisions in global climate trends over next decades, it is a risk that global warming may turn these events more frequent. Bearing this imprecision in mind, what may cause draught in Brazil's southern region is the effect La Niña, which is the cooling of Pacific Ocean. According to some research, the Pacific is getting warm but at a much lower speed than the rest of the world and the net effect of it in rains in the Brazilian south region is still unknown.

If these events become more frequent, before it becomes severe to the point crops become unfeasible in Rio Grande do Sul, irrigation may increase in the state to offset the climate change. Today, RS can be much more irrigated, because it is a state well known for being difficult to get the licenses for water supply rather than the supply's cost.

The movement to grow to Mato Grosso makes sense not only because it is the biggest and fastest growing market as said before, but also as a climate risk diversification. Mato Grosso is the opposite of RS. It is known for being very regular in terms of climate and precipitation, having barely any crop failures and very small yield volatility.



Source: National Supply Company (CONAB) and Equitas Investimentos.



Source: National Supply Company (CONAB) and Equitas Investimentos.

On the other hand, Mato Grosso is a new market for the company. Not completely new for management since the family runs a 10,000-hectare farm there, but there is risk that it will not be as successful there as it is in RS. Also, a typical farmer in MT is bigger than in RS as described before and this may lead to lower retail margins. However, MT is more fragmented than RS, there is not a dominant player in MT like 3tentos is in RS and no other retailer has a combination of crushing, static capacity and strong balance sheet as 3tentos. Of course, there is already someone addressing this market, it is not a completely blue ocean in the sense of a market not being served. But we think that tackling the MT market with a differentiated strategy and superior execution increases the chances of success. Today, the biggest player in MT is the result of a merger of various small- and medium-sized companies that were consolidated within Agrogalaxy and Lavoro. As said before, our channel checks suggest they are having trouble in retaining human resources and integrating the merged companies. Also, 3tentos is hiring people from the companies merged by the private equities. Marino, CEO of Boa Safra (a soybean seed producer), mentioned (unsolicited) that he strongly believes 3tentos will succeed in MT because of its competent management and successful business model. Nonetheless, even with the evidence, we see the growth to MT as one of the main risks of the investment case. We will keep close eyes on the evolution of the operations there. The first input we have from the company is that the first store is running above the business plan both in volume and margin. Just to bear in mind, from now to 2025, approximately 35% of the growth in retail segment comes from MT (the remaining will come from white spots in RS).

Another potential source of downside are tax exemptions. There are two tax exemptions benefiting the numbers we already see today and another one relative to the crushing capacity being built in MT that will benefit in the future.

The first one is a convention that lowers ICMS (equivalent to IVA) for agriculture inputs nationally. This convention was first established in 1997. Thought initially to be valid for 2 years, it has been renewed ever since. Last time it was renewed was in 2021, valid until 2025.

The second one is ICMS rebate Rio Grande do Sul grants to biodiesel producers if the soybean crushed comes from the state. This rebate accounts for less than 20% of the company's net income. It is very important to highlight that differently from other cases that have tax exemptions in Brazil, the ones that are already embedded in the 3tentos numbers (the two above mentioned) are granted to every single player of the industry. Therefore, if any of these exemptions expire, it would affect all the players in the same magnitude, making it easier to be passed through prices.

The third and last one is like exemptions seen in other cases in Brazil. It is a rebate granted by MT to the company as a counterpart of the investment made by 3tentos in the state. Although this one may be riskier than the other two, it is worth noticing that the numbers we see today are not affected by it and that although granted directly to 3tentos, MT grants this kind of benefit to many other players frequently. Moreover, the payback of the greenfield investment in MT is around 3 years, which diminishes a lot the value at risk.

Since biodiesel is a captive market created by a regulation in Brazil that intends to reduce carbon emissions, it may face regulation risk as well. The law that regulates biodiesel mixture has a schedule of increasing mixture in the pump however CNPE (National Council of Energy Politics) has the power to lower the mixture to 6% at the discretion of the Council. As described in the biodiesel market topic, this year the CNPE lowered the minimum blending amount to 10% due to inflationary prices of diesel and biodiesel in opposition to the 14% target established by the escalating schedule.

Half of the revenue of the industrial business unit comes from biodiesel (or 20-25% of the entire company) and, therefore, it is a very relevant business unit. However, we believe this risk is lower than it may seem. All the soybean in the world must be crushed at some point to extract oil and soymeal. Therefore, crushing soybean is a cost-plus business. If there isn't a positive spread, nobody will crush the grain and the grain in its natural form is useless. Transforming soybean oil in biodiesel should add margin on top of the margin of oil. If it doesn't, nobody will transform oil in biodiesel. Historically, biodiesel adds close to 20% gross result to the industry business unit (or 3 to 4 percentage points of gross margin). Today, that CNPE set the minimum blending at 10% in a moment when the industry was prepared for 14% and the soybean oil price is very high, the biodiesel is already adding close to zero margin and we are seeing some crushers exporting oil instead of producing biodiesel. 3tentos's efficiency and competitive advantage in grain origination (as explained previously in this report) puts the company on the left side of the cash cost curve. Therefore, it will be very rare for 3Tentos not to have positive margins both in oil and biodiesel and it will produce what is showing the best return at any given moment. In the 4Q22, the results were almost indifferent to biodiesel captive market. The industry margin historically ranged between 10% and 20% and we think even without biodiesel, it would be rare to see margins much lower than 10% based on the historic spread of oil and meal to soybean.

Additionally, it is important to measure the risk not only in terms of P&L, but also in terms of capex at risk since the company is investing in a new plant in MT. From the total of R$ 450mi capex in the greenfield in MT, around R$ 40-45mi is related to the final line that transforms oil into biodiesel. Therefore, the value at risk is very low compared to the optionality it presents.

8.Interviews and Conversations with different industry players

As part of our investment research and diligence process, we have talked with a variety of different agrobusiness players that operate in different fronts of the industry's value chain. The idea was to cross-check and consolidate part of the insights we developed throughout our proprietary research. Those conversations were much richer and detailed than exposed here, where we tried to bring only the major highlights.

André Dias, Nutrien's CEO (January 7th of 2022)

He gave us a good view of Nutrien strategy in Brazil. He said that Nutrien focuses on small and medium farmers (100 to 3,000 hectares) because it is where it sees better margins. Although Rio Grande do Sul would fit very well, he said that they don't envisage entering the state organically because they see it as a tough market where there are already dominant players and farmers that default a lot. He prefers organic growth over acquisition, but RS is a state Nutrien would enter only if there was a good target available. Talking about this preference, he said Nutrien developed an acquisition playbook trying to diminish the integration challenge it faced in the past (some integrations took as long as 8 years in some cases).

In his view, the private equity firm's strategy is only an arbitrage of public and private valuation. Also, he does not think about investing in soybean crush and not even statical capacity. He said this is not their business, that the consolidation worked very well in the US without it and downplayed the importance of offering barter trade (although the sellers and farmers we talked to said it is important).

He thinks that there is no reason for the consolidation process not to progress in Brazil. However, he does not see a player having 25% of the market in the foreseeable future like Nutrien will have in few years from now.

Lastly, he has strongly advocated on the outstanding competence of the Dumoncel brothers from his impressions at the time he worked at Monsanto as 3Tentos supplier. He said that the Dumoncel family has the highest reputation possible and that they are unparalleled. Also, he said he thinks that our investment in 3Tentos will be very successful.

Alberto Araújo, former agri retailer owner acquired by Belagricola (February 2nd of 2021)

In his view, agri retailer value proposition makes little sense for farmers above 10,000 hectares in their region, which in many cases has its own team of agronomists and scale to purchase directly from big chemical suppliers.

He struggles to see agritech startups as FBN disrupting this market due to several reasons. One of which is the tight personal relationship between agronomists and small farmers. Much of the credit analysis assessment comes from inputs gathered from the CTV and retailers' historic knowledge of such individual producers and that would be extremely difficult to replicate purely through technology. Another reason is big chemical suppliers' unwillingness to offer their products through this channel (Dow, Syngenta and Bayer stopped working with FBN in the US).

Mr. Araújo also explained to us more about the competition with cooperatives. He said that cooperatives are the biggest donor of market share because they face some challenges like the impossibility by law to reject any client (suffering from adverse selection), bad technical support during the planting cycle due to bad alignment of incentives with the agronomist's team and the fixed grade of agriculture inputs for every farmer

Lastly, he gave us his impressions on 3Tentos's attempt to expand to MT. In his view, the state is completely different from RS with much more challenging logistics and fiercer competition against trading companies within bigger farmers. Nevertheless, he believes 3Tentos can be a successful player there with its crushing capabilities that adds more value to its originated grains and because he has good references of 3Tentos strengths.

Mr. Tiago, farmer in south of RS operating 1,600 hectares (18th of February 2021)

He spoke on the startup of many small agri retailers in the southern region of RS state after Contrijui's bankrupitcy in 2014 (at the time the biggest cooperative in RS) founded by former agronomists that used to work at the cooperative (some names include Referência, Sabía, and Campo Limpo). 3Tentos also took advantage of that situation to speed up its expansion process towards that region of the state. Mr. Tiago said to us that 3Tentos is the only player capable to offer farmers the barter trade operation. It is interesting to note that during our first conversation in February 2021 he mentioned he was not a 3tentos client, but in a more recent talk (February 2022), he said he is buying from 3Tentos, which entered in his region very recently (2020).

Fabio G Goulart, project manager of Mosaic (9th of August 2021)

He told us about agriculture inputs retailers as a sales channel for their fertilizer's products. Currently they sell around 30% of their products through that channel and 70% directly to main farmers. Since fertilizers are a commodity, the price is linked to freight cost and in Brazil around 80% of the supply comes from imports. It means that a minimum route density is also required, which makes agriculture retailers an important enabler in the logistic chain for small farmers, in his view. He also highlighted that Mosaic business usually operates at tight margins so, there is not much room to offer discounts to large orders (usually 2% to 3% discount to the biggest accounts), which differs a lot from chemicals, for example (as high as 13%).

Mr. Anderson Galvão, autonomous agronomics consultant (3rd of February 2021)

He believes that the agriculture inputs market is in an ongoing process of consolidation in Brazil (although only at the beginning). Domestic and international players that have strong balance sheets are leading this process, and he believes that small agri retailer chains with up to 10 stores will lose market (through market share shrinkage or acquisition) to bigger players. In his opinion, cooperatives are an even worse alternative to farmers than small agri retailer chains, given their lack of customized solutions to each farmer's needs. As of now, he sees the market divided in five major categories of agriculture distributors: (i) the ones that possess fertilizer mixtures and seed production; (ii) The ones that distribute crop protections, fertilizers and offer highly specialized harvest consultancy (the majority of agri retailers are included in this group); (iii) The ones that originate and store grains; (iv) The ones that provide just in time logistic solutions to farmers, delivering their inputs needed just before its application (keep in mind those are highly valuable goods that pose as potential risk of depletion or robbery if stored for too long in the farms warehouses) and (v) The ones that crush the originated grains. Today 3Tentos is the biggest player operating in all 5 fronts.

Mr. Marcelo Abud, Lavoro Agrícola CEO (14th of September 2021)

He talked about his operation as the biggest national agriculture retailer in Brazil (4% market share achieved mainly through M&A). Today it is controlled by the Private Equity fund Patria Investimentos and operates in Brazil, Colombia, Peru, Chile and Uruguay with 148 agronomists in its team. He sees the Brazilian market as the biggest and fastest growing market today with 5y CAGR of 16% versus 3% in US (for the crops it supplies which include different kinds of grains and fruits). Lavoro's expansion strategy is through acquisition, and he sees the company as a major consolidator nationally in the retail segment, buying non listed small players at low multiples (around 5,5x to 6x EV/EBITDA). The struggles of corporate incorporation are real but, in his mind, they have experience on that front and a developed playbook to integrate these acquired players. In the first year, for example, Lavoro only takes over the cash management of the acquired retailer, leaving regional managers to do business as usual but with a much broader product portfolio that Lavoro brings. Gradually, to avoid major hurdles on running operation, they introduce digital channel solutions, finance credit analysis, and centralize suppliers' negotiation (to enjoy scale benefits). He commented that today they use SAP and Salesforce management systems and use Agrometrica software for producer's credit analysis. As of now Lavoro has 0,9% delinquency only and less than 20% of their sales through barter operations due to the lack of grain silos (which is not part of their current strategy). The remaining are short term deferred payment (3 months) because the company focuses on low working capital investment.

Mr. Gabriel Boyer, former Newe Seguros partner and VP (23rd of February 2021)

He talked to us about the agri insurance market in Brazil, which until 2020 only 20% of arable area was covered. Since it is not compulsory for producers to adopt production insurance, it is not very common for smaller players to pay for yield protection. The sales force of insurance in Brazil is structured in such a way that brokers receive a finder's fee from insurance companies of 8% to 12% of the insurance premium. He thinks brokerage fee is a great opportunity for players that enjoy great capillarity.

Mr. Marino, Boa Safra CEO and controller (19th of November 2021)

Boa Safra is the biggest soybean seed multiplier in Brazil. It has operations in Goiás, Minas Gerais, Mato Grosso, São Paulo, and Bahia and has great relationships with the biggest agri input retailer chains in the country (giving their necessity to channel their product though that chain which corresponds to roughly 90% of their sales). In view of that background, Mr. Marino impressed us with his unsolicited vehemently comments on Luiz Osorio Dumoncel's reputation and business competence. It is currently negotiating a distribution contract in Mato Grosso, giving 3Tentos expansion to the state and mentioned that he strongly believes 3Tentos will be very successful in MT. Also, he mentioned that if Boa Safra would ever enter in RS one day, he will certainly try to join forces with 3Tentos.

Mr. Daniel Amaral, ABIOVE's strategic planner (9th of February 2022)

ABIOVE is a vegetable oil association in Brazil that provides market information and represents market players on grain oil industry, carrying their institutional demands and suggestions to regulatory authorities. In a recent conversation, he clarified to us that players like 3Tentos and Oleoplan have excellent operations and above average industrial plants. Due to that, they can extract more oil per soybean grain than average (over 20% while 19 to 20% is more frequent in the industry).

André, Agrogalaxy agronomist and salesperson (14th February of 2021)

He told us about his client's profile at the Querência region in MT (a Municipality in the northwest of Mato Grosso state). Currently, most of his clients have between 3,000 hectares to 7,000 hectares (although his biggest client has 14,000 hectares). Being a more remote region, it lacks much of the infrastructure other regions closer to the BR-163 road have. This logistics deficit prevents bigger farms to purchase directly from suppliers due to high lead time and costs. He used to work closer to the BR-163 road and there he thinks the threshold to buy directly is lower, but clients up to 7,000 hectares purchase mostly from retailers. Nevertheless, he specified that his smaller clients are more loyal to him and depend more on his consultancy skills and advice than the bigger ones.

He also confirmed to us the importance of static capacity infrastructure to storage grains. Since Agrogalaxy (and other traditional retailers in the region) lack it, he cannot offer barter trade to his clients at the magnitude he desires. Given the infrastructure deficit in the region, he thinks that a player with this capacity would perform well.

He also mentioned high team turnover he observed in retailers acquired by private equity firms. However, it was much more intense in the case of Lavoro's case, in which bureaucracy increased much more than in Agrogalaxy's.

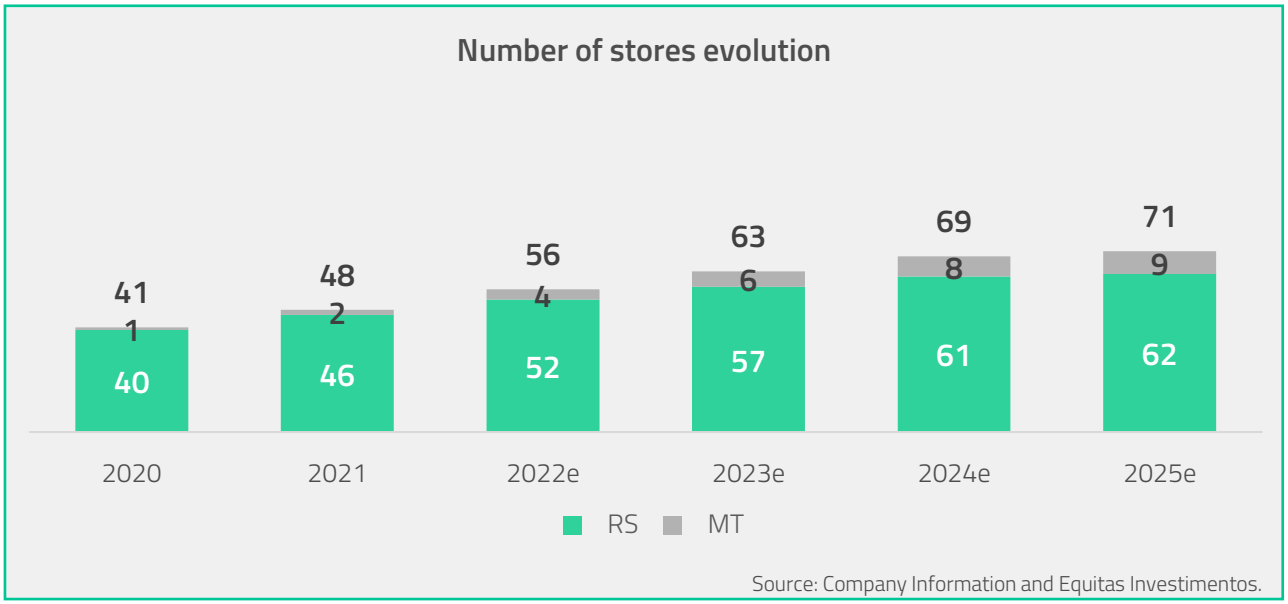
Mr. Gilmar, 5,100 hectare farmer in Mato Grosso and Agrogalaxy's client (16th February of 2022)

He considers himself as a farmer that has high share of direct purchase with suppliers among peers (30%). Also, he doesn't see much value in barter trade because he has static storage capacity. He believes less than

10% of the farmers in the region have static capacity. The ones that don't have static capacity, get lower prices from big trading companies, due to the urgency to sell as grains are harvested. For those without static capacity and/or more leveraged, he believes that barter trade is a good value proposition. It is not unusual to see products cheaper in the retailer than direct from suppliers. For a while, he doesn't see big changes in his relationship with his retailer (Rural) after Agrogalaxy's acquisition.

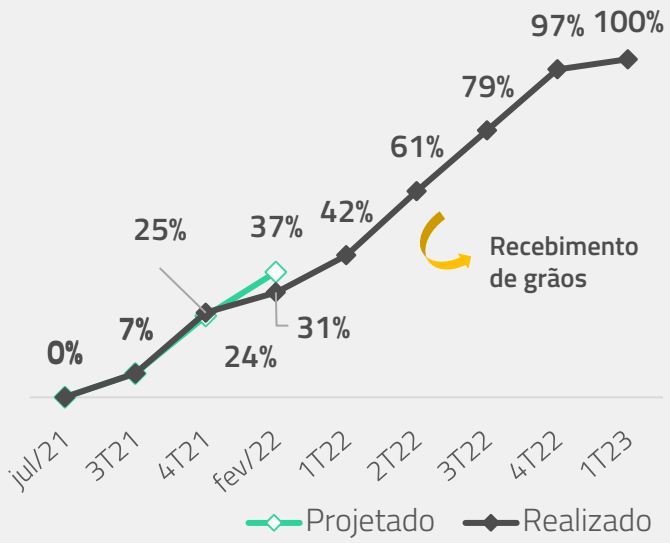
9.Estimates and valuation

Below are our main projections for 3tentos until 2025. We are modeling store openings and crushing capacity expansion based on the company's guidance. 3tentos will start up an expansion in its crushing capacity in Ijuí/RS, which will increase its total capacity in RS from 3 kton per day to 4 kton per day. This will make the company totally self-sufficient in soybean oil (today, it complements with animal fat and other oils to feed its biodiesel production). Also, they are guiding the start-up of Vera/MT crushing and biodiesel for 1Q23. This industrial plant will double the company's crushing and biodiesel capacity. The chart below illustrates the company's guidance relative to the number of stores evolution.



Source: Company Information and Equitas Investimentos.

The construction of the Vera plant is evolving better than budget. That is also the case for the store in MT. Management mentioned both volumes and margins are above the business plan.

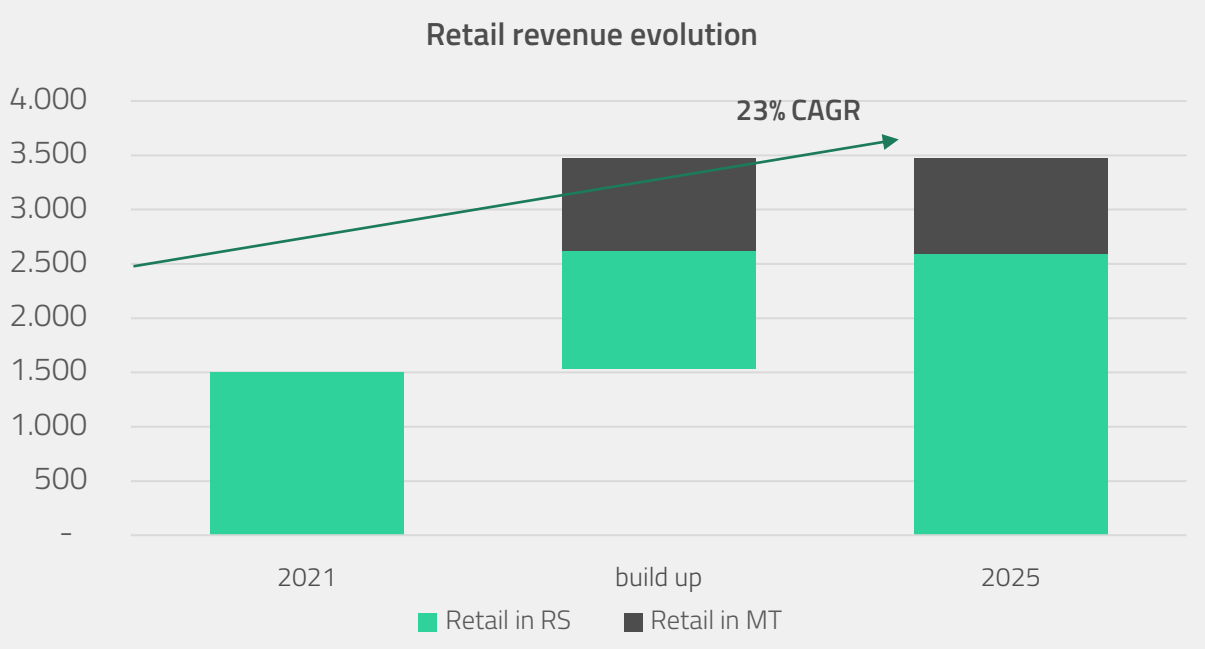


Source: Company Information and Equitas Investimentos.

In the retail, we made a sanity check that is an estimation of the company market share evolution in agriculture inputs in RS and MT. Also, on the table below, a dimension of how the importance of MT evolves in our projections.

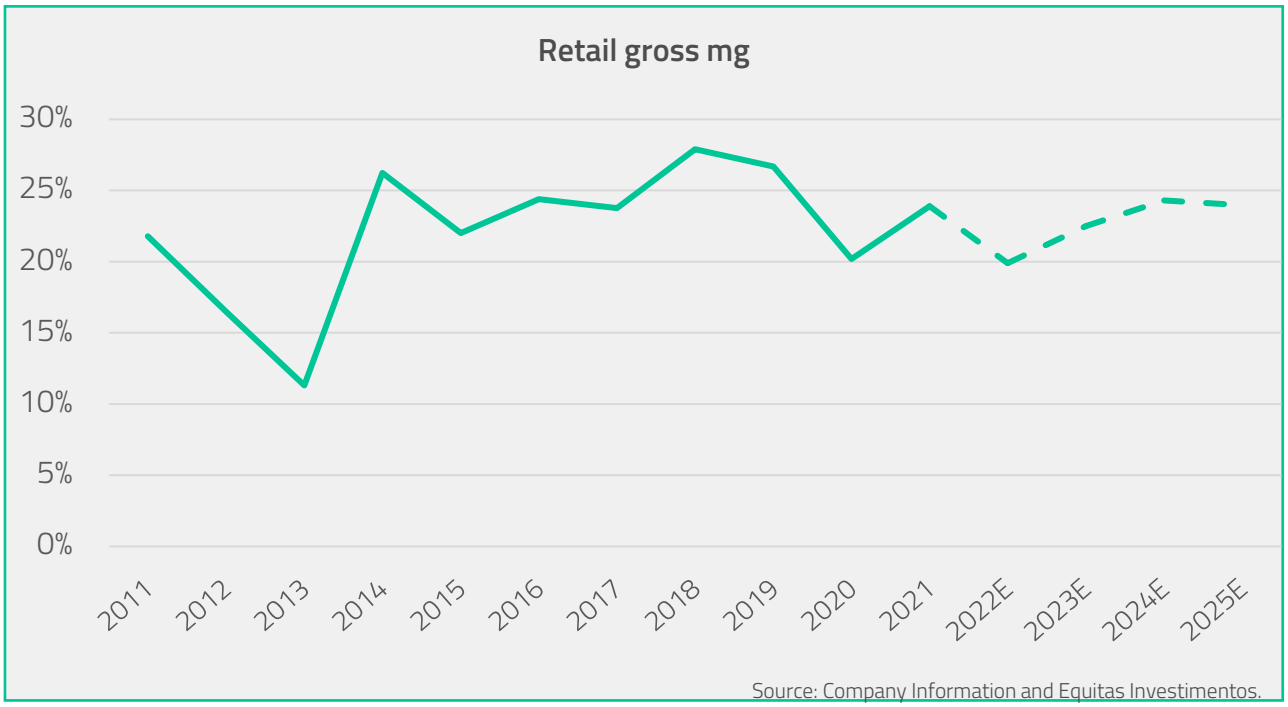
	2021	2022	2023	2024	2025
Share in ag inputs in RS	14.6%	17.3%	19.8%	21.9%	22.9%
Share in ag inputs in MT	0.1%	0.3%	0.6%	1.1%	1.6%
% of retail sales in RS	98%	94%	87%	81%	75%
% of retail sales in MT	2%	6%	13%	19%	25%

Source: Company Information and Equitas Investimentos.



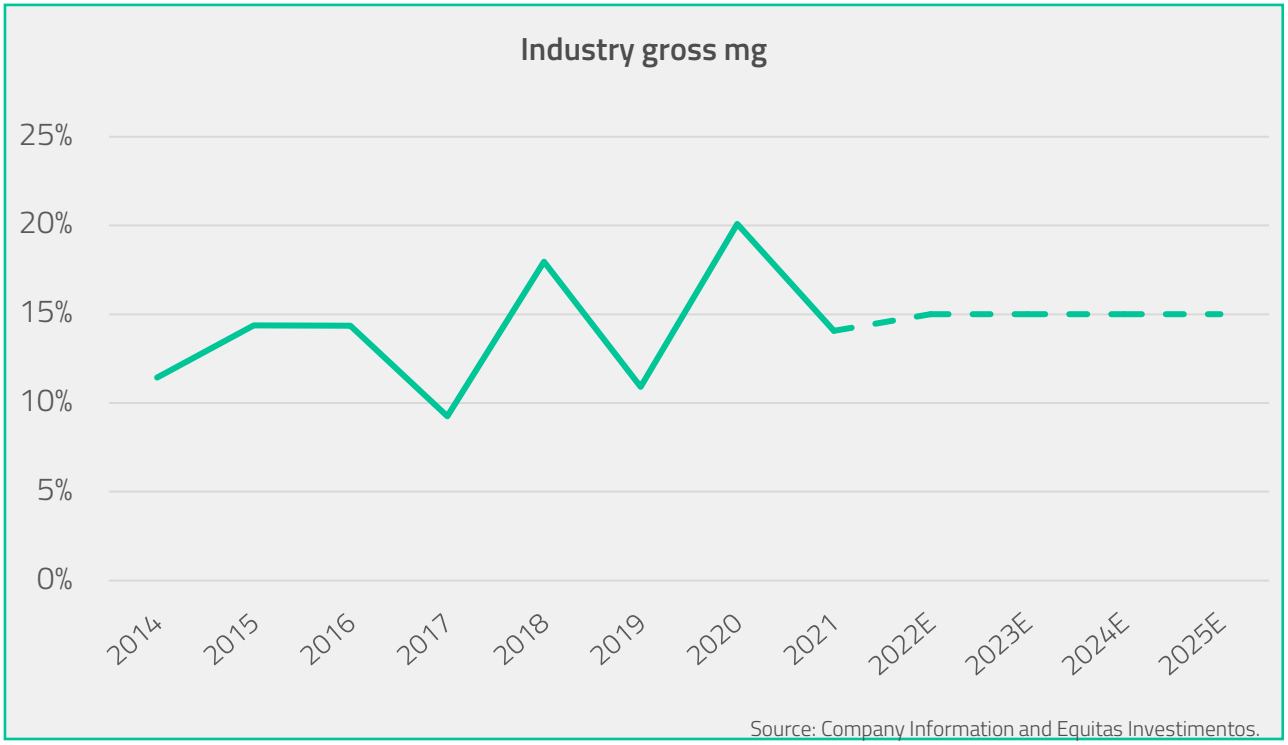
Source: Company Information and Equitas Investimentos.

Although management mentioned the first MT store is running with similar margins to the RS operation, we are modeling a 10% gross margin gap in MT for 2022 and 2023 and a 5% gap for 2024 and beyond since it is a new market for the company and because we think one recently opened store is too small of an observation to rely on. For RS, we are modeling a margin in line with the last 3 years average except for 2022, which we forecast a 5% hit that is in line with 2020's performance due to crop failure. Bearing in mind that 3 years average in RS incorporates one year of bad margin.

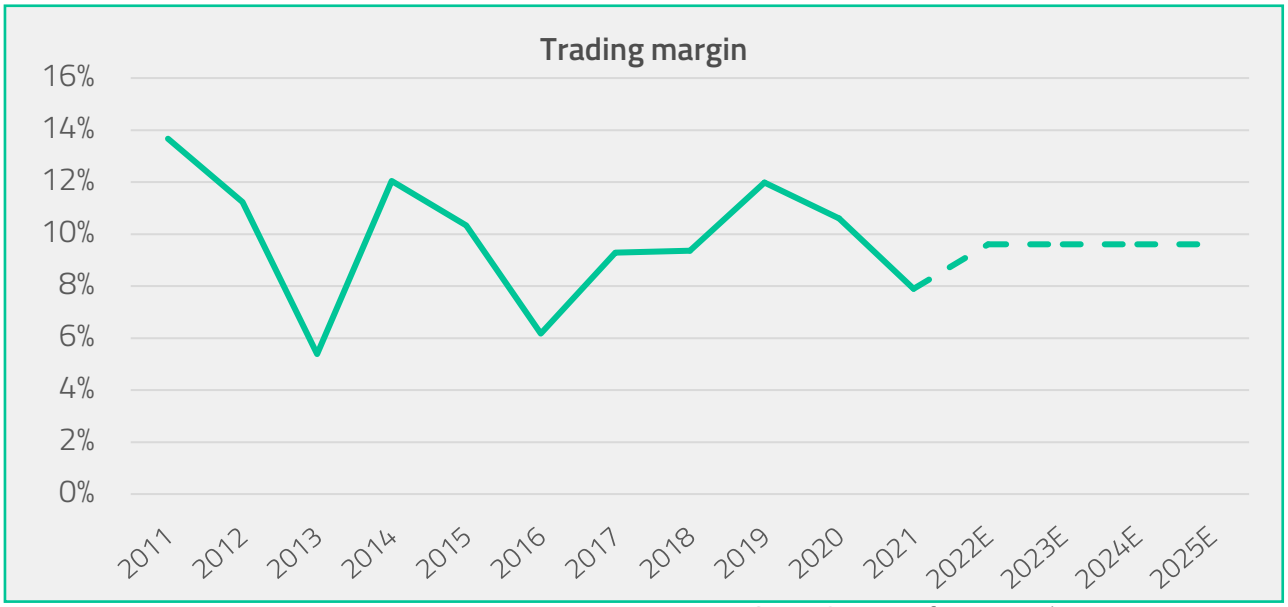


Source: Company Information and Equitas Investimentos.

For the industry and grains trading, we are modeling margins in line with historical averages. According to our regional spread analysis, MT industry may have higher margins due to access to lower grain prices. But what calls our attention is that biodiesel prices are higher in the state, which is counterintuitive to us, since MT has a surplus of the green fuel and sells to other states. If we were to incorporate that in our projections, the industrial margin would be higher.



Source: Company Information and Equitas Investimentos.



Source: Company Information and Equitas Investimentos.

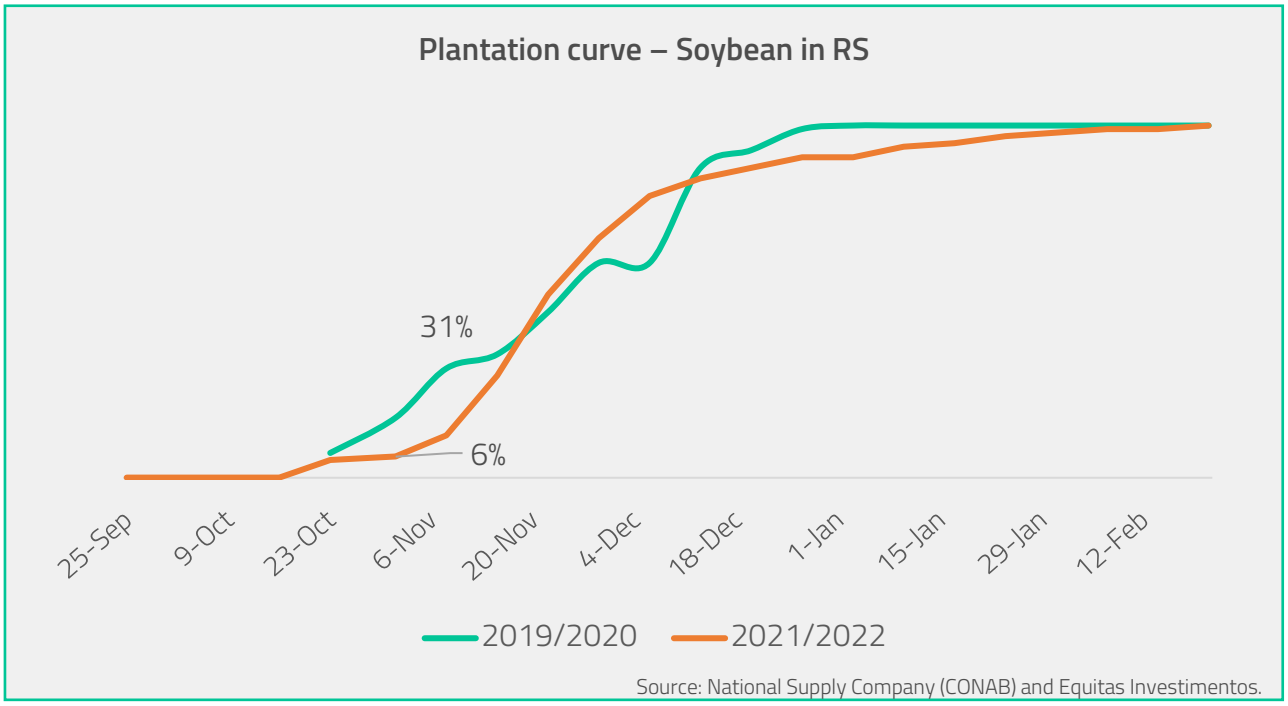
With these inputs, we reach the following consolidated numbers for the company:

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E	2024E	2025E
Revenues	392	481	902	917	1,114	1,140	1,326	1,922	2,240	3,110	5,339	6,350	7,598	9,438	10,767
Gross Profit	63	62	92	149	170	160	191	335	363	595	701	955	1,177	1,526	1,756
Gross Mg	*16%*	*13%*	*10%*	*16%*	*15%*	*14%*	*14%*	*17%*	*16%*	*19%*	*13%*	*15%*	*15%*	*16%*	*16%*
EBITDA	35	39	52	98	112	94	77	223	190	402	495	656	840	1,113	1,278
EBITDA mg	*9%*	*8%*	*6%*	*11%*	*10%*	*8%*	*6%*	*12%*	*8%*	*13%*	*9%*	*10%*	*11%*	*12%*	*12%*
Adjusted net earnings	8	15	9	30	17	34	43	165	142	293	430	504	638	832	941
Net mg	*2%*	*3%*	*1%*	*3%*	*2%*	*3%*	*3%*	*9%*	*6%*	*9%*	*8%*	*8%*	*8%*	*9%*	*9%*
ROIC	17%	15%	16%	17%	23%	15%	28%	61%	36%	41%	31%	30%	32%	36%	37%
ROE	19%	20%	15%	29%	17%	27%	32%	56%	37%	48%	29%	21%	24%	30%	33%

Source: Company Information and Equitas Investimentos.

It impresses us that by 2025 or 2026, 3Tentos may have net earnings of around R$ 1 billion. Today, only 67 publicly traded companies have earnings above that mark. In 2021, adjusted net earnings was R$ 505 million and only 103 companies achieved a mark higher than that in the last twelve months. It is worth noting that 3Tentos market cap today is only R$ 4,9 billion.

It is paramount to highlight how 3tentos' earnings reports may face circumstantial influences that require investors to have a close look on the numbers and operational figures. It is so because of the very seasonal nature of the agriculture business itself. Crop and harvest may meaningfully vary between years, which has strong effects on agribusiness retailers' revenue, cash conversion and sales recognition. For example, following the accrual basis accounting regime, revenues of input sales are recognized on the income statement when the products are delivered on farm to croppers. Delivery for its part occurs at different times during the crop cycle and may vary from year to year. Seeds and fertilizers are delivered just before the plantation starts, whilst crop pesticides are delivered months later, during the crop growing period. Therefore, shifts on plantation curve between harvests can materially impact year over year comparisons between earnings reports. As can be seen in the figure below, the cropping plantation curve of soybean in RS begun later in the current harvest compared to last year but accelerated quickly throughout November and December. This timing difference has material consequences in inputs revenues recognition on 3tentos's results since significant amount of revenues can be shifted from one quarter to another without any meaning to real business performance. An analyst trying to evaluate the reported numbers must consider these volumes shifts so as to avoid drawing wrong conclusions about short term earnings results.



Source: National Supply Company (CONAB) and Equitas Investimentos.

Besides that, in 3tentos's case, since it has other business units, it is exposed to soybean meal and oil seasonality as well. The company might deliberately choose to postpone some revenues from one quarter to another given its ability to arbitrate across businesses within its ecosystem. In the fourth quarter of 2021 for example, 3tentos announced that part of its soybean meal revenues was shifted towards first quarter of 2022. It so happened because of more favorable pricing the company was expecting for the coming months due to Argentinean and Paraguayan supply bottlenecks of soybean meal. It also announced that a relevant part of its crop protection volumes was shifted to 1Q22 due to the late crop in RS as previously said.

Moreover, as explained in this repot before, 3tentos is actively trading and transforming grains from agriculture inputs sales into soybean meal, soybean oil and biodiesel. Because of that, it faces exposure to commodities prices volatility, which creates the necessity for hedging structures to lock its margins in the appropriate moment (for example, lock its cost after a sale of biodiesel at a given price). It is important to say that the company hedge policy is to have limited directional grain exposure on its balance sheet, having the discretion over only 10% of its position. Therefore, it must hedge between 90% to 110% of its commodities exposure to not violate its risk management policy.

As an example, one way commodities exposure may happen is through its grain origination through barter trade. When a barter trade is signed, 3Tentos automatically becomes long in soybean. To hedge against soybean price drop, the company sells future contracts that become a liability on its balance sheet, offsetting its grain asset exposure. Another way the company uses hedges is through the crushing of unsettled grains that it stores in its silos for croppers. Being a static capacity provider to many farmers as explained before, 3tentos offers its storage capacity to some farmers without charge of rent, with their sole commitment to sell these grains to the company at some point in the future. That way, 3tentos guarantees grains inputs to feed its industrial line. However, if the company hypothetically decides to crush these grains before the farmers settles a price for the sale, it might face grain exposure (short position on grain price). Initially, this short position may be compensated by the output inventories that it produces, that has high correlation with grain prices (although it would incur spread risks), but if those outputs are sold before farmers fixing their grains price, 3tentos will have to buy a long position on future soybean contracts. These hedge and commodities exposures are another important source of earnings results noise and demand deep understanding of the MTM impact on balance sheet and income statement. Just to better illustrate this, below there is a simple example of a trading business operation MTM impact on income statement.

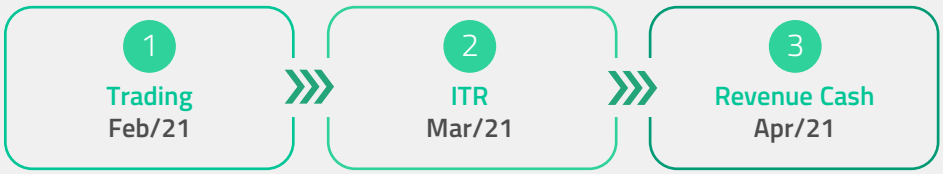
Adjusted EBITDA

MTM commodities (physical and contracts)

C How is it calculated?

Timeline

Overview



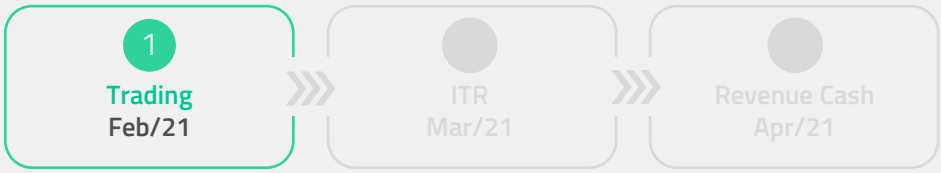
We will demostrate a transaction started in Feb/21 ans settled in Apr/21 and its effects over time and necessary adjustments to better visualise the result:

1. **Feb/21:** Transaction initiated through purchase and sale contracts
2. **Mar/21:** Disclosure of results, possible effects on results;
3. **Abr/21:** Revenue recognition (revenue and cost effect)

Adjusted EBITDA

MTM commodities (physical and contracts)

C Trading: Purchase and sale contract



- Futures purchase agreement in Feb/21 – 1,000 sacks at R$ 1.00 sack = R$ 1,000
- Futures sale agreement in Feb/21 – 1,000 sacks at R$ 1.15 sack = R$ 1,150

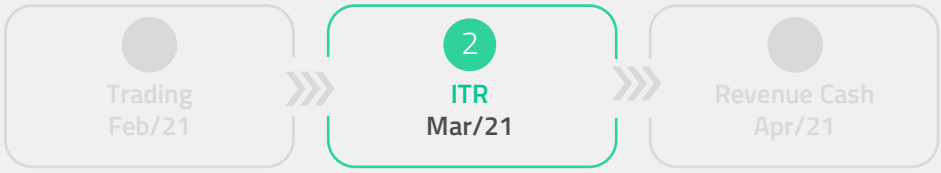
Zero exposure on the date

Effects	Accounting	Adjusted
Gross Margin	0	0
EBITDA	0	0
Financial	0	0
Profit	0	0

Adjusted EBITDA

MTM commodities (physical and contracts)

C ITR disclosure in March/21



ITR for march/2021

Accounting effects on the financial statement

- Mar/21 effective purchase (inventory) of the purchase contract of 1,000 sacks at R$1.00 totaling R$1,000
- MTM of the inventory valuation of the sack closing price ate R$1,10 with a gain R$0,10 + R$100 gain in the Cost (gross margin);
- MTM of the sales contract with closing price at R$1,10 a gain of R$0,05 = R$50 gain in the financial result;

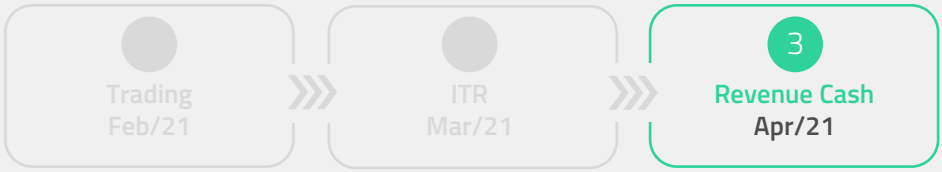
Effects	Accounting	Adjusted
Gross Margin	100	0
EBITDA	100	0
Financial	50	0
Profit	150	0

Source: Company Information and Equitas Investimentos.

Adjusted EBITDA

MTM commodities (physical and contracts)

C ITR disclosure in March/21



April

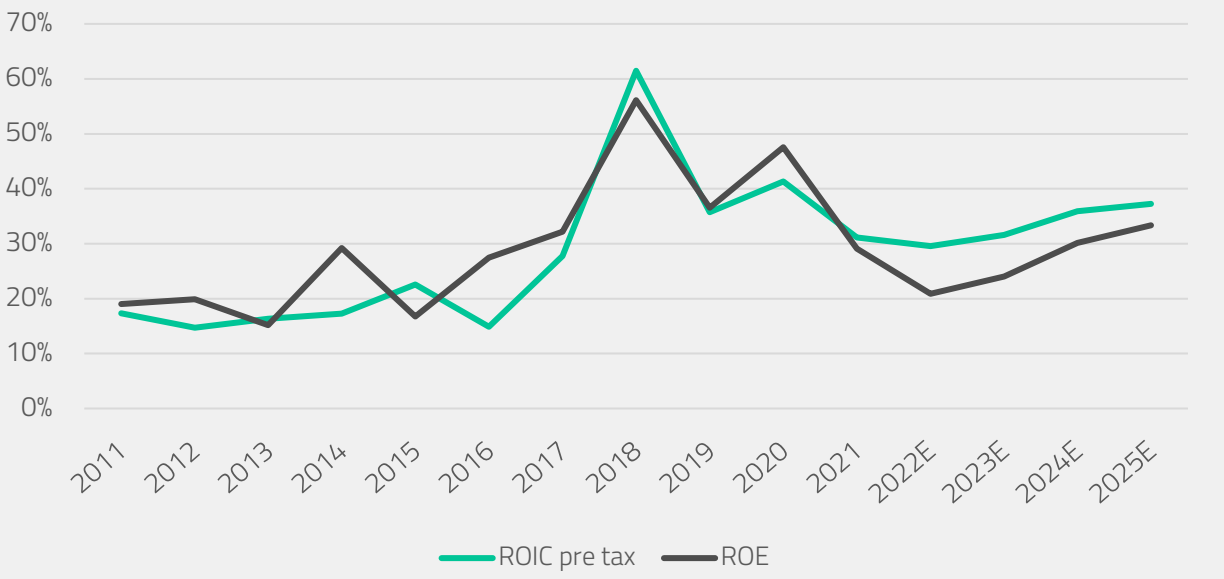
Accounting effects when billing (revenue and cost recognition)

- Recongnition of revenue and cost
- Revenue as per contract = R$1,150
- Write-off of cost according to purchase = R$1,000
- MTM grain is reversed in the cost R$100 and in the financial result R$50;
- The net income effect is the actual effect in April/21 of he purchase and sale transaction.

Effects	Accounting	Adjusted
Gross Margin	150	150
EBITDA	150	150
Financial	0	0
Profit	150	150

Source: Company Information and Equitas Investimentos.

Going back to the projections, looking the chart below, it is important to remember that the company accelerated significantly by 2016-17 approximately with high market share gains, increase in its static capacity and ramp up of its industrial operations. Also, ROIC and ROE are depressed a few years after the IPO in our projections due to ramp up of the investments deployed by the company in the next 2-3 years.

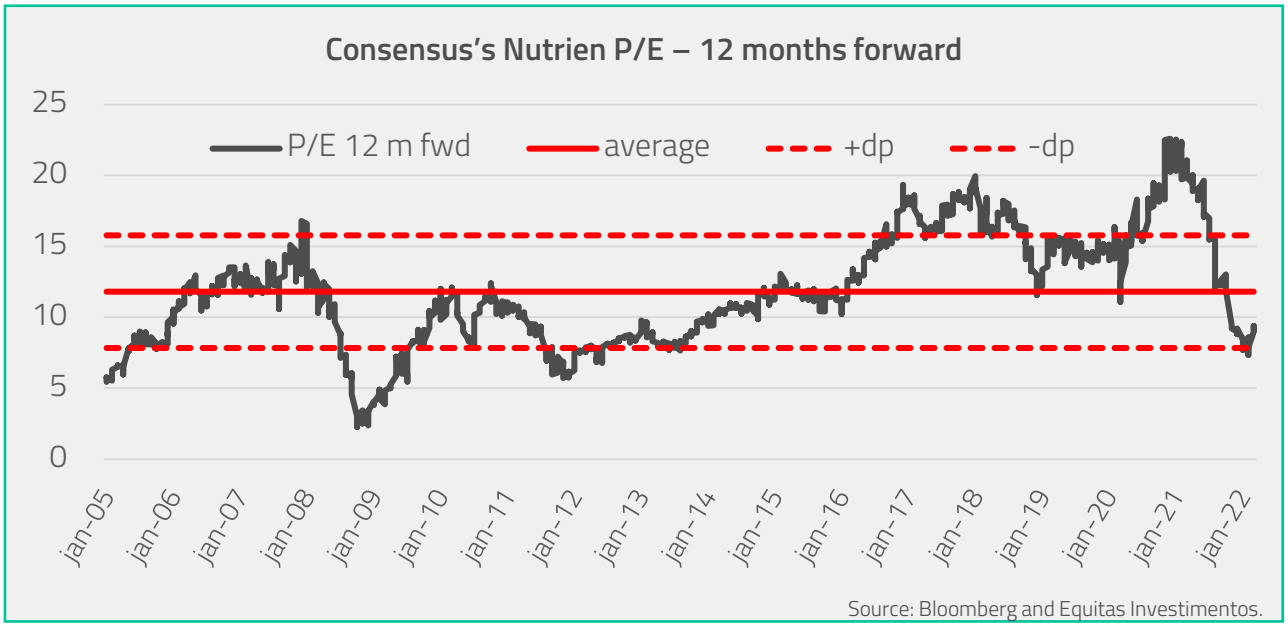


Source: Company Information and Equitas Investimentos.

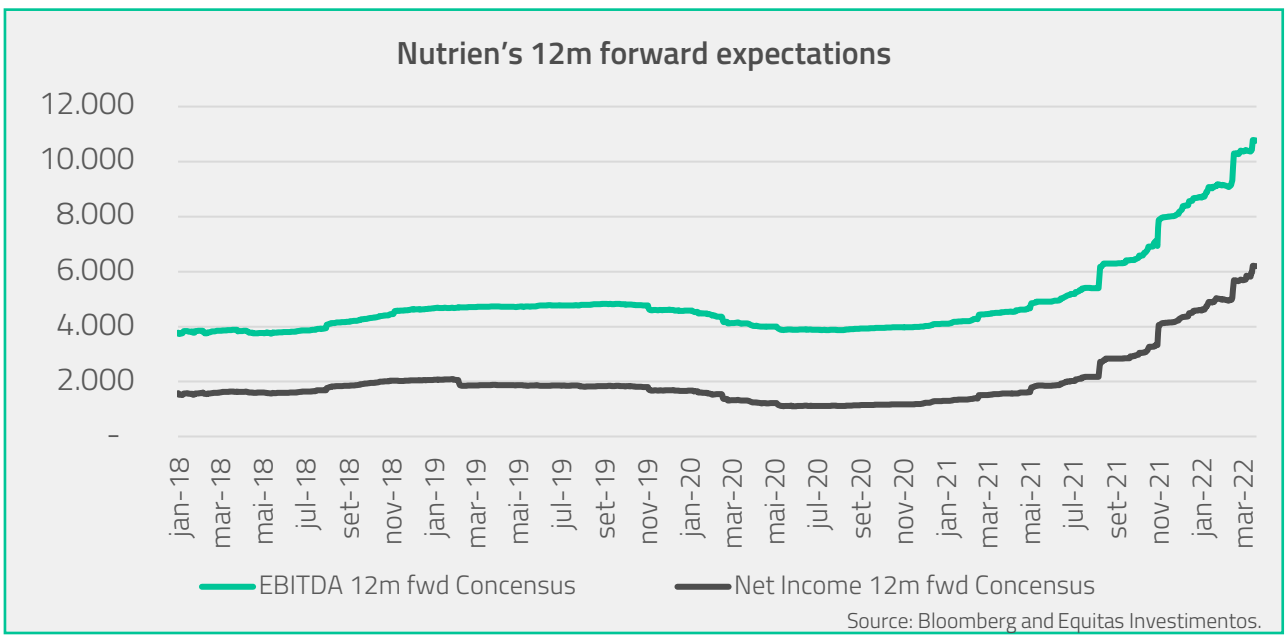
Our model incorporates only the company's business plan until 2025 and no store or industrial capacity grows from then on. In that case, the DCF shows a fair P/E exit multiple of 13-14 times. In that scenario, the **4-year IRR would be around 45%**. That exit multiple seems undemanding to us since after executing that plan, there still will be a lot of opportunities for growth.

P/E exit in 4 years						
3tentos' 4-year IRR*	10x	12.5x	15x	17.5x	20x	25x
	36.0%	45.6%	54.0%	61.6%	68.6%	80.9%

Source: Company Information and Equitas Investimentos.
*Assuming a entry price of R$ 9,00 per share as of 4th of May 2022



To have a reference of valuation, we looked at Nutrien/Agrium's multiples in the last 17 years. Nutrien/Agrium changed a lot over time, so it is important to look at the multiples with some context in mind. Agrium in the 2000s was a small player in the agribusiness retail segment in the USA with revenues around US$ 1 bi. ROIC used to swing between high single and low double digit. Between 2015 and 2018, the company was completely different: steady ROIC of 20% and revenues multiplied 10-fold. In that time window, the stocks traded close to 15x P/E. After the merge with Potash Corp (then creating Nutrien), the company changed a lot again since almost two thirds of the resulting company's EBITDA was from a pure commodity business (fertilizers production and sale). Even with this characteristic, the stock traded around 15-20x P/E range until 2021. In 2021, fertilizers prices skyrocketed more than 3 times in some cases, leading Nutrien's forward EBITDA to increase a lot as can be seen on the chart below. Due to those abnormal returns, the stock suffered a de-rating, since this level of earnings is not recurring. Also, it is important to consider the substantial gap of growth prospects between both markets (Brazil versus US).



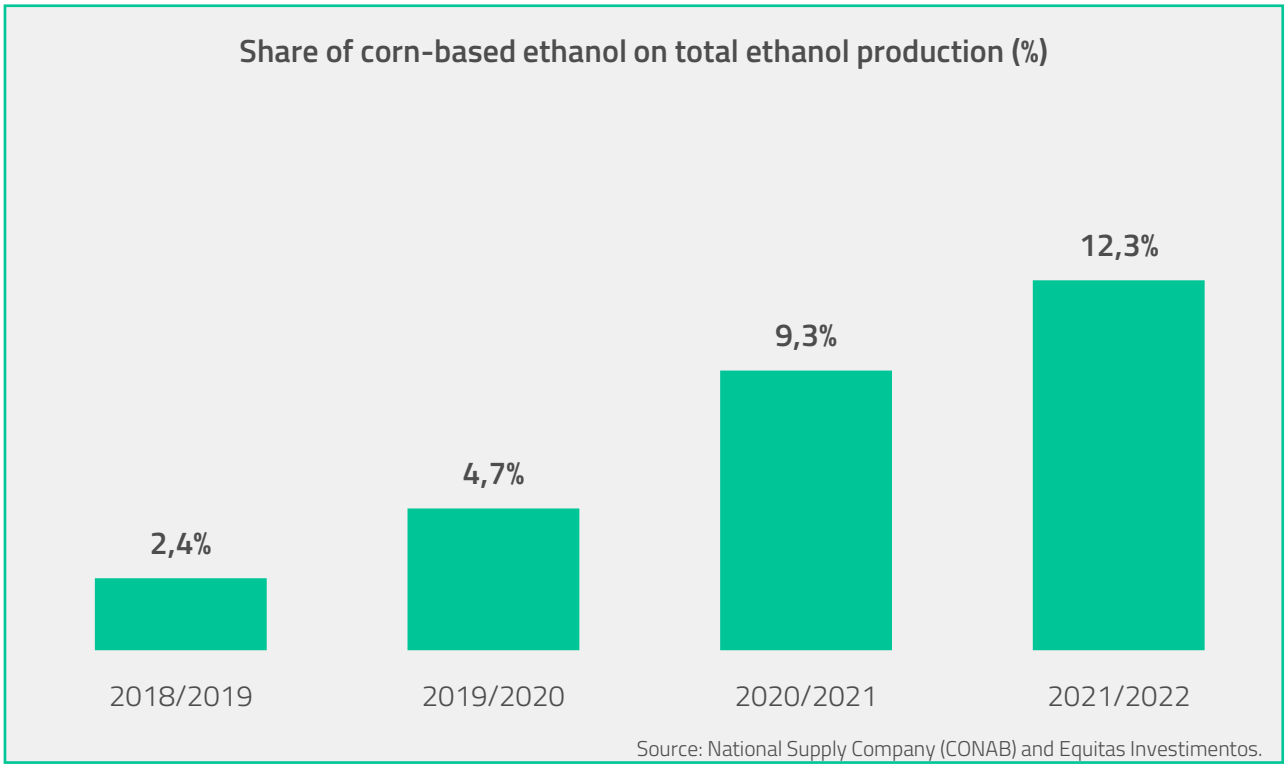
Since agribusiness retail is a growing market and still very fragmented, we think that even after the execution of the 3Tentos's business plan, there is still room for the company to be a compounder from 2025 on. In a simple attempt to estimate the compound potential in the long term, we ran a hypothetical exercise to understand what size the company could reach in a steady state growth scenario, as shown below. The idea was to have a notion of how many times bigger 3Tentos revenue could be in scenarios we consider feasible.

Multiple of Revenues		3tentos' market share in 15 years						
		2.0%	3.0%	5.0%	10.0%	15.0%	20.0%	25.0%
Brazil agribusiness input industry volumes CAGR 15Y	0.0%	1.8x	2.4x	3.5x	6.3x	9x	11.8x	14.6x
	1.5%	2.1x	2.8x	4.2x	7.6x	11.1x	14.6x	18.1x
	3.0%	2.4x	3.3x	5x	9.4x	13.7x	18x	22.4x
	5.0%	3x	4.2x	6.5x	12.3x	18x	23.8x	29.6x
	7.5%	4x	5.6x	8.9x	17.1x	25.4x	33.6x	41.8x
	10.0%	5.3x	7.7x	12.3x	23.9x	35.5x	47.2x	58.8x

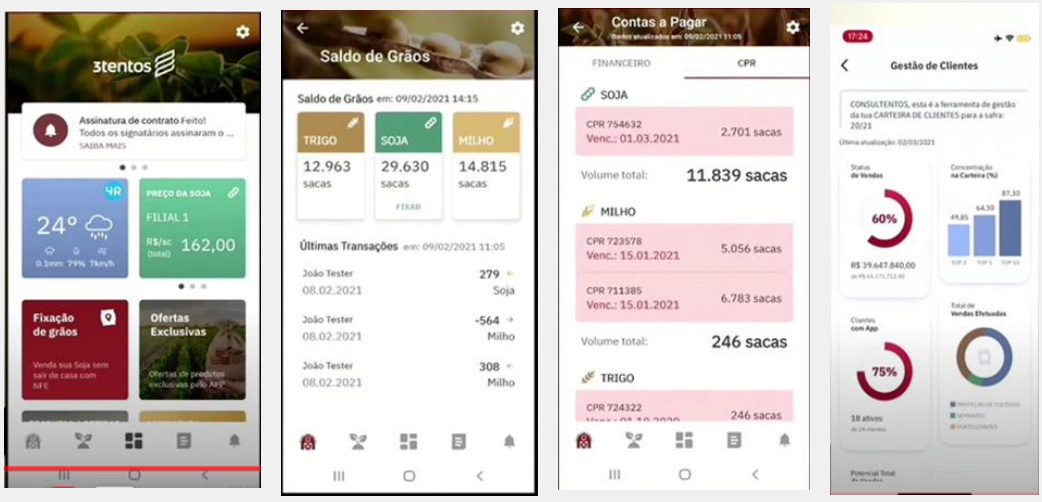
Revenues CAGR		3tentos' market share in 15 years						
		2.0%	3.0%	5.0%	10.0%	15.0%	20.0%	25.0%
Brazil agribusiness input industry volumes CAGR 15Y	0.0%	4.0%	5.9%	8.6%	13.0%	15.8%	17.9%	19.6%
	1.5%	5.0%	7.0%	10.0%	14.5%	17.4%	19.6%	21.3%
	3.0%	6.1%	8.3%	11.4%	16.1%	19.1%	21.3%	23.0%
	5.0%	7.6%	10.0%	13.3%	18.2%	21.3%	23.5%	25.3%
	7.5%	9.6%	12.2%	15.7%	20.9%	24.1%	26.4%	28.3%
	10.0%	11.8%	14.5%	18.2%	23.6%	26.9%	29.3%	31.2%

Source: Company Information and Equitas Investimentos.

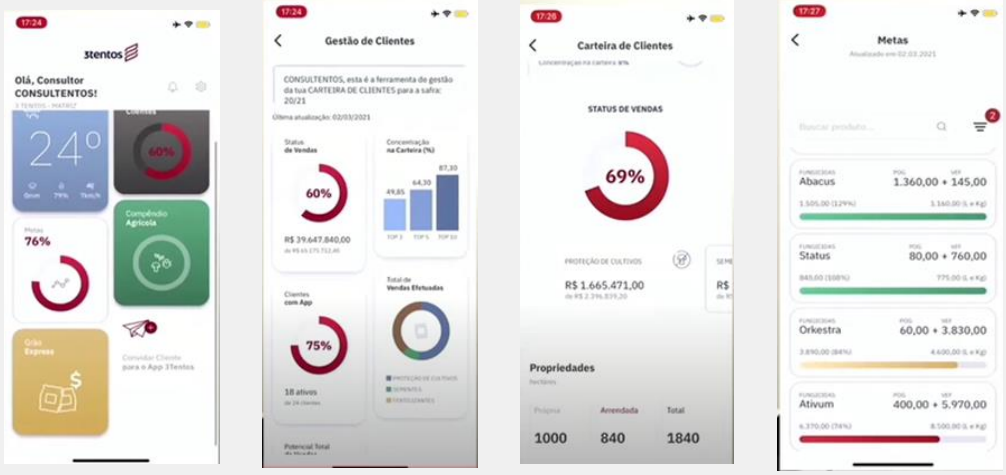
As highlighted before, we just modeled the business plan announced by the company in its IPO. But we think there are other growth opportunities for the company. One example is corn-based ethanol. After expanding its footprint to MT, 3tentos will also originate corn and producing corn-based ethanol seems a reasonable step. In broad lines, corn-based ethanol is quite recent in Brazil but has been gaining share in the last years (see figure below). The reason for that is the outstanding growth of corn supply in Brazil. There are some advantages in producing ethanol from corn instead of sugarcane. First, the capacity to store corn for long periods, while sugarcane must be processed into ethanol within days after harvest. Therefore, corn-based mills can run the whole year, which helps diluting fixed costs and increase asset turnover given the higher utilization rates (for sugarcane, it is necessary to have processing capacity that matches the peak of harvest and not the run rate of ethanol demand). Another advantage is the cheaper agricultural costs of the corn crop when compared with sugarcane. Sugarcane is a semi perennial crop and requires more investments that must be made every year during its whole cycle (usually 5 to 7 years), regardless of pricing environment, to maintain crop yields in future harvests. Of course, corn-based ethanol has some disadvantages as well. One of them is the fact that it is not self-sufficient in terms of energy generation (in the sugarcane mills the cane bagasse is utilized as biomass for power to run the mil while in corn plants the operator must acquire external biomass to do so). Another disadvantage is the rigid output of corn-based mills (sugarcane mills can produce sugar or ethanol) that leads to lack of pricing feedback loop. Whilst in the sugarcane mills, a more attractive sugar price environment will lead to shifts in the mix of output toward more sugar than ethanol (therefore balancing the market). Corn prices are also dependent much more on the protein market dynamics than ethanol supply and demand, therefore there may be a scenario in which ethanol prices are low and corn prices are high for some time. Even so, processing corn would be a great option for 3tentos to enhance its ecosystem. It could also allow 3tentos to blend cornmeal and soymeal, enabling it to offer ready to eat animal food for its clients. It must be stressed that unlike corn-based ethanol produced in the USA that burns gas to induce the fermentation process, the Brazilian producers can rely on biomass (usually from eucalyptus), which translates into greener fuel.



Another growth opportunity is 3Tentos app and bank. Through the in-house developed company app, clients can sell grains, hedge prices, and buy inputs with a pre-approved "credit", besides access to free agribusiness content. By knowing its clients better than anyone else, a bank focused on farmers also makes sense. Tentos Cap (the name of the new bank) was already granted a license from the Central Bank. The idea is to run outside the company and if it gets some traction, it will be incorporated by 3Tentos at book value.



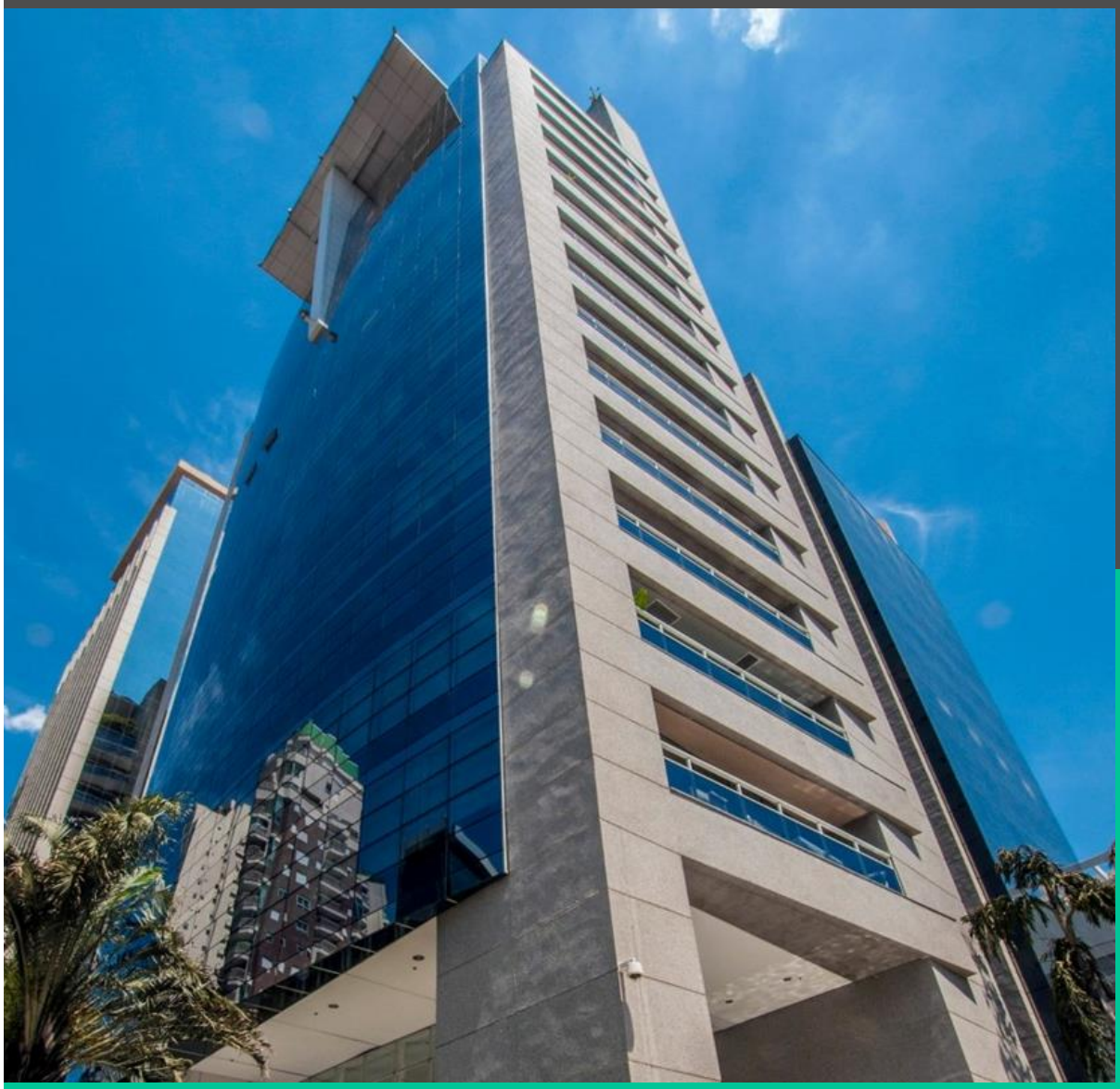
Source: Company Information and Equitas Investimentos.



Source: Company Information and Equitas Investimentos.

All of these are just some examples of the many avenues 3tentos can pursue while developing and expanding its ecosystem. Our estimates and projections don't incorporate any of these optionality upsides. We believe that, given the company's culture and track record these are concrete opportunities for the foreseeable future, but we opted not to consider these in our forecasts in order to be conservative, since there is still low visibility on those.

EQUITAS



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